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## **From scientific editor**

Approaches to regional policy in the United Europe have been changing every several years. This has been most frequently caused by the acceptance of new members, arising of new problems in regional development in the enlarged Community, and world-wide developments. What has not changed, however, is the message of Article 158 of the United Europe Tract indicating that the Community works for “supporting harmonious development” with one fundamental objective of “reducing disparities in various regions and supporting least privileged regions, and islands, including rural areas”.

Implementation of European structural policy are based on strategic objectives that evolve according to new programming periods. The objectives of European structural policy may be divided into horizontal aims and regional aims. Horizontal aims include the entire EU’ s territory and refer to a specific group of people regardless of place of residence. Regional objectives grant assistance to a specific region that fulfills conditions for the Community aid. List of regions that qualify for financial aid from structural funds in the Objective the “European Territorial Cooperation” with indicative list of division of financial resources in period 2007-2013 was published in 2007 after changes implemented by the Commission’s decision . New formulating of objectives for the period of 2007-2013 will allow the enlarged European Union consolidate its competitiveness by improving social and economical conditions in regions with structural problems, low efficiency and limited development opportunities.

Poland’s accession to the European Union has drawn attention to the problem of diversification in development between countries that lie on a single continent, and also of transregional diversification, both in the scale of countries, and in the scale of the entire CTaking the above into consideration in 2005 the Luxembourg presidency proposed to establish, under the solidarity principle, a special fund for the five poorest regions with the lowest GDP per capita in the expanded European Union (EU-25) for the period of 2007-2013. Those regions are five voivodeships of Eastern Poland: Lubelskie, Podkarpackie, Podlaskie, Swietokrzyskie and Warminsko-Mazurskie. In December 2005 the Council of Europe took a decision to grant Poland an additional amount from the European Union budget equalling to euro 882 m (107 euro per inhabitant in each of the voivodeships in Eastern Poland which have been considered regions with the lowest level of GDP per capita according to Eurostat data from 2002), under the European Regional Development

Fund (ERDF). As a result of price indexing this amount grew to euro 992 m, i.e. euro 120 per capita.

With the above mentioned premises in mind in the Programme “Solidary State” the Government of the Republic of Poland came up with proposal of an initiative to prepare the Operational Programme Development of Eastern Poland for the years 2007-2013 as a specific instrument aimed at supporting development processes in voivodeships of Eastern Poland. In addition to special financial means allotted for this Objective by the Council of Europe, the Government of the Republic of Poland assigned to the Programme funds from ERDF part allocated for Poland, amounting to euro 1281.6 m.

Equalizing of regional disparities in the newly formed Community requires a coherent regional policy of the European Union and its members. Using modern instruments of regional development and 50 years of experiences in regional implementation of policies provides a chance to achieve a long-term economical growth in a long-term perspective (about 20 years). At the same time, we need to keep in mind that achieving this level of economic growth by most of the single member-states would take several hundred years. As a result of the cohesion policy, the Community has a chance to strengthen its regional competitiveness. Moreover, it has a chance to increase the growth potential of the EU economy by securing a more balanced layout of economical activity on the EU territory, reducing the likelihood of “bottleneck” areas as the growth tendency proceeds, and reducing the likelihood of inflation which might result in a premature ending of the growth process. It would be easier to preserve the European model of society and dealing with the growing number of retirement-age people, which would effectively contribute to social cohesion.

# Territorial Cohesion of European

## Chapter I

### Eastern Poland in the context of European cohesion

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**Summary:** The accession of Poland to the European Union highlighted the problem of diversities of the development between states lying on one continent, as well as of diversities interregional, in the scale of the state, and in the scale of the whole Community. Deepening the economic integration in Europe is beneficial for states and better developed regions, but simultaneously a row is posing a threat to more poorly unrolling and peripheral regions. In the article were presented historical, social and economical determinants of Eastern Poland influencing on its present delaying in comparison to the rest of the state. “The Socio-economic Development Strategy of Eastern Poland to 2020” is showing the direction and areas of intervention which have to lead to notable effects in reducing diversifying the development between regions of eastern and western Poland. Based on analysis of socio-economic indicators of Eastern Poland specific instruments were recommended which will assure faster growth of this area.

**Key words:** Eastern Poland Programme, european cohension, strategy of development, periphery areas.

#### 1.1. Introduction

The necessity of taking measures to decrease the differences in development of the regions of Eastern and Western Poland has been mentioned for years. After a long time of parliamentary interpellations and bills they were finally accepted as indispensable in the context of cohesion of development of Poland and the EU, on the basis of which “*Strategy for Socio-Economic Development of Eastern Poland until 2020*” was created. The Strategy

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indicates the directions and areas of interventions which are supposed to bring concrete pro-development results.

The term *Eastern Poland* refers to the 5 poorest voivodeships chosen due to their GDP per capita according to the purchasing power of the currencies in all the voivodeships (The Nomenclature of Units for Territorial Statistics – so called NUTS2)<sup>1</sup>, which is in accordance with the decision of the European Council from 2005. They are the following: Lubelskie, Podkarpackie, Podlaskie, Swietokrzyskie and Warminsko-Mazurskie voivodeships. The strategy for development of Eastern voivodeships aims at catalyzing the discussions concerning development of this part of the country. It is a point of reference to initiating operational public measures oriented towards socio-economic development of that area. Financial assistance of the state is indispensable in order to successfully carry out the undertaking aiming at elimination of economic backwardness in Eastern voivodeships. Other solution which should be taken into consideration is making the most of possibilities offered by the membership of Poland in the European Union (Operational Programme Development of Eastern Poland). However, it should be kept in mind that it is a long-lasting and very complex process requiring cooperation of authorities at various levels, organizations and institutions as well as application of a number of modern instruments of regional policy.

## **1.2. Historical conditions of development of Eastern voivodeships**

Diversity of the level of socio-economic development in Poland is caused by its geographical position, natural wealth as well as historical factors. Developmental disproportions are of particularly strong character. Additionally reinforced during the partitions of Poland, they were not leveled down during the modernization actions of the Second Polish Republic. In 19th and early 20th centuries the economy of the regions of Eastern Poland was based on traditional agriculture which did not generate stimuli for an intensive economic development of those areas. At that time in Western voivodeships an intensive economic development was taking place; industry, infrastructure and modern agriculture were introduced. From the beginning of the People's Republic of Poland period

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<sup>1</sup> The Nomenclature of Units for Territorial Statistics (NUTS) – standard subdivision of the EU countries for statistic purposes. In Poland it was implemented by Ordinance of the Council of Ministers of 13 July 2000 concerning introduction of The Nomenclature of Territorial Units for Territorial Statistics (NUTS). For each EU member country, a hierarchy of three regional (I-III) and two local (IV-V) NUTS levels is established. Due to the practical aspects the subdivisions in the levels often correspond to administrative divisions within the country.

until 1985, despite the commonly declared ideologies, no actions aiming at leveling the developmental disproportions were taken. In the period from 1950 to 1985 in 18 out of 49 voivodeships of Eastern Poland the rate of industrial investments was 0.1%. Then centrally planned economy was limiting financial transfers in aid of the poorest regions. In the late 20th century the pace of industrialization in Poland was one of the highest in Europe. While Western Europe was investing in modern technologies, Poland was investing in traditional sectors. In addition to that, expenditures on investments were very scarce in Eastern Poland, usually in the form of re-scaled objects which did not match the regional context.<sup>2</sup>

System transformation and restructuring of industry resulted in decrease in the production potential of the industrial centres and agriculture. Again, state aid was directed to industrial areas in order to eliminate negative results of the economy restructuring. It resulted in reinforcement of interregional diversity.

Historical conditions are still reflected in the level of development of individual sectors of economy in Eastern voivodeships in comparison with other parts of the country, in the level of development of infrastructure as well as in their approach towards entrepreneurship.<sup>3</sup>

Accession of Poland to the European Union emphasized the problem of the diversity of development among the countries of the same continent as well as interregional diversity with respect to the country and the whole Community. Strengthening of economic integration in Europe is beneficial for the better-developed countries and regions but at the same time can be a threat to under-developing and peripheral regions. The unfavourable factors are: lack of stimuli to the initiation of the process of steady development, small social activity and entrepreneurship or unchangeably lower level of living standards of the citizens. In accordance with the previous conclusions, the abovementioned phenomena result from the historical and cultural conditions as well as the participation of the regions in the division of labour which has taken place up to now. Integration processes can reinforce those factors by placing the weaker regions in relatively worse situation than the better-developed ones. The inner potential of growth of those regions remains unused, the consequence of which is a steady increase in the discrepancy between them and better-developed regions. In the long-term perspective maintaining

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<sup>2</sup> *Strategy for Socio-Economic Development of Eastern Poland until 2020* (project), Ministry of Regional Development, Warsaw December 2006, p. 8.

<sup>3</sup> *Operational Programme Development of Eastern Poland 2007-2013*, Ministry of Regional Development, Project 3, Warsaw 11 July 2006, p. 6.

excessive developmental disproportions between regions is detrimental to socio-economic development of both the country and the European cohesion.

### 1.3. Socio-economic development of the voivodeships of Eastern Poland

The five voivodeships of Eastern Poland cover the area of 99045 km<sup>2</sup>, which is as much as 31.7% of the area of Poland (Table 1). Four of them are the border voivodeships. They border Russia, Lithuania, Belarus, Ukraine and Slovakia. 8.2 million people i.e. 21.5% of total population of the country live in Eastern Poland. Warminsko-Mazurskie and Podlaskie are less populated than other Eastern voivodeships and depopulation tendencies can be observed: population growth rate of the area is negative and a slow exodus to other voivodeships is taking place. In the years 2000-2004 the number of population of Poland decreased by 173 thousand.

**Table 1. Indices characterising voivodeships of Eastern Poland in 2008**

Indices	Voivodeships of Eastern Poland					Poland total
	Lubelskie	Podlaskie	Podkarpackie	Swieto-krzyskie	Warminsko-Mazurskie	
Area in km <sup>2</sup>	25122.000	20187.000	17,845	11710.000	24173.000	312679.000
Area of the country in %	8.000	6.500	5.700	3.700	7.700	100.000
Population in thousands	2161.800	1191.400	2099.400	1272.700	1427.000	38135.800
Population density in the number of people per km <sup>2</sup> .	86.000	59.000	118.000	109.000	59.000	122.00

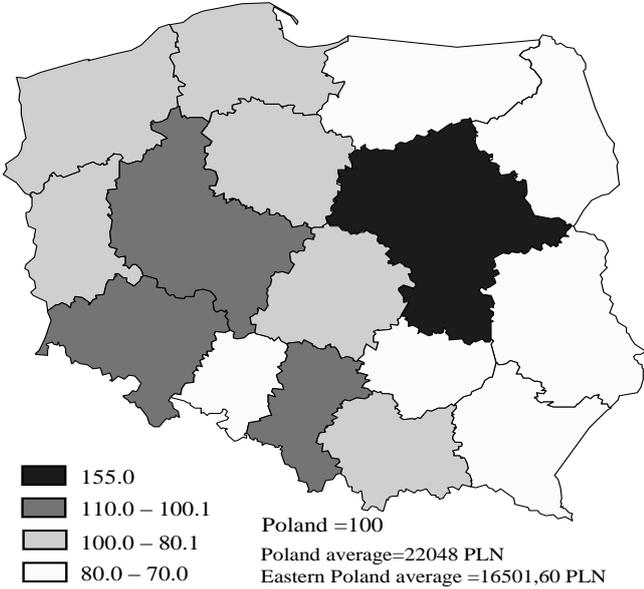
*Source:* Own analysis based on Operational Programme Development of Eastern Poland 2007-2013, Ministry of Regional Development, Warsaw 2006, p. 23. Statistical Yearbook of the Regions 2009, p. 36-37.

49.1% of total population of Eastern Poland live in the cities whereas the national rate is 61.5%. In Eastern Poland there are 6 cities with the population of over 100000: the capitals of the voivodeships – Lublin (356000), Bialystok (292000), Kielce (209000), Olsztyn (173000), Rzeszow (159000) – and Elblag in Warminsko-Mazurskie (127000).

Eastern Poland has the most ethnically and culturally diversified population in the country. The national minorities living in these areas maintain their culture, tradition and religion. Eastern Poland can be also distinguished by the variety of local traditions and historical heritage reflected in a number of places of historical and national importance.

According to the analysis of the regional diversity published in National Strategic Reference Framework Eastern regions of Poland close the list of 254 regions of the enlarged EU ordered by GDP per capita. Their GDP level is clearly lower than the level achieved by the poorest regions of Greece, Portugal and Spain in the moment of their accession to the EU. GDP of the 5 poorest regions is from 31% to 36% of the EU average. The differences within the 5 voivodeships are from 70.3% of Poland average in Lubelskie to 79.1% in Swietokrzyskie (Podlaskie 75.4%). At the same time, according to their territories the voivodeships constitute almost 1/3 of the country. They are sparsely populated with the population of 8 million 194 thousand, which is slightly more than 1/5 of the total population of the country.

In 2003 GDP per capita in Eastern Poland was 74.2% of the country average (Picture 1). Eastern Poland produced 16.0 % of gross domestic product which is twice less than the proportion of its area and population to the whole country. By comparison, in 1996 Eastern Poland produced 16.7% of GDP, hence it can be described as clear stagnation of GDP in relation to the national level. In the same period there was a decreasing trend in gross added value produced in Eastern Poland in relation to the national value. The percentage is identical as in case of GDP.



**Picture 1. GDP per capita in 2003 (by voivodships)**  
 Source: National Strategic Reference Framework 2007-2013 in support of growth and jobs, Ministry of Regional Development, Warsaw 2006, p. 5.

Moreover, in Eastern Poland there is a great diversity of the unemployment rate (Table 2). In Warminsko-Mazurskie it is the highest in Poland and at the end of 2004 it was 27.5%, whereas in Podlaskie it is the lowest (15.5%). It results from the relatively high employment in agriculture which is scattered and traditional as well as from hidden unemployment in this sector.

Analyses of the employment per 1000 people show that in Lubelskie and Swietokrzyskie it is higher than the national average. In Podlaskie it oscillates around this level and in Warminsko-Mazurskie it is 80% of the national average. The relation is directly proportional to the unemployment rate as well as to the areas of the voivodeships.

**Table 2. Economic indices of the economy of Eastern Poland in 2008**

Indices	Voivodeships of Eastern Poland					Poland total
	Lubelskie	Podlaskie	Podkarpac- kie	Świętokrzy- skie	Warminsko- Mazurskie	
Unemployment rate (in %)	11.20	9.70	13.00	13.70	16.80	9.50
Employment per 1000 people	355.90	351.50	329.00	368.40	298.80	359.50
Employment in agriculture in % of total employment	36.20	33.20	23.00	30.60	15.90	15.60
Investment expenditures in PLN per capita	3526.00	4046.00	3759.00	4384.00	4140.00	5700.00
Entities registered in National Official Business Register REGON per 10000 people	715.00	757.00	687.00	852.00	812.00	985.00
Average monthly gross salary in PLN	2603.71	2610.21	2489.98	2548.80	2474.26	2942.17

Source: Own analysis based on *Operational Programme Development of Eastern Poland 2007-2013*, Ministry of Regional Development, Warsaw 2006, p. 23, *Statistical Yearbook of the Regions 2009*, p. 33, p. 42-43, p. 71.

The relation of the employment in agriculture to total employment in as many as 3 voivodeships (Lubelskie, Podlaskie, Swietokrzyskie) exceeds the double national average, only in Warminsko-Mazurskie it is 96% of the average. Being a large part of the economy of the area, agriculture also influences the conditions of farming.

Due to the participation in The Common Agricultural Policy and the possibilities of the EU subsidies there was an increase in income of the farms despite maintaining lower level of financial support for Polish agriculture in comparison with the countries of so called old Union as well as limitation of production in the fields connected with regional specialization e.g. dairy farming, sugar industry, tobacco cultivation.

The number of enterprises registered in National Official Business Register REGON, which illustrates the level of economic activity in Eastern Poland per 1000 people, is lower than the national average. The level of Eastern Poland is 72.2% while in the whole country it is 93.7%. The highest percentage of the enterprises is registered in Swietokrzyskie (800 enterprises), the lowest in Podkarpackie (665 enterprises), which results from the less developed sector of services in comparison with other parts of the country. The employment in the service sector is 46.2% of total employment while the percentage for the whole Poland is 54.4% (data from 2004). As regards the voivodeships of Eastern Poland, with the exception of Warminsko-Mazurskie where tourism is of great economic importance, close the national list.

**Table 3. Protected areas and interest in tourism in voivodeships of Eastern Poland in 2008**

Data	Voivodeships of Eastern Poland					Poland total
	Lubelskie	Podlaskie	Podkarpackie	Swietokrzyskie	Warminsko-Mazurskie	
Areas of natural beauty in % of total area	22.80	31.90	47.50	61.90	46.20	32.50
Tourists using accomodation in thousands	595.70	393.40	556.60	329.30	705.70	15509.80

Source: Own analysis based on *Operational Programme Development of Eastern Poland 2007-2013*, Ministry of Regional Development, Warsaw 2006, p. 23. <http://www.intur.com.pl/statystyka.html>.

Komentarz [x1]: Data dostępu

The area of Eastern Poland is characterized by its natural beauty. The protected areas occupy 3.9 million hectares, which is 38.4% of the total protected areas in Poland<sup>4</sup>. The natural beauty can be found in the complexes of lakes and forests in the Northern part of the region, natural and tourist complexes of Biebrza swamps and the national parks. The largest complex of protected areas is in Swietokrzyskie (61.9% of the voivodeship area), whilst the smallest one is in Lubelskie – 22.8%.

The protected areas that are parts of the network NATURA 2000 occupy 18.3 thousand km<sup>2</sup> – 2/3 of which is in Podlaskie and Warminsko-Mazurskie, where are

<sup>4</sup> *Operational Programme Development of Eastern Poland 2007-2013*, Ministry of Regional Development, Warsaw 2006, p. 22.

compact complexes of forests, waters and swamps. Almost half of the objects of NATURA 2000 network are in Lubelskie which shows great natural diversity of the voivodeship as well as possibilities of potential conflicts bordering on the economy and ecology.

Tourism is a sector of the economy connected inseparably with natural and tourist beauty. It is especially noticeable in Warminsko-Mazurskie where the number of people occupying accommodation in tourist objects per number of the inhabitants exceeded the national average by 30% in 2004. In other voivodeships the rate (293 per 1000 people) is lower than the national average which is 412 per 1000 people. Therefore, it can be inferred that there is a great potential in tourist development of Eastern Poland and the possibilities of using it by expanding the selection of tourist products and promotion of the voivodeship qualities. Tourism can be a significant factor of the revival of the economic development of rural areas.

Five voivodeships of Eastern Poland are the area which is characterized by low level of living standards, small dynamics of economic development, poorly developed and wrongly oriented transport infrastructure as well as deficiency in growth factors. Taking efficient measures against these threats and changing the unfavourable tendencies require support from the state as well as using the instruments offered by the cohesion policy of the European Union. The area of Eastern Poland requires reinforcement of inner communication connections, both along the North –South Line and in the centre of the country.

The condition of diagnosed voivodeships results from many years of economic backwardness and peripheral border location. Already before 2004 the regional policy of the European Union towards the acceding countries preferred development of the large centres. In the pre-accession period the voivodeships of Eastern Poland were given considerably less pre-accession resources in comparison with the voivodeships of Western Poland. It resulted from the European priorities focusing on the building border crossing points and transport communications on the border of Poland as well as from preferences for so called engines of growth, i.e. large agglomerations. The problem of limited accessibility to the support sources from the EU occurred also in 2004-2006 period due to realization of the sector priorities concentrating on large investments in the fields of transport and protection of the environment in Western and central parts of the country. In the new programming period 2007-2013 the detailed objectives of regional policy were adjusted to the changes of Lisbon Strategy. Focus on the socio-economic cohesion

determined including the pro-developmental needs of Eastern Poland.<sup>5</sup> The determinants of the peripheral position of Eastern Poland in the European Union are:

- low level of wealth reflected in low level of GDP per capita;
- low level of spatial, social and economic cohesion;
- structure of the economy with domination of traditional agriculture and relatively low level of development of entrepreneurship;
- insufficient potential of growth centers stimulating development;
- lack of clearly distinguished city agglomerations with the dominant function of organization of the space and directions of socio-economic activities;
- inefficient connections with the exterior areas as well as within the area itself.<sup>6</sup>

The abovementioned analyses show Poland as an area of lower (and in case of some indices decreasing) dynamics of development in comparison with other parts of the country. It means stagnation or even socio-economic regression. Such a conclusion inclines to systematization of the instruments of regional development which would stimulate the development in the area. Such a possibility for Eastern voivodeships can be Strategy for Socio-Economic Development of Eastern Poland until 2020.

#### **1.4. Cohesion policy in Strategy for Development of Eastern Poland**

The basic document describing the directions and the shape of regional policy of Poland is (in accordance with the Act on the principles of development policy) *Country Development Strategy* with the strategic objective of “increasing the level and quality of living standards of particular citizens and families in Poland”.<sup>7</sup> During realization of this strategic objective one should remember about its cohesion with other documents of national range, i.e. *National Strategic Reference Framework* as well as European: *Community Strategic Guidelines* and *Lisbon Strategy*.

The objectives of Polish regional policy in the years 2007-2013 agree with the objectives of the European Union and are most of all based on the aspirations for achieving the social, economic and territorial cohesion in the enlarged Europe. The above-mentioned synthesis of the diagnosis of socio-economic situation in Eastern Poland proved that the

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<sup>5</sup> J. M. Radło, *Lisbon Strategy – conclusions for Poland*, Instytut Spraw Publicznych, Warsaw 2002, p. 5.

<sup>6</sup> L. Fierla, *Narastanie przestrzennych dysproporcji rozwojowych w Polsce*, Polskie Towarzystwo Ekonomiczne, Warsaw 2001, p. 71.

<sup>7</sup> *Country Development Strategy 2007-2015*, Ministry of Regional Development, Warsaw 2006, p. 24.

main developmental source of this area is very low level of cohesion in all three dimensions.

**Table 4. Cohesion of the detailed objectives of the documents describing directions of the regional development in the years 2007-2013**

	Documents concerning regional development	Detailed objectives included in the documents
1.	Lizbon Strategy	<ul style="list-style-type: none"> <li>• development of entrepreneurship;</li> <li>• improvement in social cohesion;</li> <li>• innovativeness;</li> <li>• transformation of telecommunications, energy, transport and services.</li> </ul>
2.	Community Strategic Guidelines	<ul style="list-style-type: none"> <li>• making Europe and its regions a place of greater attractiveness for investments and work;</li> <li>• Larger number of better jobs;</li> <li>• Development of knowledge and innovativeness for economic growth;</li> <li>• Territorial aspects of the cohesion policy.</li> </ul>
3.	Country Development Strategy	<ul style="list-style-type: none"> <li>• Increase in competitiveness and innovativeness;</li> <li>• Improvement in the technical and social infrastructure;</li> <li>• Increase in the employment level and improvement in its quality;</li> <li>• Creating integrated social community and its safety;</li> <li>• Development of rural areas;</li> <li>• Regional development and enhancing territorial cohesion.</li> </ul>
4.	National Cohesion Strategy (National Strategic Reference Framework)	<ul style="list-style-type: none"> <li>• Ensuring conditions of maintaining long-lasting and high pace of economic growth;</li> <li>• Growth of employment by development of social and human capital;</li> <li>• Enhancing competitiveness of Polish enterprises and the sector of services;</li> <li>• Building and modernization of technical infrastructure, importance of which is basic for the growth of competitiveness of Poland and its regions;</li> <li>• Growth of competitiveness of Polish regions, development of rural areas, counteracting their social, economic and spatial marginalization.</li> </ul>

Source: Own analysis based on: *Strategia Lizbońska – Droga do sukcesu Zjednoczonej Europy*, Departament Analiz Ekonomicznych i Społecznych, Urząd Komitetu Integracji Europejskiej, p. 4, *Council Decision of 6 October 2006 on Community strategic guidelines on cohesion (2006/702/WE)*, *Country Development Strategy 2007-2015*, Ministry of Regional Development, Warsaw 2006, p. 27., *National Strategic Reference Framework 2007-2013 in support of growth and jobs*, Ministry of Regional Development, Warsaw 2006, p. 43.

Social cohesion measured by the employment and the unemployment levels varies significantly from the EU average. The employment rate oscillates around 54% in Poland whereas in the EU it is 63%.<sup>8</sup> In the Community strategic programmes it is assumed that in the next few years the level of employment will approach the level observed in the USA, i.e. 72%. It is a challenge not only for the EU but also for Poland which is in the least

<sup>8</sup> *National Strategic Reference Framework 2007-2013 in support of growth and jobs*, Ministry of Regional Development Warsaw 2006, p. 5.

favourable position of all 25 member states. Eastern regions have a significant impact on such low indices, hence the measures should be focused on the growth of spatial mobility of the employees, increase in the quality of qualifications and other measures aiming at the improvement in the pace of the level of social cohesion in Eastern Poland.

Economic cohesion measured by the level of GDP per capita and verified by the purchasing power parity should be increasing steadily in the next years. Dynamics of GDP growth in the EU is 2.5%, whereas in Poland it is about 5% and in the regions of Eastern Poland it is below 1.5%.<sup>9</sup> Therefore, one should aim at ensuring long-lasting economic growth at the national level of 5% and 2.5% annual growth in Eastern Poland.

According to the research of ESPON (European Spatial Planning Observation Network) the territorial cohesion of Eastern Poland is at the lowest level in the EU. Extremely low level of spatial accessibility due to the limited railway, road and air communication is a crucial barrier in the socio-economic development of this area and prevents the citizens from benefiting from the market economy. It has its reflection in the indices concerning air accessibility and results in the scarce localizations of new greenfield investments as well as decreases the efficiency of functioning of the local entrepreneurs. Therefore, as soon as possible one should take the measures aiming at including these regions in the planned trans-European networks connecting Eastern Poland with other parts of the country and the European Union along with the modernization of the communication links within the region as well as individual voivodeships.

Successful development mission in Eastern Poland requires considering a number of border conditions of efficient stimulation of the development. Availability of the financial sources within aid programmes for the poorest voivodeships is sufficient to ensure the actual improvement in the socio-economic situation in this part of the country. At the same time the following premises should be taken into account:

- development should be based on the endogenous development factors;
- high quality of the human capital;
- partnership for the development of the national and local government.<sup>10</sup>

Experience of the EU countries proves that a long-lasting development is possible by focusing the development actions on such fields of regional economies that show competitive tendencies at the national and international levels. Therefore, it is necessary to

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<sup>9</sup> *Country Development Strategy 2007-2015*, Ministry of Regional Development, Warsaw 2006, p. 10.

<sup>10</sup> T. Dołęgowski, *Konkurencyjność instytucjonalna i systemowa w warunkach gospodarki globalnej*, Szkoła Główna Handlowa, Warsaw 2002, p. 103.

create a climate in which such structures of services and production can be established as well as stimulate the endogenous potential e.g. in the form of clusters.<sup>11</sup>

In the voivodeships of Eastern Poland there are already good practices for this kind of activity, e.g. Aviation Valley (Swietokrzyskie), dairy complex (Podlaskie), healthy food complex (Podkarpackie, Lubelskie, Swietokrzyskie), wood and furniture industry (Podlaskie), yacht production (Warminsko-Mazurskie and Podlaskie), electronic complex from Elblag (Warminsko-Mazurskie).

Improvement in the quality of human capital is a crucial element of the development at every stage of regional policy. The support for it requires some changes in the education system from kindergarten to university with the emphasis on the rural areas. Especially important measures concern the increase in the flexibility of education offer at the vocational, post-secondary and university level. It is also necessary to establish the bonds between the universities and the economy by the cooperation of the employers' needs and the educational possibilities of the universities. The complementary element should be the offers concerning enhancement of the qualifications addressed to the persons who finished their education at some level but are still willing to widen their knowledge in the particular field.

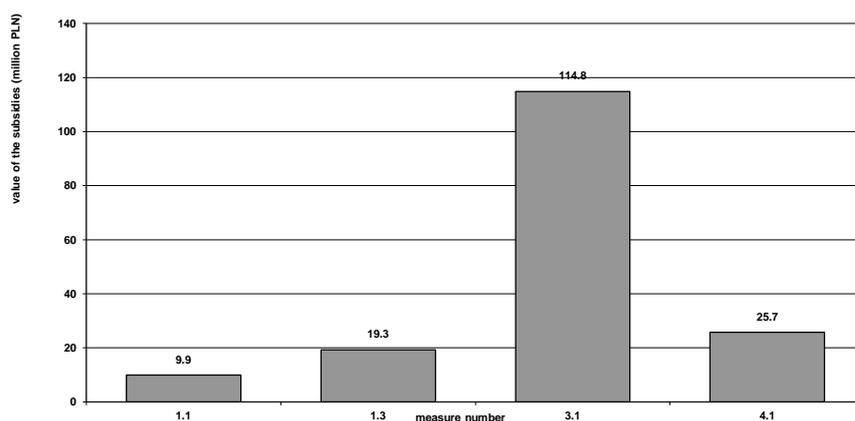
Ensuring social, economic and territorial cohesion within the Strategy for Development of Eastern Poland requires cooperation of the authorities of three levels: central, regional and local. The success of development of the poorest voivodeships will be also a national success, in accordance with the assumption that too much of the interregional diversity limits the possibilities of development of the whole country. The government should ensure stabilization of the law concerning economy, the improvement in the possibilities of financing of the projects at the local level as well as present the model of planning in the metropolitan system. Moreover, the government should strive for as good as possible international atmosphere so that the neighbouring countries think positively of cross-border interregional cooperation. Finally, it should include the promotion of the country with the focus on the natural beauty of Eastern voivodeshiop in the activities of the government institutions.

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<sup>11</sup> M.E. Porter, describes clusters as a geographic concentration of interconnected businesses, specialized suppliers, service providers and associated institutions such as academic centres or research institutions –in J. Cygler *Strategic alliances*, Difin, Warsaw 2002, p. 185.

### 1.5. Evaluation of Operational Programme Development of Eastern Europe

In 2006 an indicative list of OP DEP projects (comprising relevant undertakings as far as achieving the planned results of the socio-economic development of the country, given sector or voivodeship are concerned) was created with the aim of preparing the most important and pro-developmental investments in Poland for realization in five Eastern voivodeships. In 2007 in Podlaskie voivodeship as many as 26 projects (including 2 reserve ones) of total amount of financial support of over 320 million euros were approved for the realization. Up to 2010 the number of the projects decreased to 22 investments. Among the crossed out projects there is building of the University of Bialystok campus, which is essential for the development of the education infrastructure of Podlaskie voivodeship, or the investments connected with the development of innovative infrastructure.



**Picture 2. The value of the subsidies for the beneficiaries of five voivodeships in the years 2007-2010**

Source: <http://www.polskawschodnia.gov.pl/AnalizyRaportyPodsumowania/Strony/default.aspx>, [30.10.2010.

At present (until 30 October 2010) there are 108 contracts of financial support from OP DEP, of which only 12 (hardly 11% of the total) come from Podlaskie voivodeship. The level of the payments for the beneficiaries does not appear impressive, either. On 30 October 2010 it amounted to 169.7 million PLN. The greatest amount of the sources was transferred to the city of Bialystok, which is realizing the project from measure 3.1. This one project makes as much as 46.39% of the funds available for Podlaskie voivodeship. The second measure according to the amount of the paid sources is activity 4.1. – the

money is the equivalent of only 5.25% of the measure budget for our voivodeship. Thanks to the measure 1.3. 19.3 million PLN, which is 5.76% of the available sources, was transferred.

At present there are 108 contracts within OP DEP. The amount of the financial support exceeds 3986.7 million PLN, which is over 42% of the programme budget. The details are presented in the following table.

**Table 5. Realization of OP DEP until 30 October 2010**

Priority axis / measure	Contracts		Payments for the beneficiaries	
	Number	Value of subsidy (million PLN)	Value of subsidy (million PLN)	% of the available budget
<b>Priority axis I</b>	86	2 404.13	540.25	16.44%
Measure 1.2	1	83.55	83.55	100.00%
Measure 1.3	42	959.90	191.15	11.7%
<b>Priority axis II</b>	0	0	0	0%
<b>Priority axis III</b>	3	411.33	179.65	9.54%
<b>Priority axis IV</b>	10	1 090.90	61.29	2.23%
<b>Priority axis V</b>	1	20.35	0.49	0.25%
<b>Priority axis VI</b>	8	60.04	29.17	10.28%
<b>Total</b>	108	3 986.70	3 082.39	30.65%

Source: Monthly information on the realization of OP DEP (on 30 June 2010), (in) <http://www.polskawschodnia.gov.pl/AnalizyRaportyPodsumowania/Strony/default.aspx>, [26.10.2010].

The largest number of investments (86) are carried out with the support of the financial sources from priority axis I, thanks to which almost 2404.13 million PLN is supposed to be given to the beneficiaries. Until 30 October 2010 they were allotted 540.25 million PLN, which is 16.44% of the budget available for the axis. Within the axis there are also measures conducive to the development of entrepreneurship. Measure 1.2. *financial engineering instruments* enables realization of the project “Re-guarantees as a chance of the increase in the external financing of SME. An instrument of the support of guarantee funds in Eastern Poland” by Bank Gospodarstwa Krajowego. The total value of the project is almost 98.29 million PLN, of which 83.55 million PLN is the EU contribution.<sup>12</sup> The whole amount was already allotted to the investor. On the other hand, measure 1.3 *supporting innovativeness* enables financing 42 projects with the support of the total amount of 959.9 million PLN. At present the beneficiaries of the measure have

<sup>12</sup> The map of subsidies (in) <http://www.mapa.funduszeStrukturalne.gov.pl/>, [23.04.2010].

been granted 191.15 million PLN, which is 11.7% of the sources available for this measure.

### **1.6. Summary**

Delimitation of the areas of Eastern Poland indicates the necessity of taking common measures by national and local authorities for the improvement of the socio-economic situation of those regions enabling efficient use of endogenous and exogenous factors. Decreasing the backwardness of the voivodeships of Eastern Poland is not possible without stimulation and strengthening of the developmental tendencies which start to grow in the region. Currently the regions of Eastern Poland are characterized by under-investment and consequently poorly developed and incorrectly oriented transport infrastructure, lack of adaptation of the areas for the investments, low level of innovativeness of the enterprises and poorly developed sector of high technologies. It is necessary to include the areas in the process of generating economic growth as well as the growth of employment. It is essential to intensify the measures aiming at development of the voivodeships of Eastern Poland by improvement in the accessibility and communication functionality of the border areas as well as economic activeness of those areas.

Keeping in mind large interregional disproportions, in 2005 presidency of Luxemburg proposed establishing for the years 2007-2013, according to the solidarity principle, a special fund for the five poorest regions of the lowest GDP per capita in the enlarged European Union. The regions of 5 voivodeships of Eastern Poland, i.e. Lubelskie, Podkarpackie, Podlaskie, Swietokrzyskie, Warminsko-Mazurskie have an opportunity for the implementation of the instruments initiating their development in accordance with *Strategy for Socio-Economic Development of Eastern Poland until 2020* by financing the activities from *Operational Programme Development of Eastern Poland*.

## Chapter II

### East Poland, development capabilities

Sławomir Ignatiuk\*

**Summary:** East Poland is describes as an areas of following five regions Podkarpackie, Podlaskie, Swietokrzyskie and Warminsko-Mazurskie. Common attribute of that area is low level of socio-economic development (that is 40% of UE level). That was main reason for elaboration of Operational Program for East Poland Development and Strategy of socio-economic development of East Poland by 2020. On growth of that region (until 2013) amount of 2205.58 mln EUR was assigned, of which lublin area receives 580.57 mln EUR, Podkarpackie 487.48 mln EUR, Podlaskie 386.86 mln EUR, Świętokrzyskie 375.30 mln EUR, Warmińsko-Mazurskie 447.37 mln EUR. In that work main attention was put on the way the funds can be used and expectations of socio-economic results.

**Key words:** socio-economic development, East Poland, Operational Program for East Poland Development and Strategy, development cababilities.

#### 2.1. Introduction

The term „Eastrern Poland” was understood in the past as an area consisting of three main provinces: Podlaskie, Lubelskie, Podkarpackie. In the Operational Programme for the Development of Eastern Poland in the years 2007-2013, formed by Provincial Ministry, one claimed that the area of Eastern Poland consisted of five provinces: Lubelskiego, Podkarpackiego, Podlaskiego, Swietokrzyskiego oraz Warminsko-Mazurskiego. The following definition of Eastern Poland will be obliged in the presented study.

The provinces that constitute Eastern Poland are signed as a spatial and firm area that constitute 31.7% of all area of Poland inhabited by approx. 21.4% people who produce

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around 15.4% gross income in the country. The main problem of this macro-region is a low level of regional development, urbanization and strong environmental diversity.



**Picture 3. Provinces that are assigned in the Development Programme of Eastern Poland**

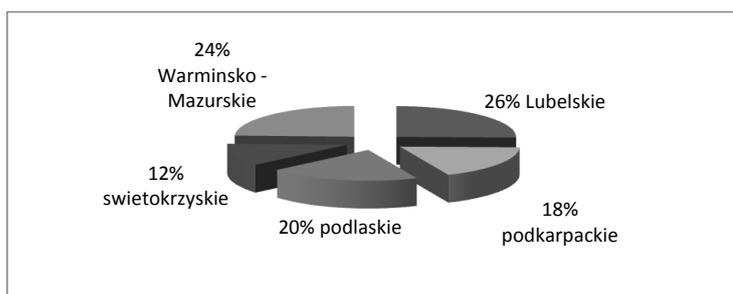
One should underline the fact that the analyzed macro-region is the poorest in the European Union for the gross national product does not exceed 40% of the average of E.U. In 2007, according to EUROSTAT the rate was 53.6% for Poland in comparison with European Union. This statistic proves that Poland is a poorer economical country than the European Union when it comes to economic development.

The region of Eastern Poland covers an area of 99037 square kilometres, that is 31.7% of general country surface. The structure of provinces' surface was shown in Picture 4. from which we can deduce that Lubelskie province is the biggest province and Świętokrzyskie province is the smallest one. Podlaskie province is located at third place.

## **2.2. The characteristics of Eastern Poland**

The area can be divided into three sub-regions: northern and southern. The northern sub-region includes the following provinces: Podlaskie, Warmińsko-Mazurskie, and the northern part of Lubelskie province; the southern sub-region includes Świętokrzyskie province, Podkarpackie and the southern part of Lubelskie province. The common denominator of all these provinces is a low level of the existence for the people who live there. All economic parameters per one person are much lower than in the rest regions in

the country. They are especially lower with reference to all European Union. That is why the regions had been embraced in the Operation Programme for Development of Eastern Poland. One should, however, underline that the provinces that constitute Eastern Poland differ from each other in natural, economic, demographic, social and historical conditions. The most essential impact on the development of these provinces exerted natural conditions and borderline.



**Picture 4. The area structure of provinces in Eastern Poland in %**

*Source:* Statistical Yearbook of the Regions 2008, GUS.

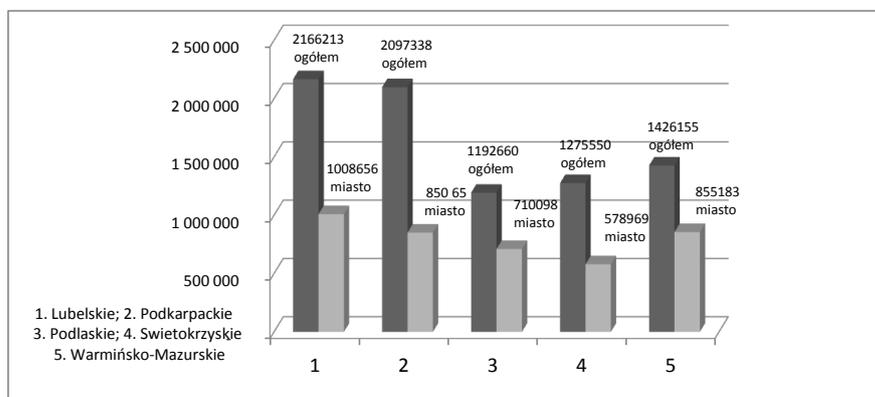
Natural conditionings affected the possibilities of development of agriculture, the development of tourism as well, and the development of industry in a large extend. The border location of these provinces became the main cause of the low development of management infrastructure, especially in communication links with the country and the world. Therefore, they have been excluded in the process of locating objects of an investment service industry.

The sub-region of Eastern Poland is characterized by within the aspect of historical condions it belonged to different countries for abounded of periods of time. Warminsko-Mazurskie province belonged to Germany, Podlaskie, Lubelskie and Swietokrzyskie provinces belonged to Russia, and Podkarpackie province belonged to Austria. After the WW II, Warminsko-Mazurskie province had the best infrastucture and best conditions to economic development. Because of the fact the province in the past belonged to the so called regained lands, it was treated by the central government as an area of the third category, hence in location investment it was ignored. Therefore, today it belongs to the least developed regions in economic terms.

The southern sub-region of Eastern Poland is much more industrialized with respect to northern sub-region, hence it is more exposed to industrial air, soil and water pollution. Population density is therefore greater than in the north. The subregion analyzed in terms

of natural assets (natural resources, including the area of forests, lakes, national parks) is less attractive compared with the northern sub-region.

Eastern Poland is characterized by high natural values. Legally protected areas occupy 39.1 thousand square kilometres, which represents 38.5% of the total area of protected areas in Poland. The values in this region affect complex of lakes and forests in its northern part, the Biebrza marshes, upland and mountainous areas in the southern part of Eastern Poland. The most valuable natural areas are environmentally protected, they are mainly national parks. In the analyzed region, there are 9 national parks (there are 23 in the country). They cover a total area of 1645 square kilometres, which represents 51.8% of the area covered by this form of protection in Poland. Moreover, in the Eastern Poland, there are 44 Polish wildlife reserves, dozens of protected landscape, tens of thousands of natural monuments and hundreds of other protected areas such as ecological nature and landscape. The level of cleanliness of the natural environment in Eastern Poland in relation to the whole country is high. This is the result of low level of industrialization and urbanization in the area. This applies in particular the regions of Podlasie and Warmia-Mazury that comprise the Polish Green Lungs. Eastern Poland has relatively few areas degraded by industry and is also characterized by low air pollution. The emission of pollution and the number of sewage discharge in the Polish Eastern provinces is the lowest in the country.



**Picture 5. The population in general and for individual provinces in cities in 2007**

Source: Statistical Yearbook of the Regions 2008, GUS.

Eastern Poland is inhabited by 8.2 mln people. The lowest population density occurs in the Podlasie province, the highest one is in Lubelskie province (Picture 5.). Population

density per 1 km<sup>2</sup> in the Podlasie province is 59 persons, while in the Warmia-Mazury province 60 people, which puts them on the last positions in terms of population density in Poland.

The population of Eastern Poland is mostly diversified in terms of ethnic and cultural aspects in the country. Ethnic and religious minorities such as Lithuanians, Belarusians, Ukrainians, Tatars, who live there still remain their culture, customs and religions. In the Eastern territory there is a constant process of reducing the population. In the years 2006-2007, the number of residents in the eastern provinces was decreased by 14236 people, at the same time in the other 11 provinces the decline was stated as 7683 people (from Poland disappeared a total of 21919 people). In fact, the population of regions in Eastern Poland is much lower; in recent years, there has been the unchecked exodus directed to the main centers in Poland and abroad. The holding of population living in cities compared to the total population in a given region is associated with the industrialization of the region. In many cases it is the urban centers that constitute the industrial centers, and around them population centers are eagerly created. The highest percentage of population living in the city occurs in Podlaskie and Warmia-Mazury provinces (approximately 60% of the population live in cities, the least population, about 40% live in Podkarpackie province).

Eastern Poland is a very poor industrial area. Larger industrial centers are located in Podkarpackie, Lubelskie and Swietokrzyskie provinces. As a result of the restructuring of the Polish economy in the 90s of the last century the mentioned provinces have already reduced their productive potential. Eastern regions occupy the last place in the country because of the value of industrial output sold per one resident. Capital expenditures in industry and construction are in Eastern Poland lower than replacement and restructuring requirements.

In terms of monthly income per capita gross in household, regions of Eastern Poland are the last places where the distance between them and the rest of the country is constantly growing. The earnings of Eastern residents are about 20% lower than the national average, which in 2007 amounted to 2866 PLN; for comparison the highest salary reported in the Podlaskie province amounted to 2525 PLN, and the lowest in Podkarpackie province – 2373 PLN. In age, there is visible progressive aging of the population. the share of children and adolescents under the age of 18 years significantly decreases and share of the population in retirement slightly increases.

The increased number of working-age population cannot be interpreted favorably, because within this group of people there is by far the fastest increase in the number of people in a non-mobile age (45-59 years for women and 45-64 years for men), which means that in the coming years there still would be a significant increase in the number of population in working age. Already, the problem of aging is most evident in the following regions: Podlaskie and Lubelskie; it least concerns the provinces: Warminsko-Mazurskie and Podkarpackie. Eastern Poland belongs to the so called depressed regions, which include areas with a high rate of unemployment and stagnation in investment. These pathologies are the result of the market economy conditions and the inability to get used to structural crisis. The highest unemployment rate recorded for all provinces in the country is characterized by Warmia and Mazury regions. The unemployment rate was stated there 19% within the national average at 11.4% and the lowest unemployment rate recorded in the Podlaskie, it was 10.7% and was slightly lower than the national average. The level of education of Eastern citizens is slightly lower than the national average, but there are easy to spot differences between all provinces. In Eastern Poland there operates 79 schools of various types. In 2005, 358000 people attended them – 18.5% of the national number of students, of which approximately 37.5% at private institutions. In the same year, a higher degree was obtained by 79.5 thousand graduates of these schools, representing 20.5% of all college graduates in Poland. In absolute terms, the largest number of students have Lubelskie universities (over 108 thousand – 7th place in Poland), the lowest number of students is in the Podlaskie province – almost 54 thousand (14th place in Poland). In the years 1999-2005, the number of students at Eastern universities rose a few percent (from 30% in Podlaskie province to 60% in the Warmia and Mazury province). It should be noted, nevertheless, that in the last 2 and 3 years the number of students was stabilized.

In Eastern Poland the role of agriculture in relation to other sectors of the economy is relatively high. In the gross value added structure the Podlaskie province reaches the highest value in the country (12.1%). In other provinces, it was shaped a bit above the national average (5%), so at the level of 7.7%-9.3%. The smallest importance of agriculture has been reported in the Podkarpackie province (3.3%). On average, in the European Union this denominator reached 1.9%. There are very different indicators of gross value added per 1 employee in agriculture; it is the highest because of 180.5% of the national average, and took place in the Warminsko-Mazurskie province, the lowest is in Podkarpackie province (27.7% of national average). Those people working in agriculture

(including fishing and forestry) constitute 29.8% of the total workforce (17.4% in Poland). Such statistics are for eastern Poland. Agriculture of Eastern Poland in 2005 provided 25.2% of the final domestic agricultural production. The high level of marketability is characterized by agriculture in the Podlasie and Warmia-Mazury province.

The sector of market and non-market services in Eastern Poland is also less developed than in other parts of the country. It employs 46.3% of total employment, 53.4% in Poland. Low level of service also applies to the business environment. In 2005, in the financial intermediation and real estate and business services worked 6.1% people in Eastern Poland, and 9.7% in the country.

Eastern Poland has a great potential in developing various forms of tourism due to large diversity of landscape and a lot of valuable natural areas with exceptional qualities in the country. Therefore, this region is a major tourist attraction in Poland. Very good conditions for tourism has Warmia and Mazury regions. Major tourist attractions also have the Podlaskie province. It has very good qualities for the development of qualified tourism, especially nature.

Transport infrastructure in the Eastern Poland is the worst in the country. Poor transport links are between the Eastern Polish provinces and the connections of these areas with the rest of the country. The quality and accessibility of the Eastern territory depends not only on the density routes, but also on the parameters that characterize standard connections such as the quality of pavement, width of roads, access to railway lines. In Eastern Poland there is no expressway, and the average density of public roads with the hard surface is just 68.3 km per 100 square kilometres (81.2 km in the whole country). Of the five Eastern provinces only Swietokrzyskie province has transport infrastructure which is similar to the national average. A very intensive use of public roads of the Eastern Poland should be emphasized because of border connections. A large number of trucks do not only destroy the surface roads, but it is bad for health. The average density of the railway line is 4.7 km per 100 square kilometres in the analyzed area (6.5 km in the country), while in the Podlaskie province it reaches 3.4 km. Nevertheless, over the past 5 years there were 660 km of unprofitable railway lines excluded from the use in the Eastern territory.

A very problematic issue for the development of Eastern Poland is the region's investment attractiveness. It should be noted that it is very poor because the Lubelskie, Podlaskie and Swietokrzyskie regions are often classified as Class E (the lowest one in the

country), while Podkarpackie and Warmia and Mazury regions are said to be Class D. Therefore, in the analyzed areas of the country, there is a very small number of companies with foreign capital. This concerns, in particular, the Podlasie, Warmia-Mazury and Lubelskie provinces. In the Swietokrzyskie and Podkarpackie provinces, the situation is somewhat better. When it comes to domestic businesses, the situation is pretty similar. The development of small and medium-sized enterprises is financed from somebody's own resources, and because of problems with the access to bank loans. The cause to a difficult access to bank loans is marked by low creditworthiness and its use of simplified forms of accounting, which, in turn, makes use of standard methods of the banks credit rating. Table 6 presents the information on the main parameters of the situation in the Eastern provinces compared to the corresponding national data. The data contained in the table says that Poland belongs to the poor regions that require financial, social, economic, and marketing support. The information contained in the table also shows that each Eastern province differs from each other in terms of natural and demographic conditions.

**Table 6. Iner-province diversity in the Eastern Poland in 2005**

Specification	Poland	Eastern Poland	Provinces of the Eastern Poland				
			Lubelskie	Podkarpackie	Podlaskie	Swietokrzyskie	Warmińsko-Mazurskie
The area in km <sup>2</sup>	312685	99 045	25 121	17 844	20 187	11 708	24 192
Area of the country in %	100.00	31.70	8.10	5.70	6.50	3.70	7.70
Population in thousands	38157	8191	2180	2098	1200	1285	1429
Population density in the number of people per km <sup>2</sup> .	122	83	87	118	59	110	50
Population in cities in %	61	49	47	40	59	110	59
Emission of air pollution in t/km2]	23	14	15	16	11	22	10
The share of sewage in %	94	92	99	95	99	78	90
income households in zł/person	16382	13651	13410	12510	14067	14290	13981
Population in agriculture in %	17	30	38	25	36	33	17
Unemployment rate in %	18	19	17	18	15	21	27

PKB in zlotys/person	24181	17842	16777	16886	18056	18714	18778
Gross value added in zl/employee	63561	49611	44456	45309	49750	48182	60359
Investments in zl/inhabitant	146	54	84	53	51	15	46
Municipal budget revenues in /inhabitant	1201	1354	1249	1459	1123	1430	1486
Roads of hard surfaces in km/km <sup>2</sup>	81	68	72	79	55	103	51
Railway lines in km /100km <sup>2</sup>	6	5	4	5	3	6	5
Expenditures on B+R investment i zl / inhabitant	135	49	77	50	43	14	39

Source: Statistical Yearbook of the Regions 2006, GUS.

### 2.3. The strategic objectives of the development of Eastern Poland

The strategy is a way to achieve strategic objectives. Therefore, a well-designed strategy should include a set of strategic objectives and identify ways of achieving them. The strategic goals should be formulated in such a way as to define the desired level of results expected of the organization in a specific period of time.

For these reasons, strategic objectives:<sup>4</sup>

- relate largely to issues of development, but functional issues are not ignored;
- are defined primarily in cross-section of the desired relationship with the environment;
- have the nature of the final objectives, which means they cannot be considered as a means of achieving other objectives within a long period of time;
- provide the basis for determining the operational and tactical objectives.

The strategic objectives for each organization are the most important value because their achievement determines the position of the organization in a competitive environment and its development. Not achieving the strategic means stagnation or revocation of the organization. The goals are a potent stimulator of the activity of each organization in all areas of its operation. Thus, they constitute the substantive basis for the action. The process of formulating strategic objectives is an important step in creating management strategies so goals ought to:<sup>5</sup>

- be clear, measurable, realistic;

- be included in the timeframe;
- consistent with the needs of the external environment;
- have a hierarchical system;
- make an internally consistent and coordinated arrangement of individual elements of the organization through which the organization achieves its goals;
- be formulated in all areas of the organization, which are essential for its development;
- facilitate the proper allocation and efficient use of resources of the organization.

As it follows that the formulation of strategic objectives is a complex process, requiring careful analysis of the external environment and internal organization and makes it necessary to make significant changes, primarily within the organization and the need for these changes to take substantial financial resources.

Ministry of Regional Development in December 2008 adopted a strategy of socio-economic development of Eastern Poland until 2020. According to this document, the strategic objective of national policy for 2020 is to increase the level of economic, social and territorial Eastern Poland and each of its province with regard to the principle of sustainable development. The strategy was developed on the basis of diagnosis, stating that the primary source of development problems is a very low level of economic, social and territorial cohesion in Eastern Poland. Low coherence of these regions was the reason the European Commission to launch a special instrument allocation of structural funds for the five eastern provinces in years 2007-2013. The strategic objective should contribute to the achievement of all five provinces of economic, social and territorial cohesion, taking into account the principles of stable and sustainable development.

It should be noted that from the economic cohesion is measured by GDP determinator per 1 inhabitant purchasing power parity under review. The strategy assumes that by 2020 it should be doubled.

Social cohesion is characterized by the following two indicators: the unemployment rate and the employment rate. The strategy assumes that it will be realized by improving communication links between the centers of economic development in rural areas and increasing the qualifications of the workforce. Consequently, it is assumed that in 2020 the level of social cohesion will have been reached as in other Polish regions.

Territorial cohesion is determined by the level of spatial accessibility. For this reason, it shapes itself at very low levels, makes a serious barrier in the socio-economic

development of the region and it prevents the citizens to exercise the many opportunities offered by a modern market economy. This affects the location of foreign direct investment and reduces the effectiveness of the local economic sector in a very negative way. In the strategic program it is assumed that high-quality trans-European transport networks should be brought to the area as soon as possible, linking Eastern Poland with the rest of the country and the entire European Union. This will enable the active participation of Polish cities competing for Eastern investors; and its residents would benefit from all kinds of communications links.

Achieving the strategic objective (raising the standard of living of the Polish population of Eastern) will follow the directional objectives through the implementation of key packages of measures which, in turn, are:

- the impact on improving the quality of human capital;
- construction of a knowledge-based society;
- supporting the economy;
- the increase accessibility through the development of transport infrastructure;
- the use of position by the EU external border and the development of border cooperation;
- supporting the Polish metropolitan cities of Eastern Poland;
- maintenance and the use of natural resources and biodiversity conservation.

The government's role in the realization of the strategy in the development of Eastern Poland will consist of removing barriers and restrictions by promoting and implementing appropriate legislative solutions, in particular the political and budgetary solutions. An important and very important task of the government will determine the allocation algorithm, the European Union in the regional segment among the Eastern Polish province. In a regional policy, preferences will be used for Eastern Poland. The least developed regions, virtually unable to compete, require the equalization of government intervention.

The main task of local governments will pursue a policy of development of their region. Implementing the strategy will consist in the region to take initiatives for cooperation with other subjects and especially with local governments and entrepreneurs. Identification of stocks occurring in a particular area and the local strategy for their use in a way that the community desired results in areas such as the revival of local economy, creating jobs, improving education and health care, building new technical infrastructure, to enhance security, boost tourism and to ensure about the environment – it's important

tasks for local governments. Other important tasks of local government regions are to upgrade provincial roads that connect the local centers for the development of the capital cities of provinces and among themselves, and to support activities in the area of environmental protection, development of specialized hospital services and to promote the region to attract investors and tourism. County governments should encourage the development of their region by upgrading the network of district roads and professionalization of the services and cooperating with inspections investors and entrepreneurs. Local governments should implement local development policies in the field of pro-investment of local taxes, site preparation for investments to create jobs by providing a complete infrastructure of territorial, for which a particular municipality stands for.

In the development strategy of the Eastern Poland the attention was paid for the development of advice and training for small and medium enterprises, and that's because a key element in the development of the SME sector is an adequate tradition, knowledge and culture in business running. It should be emphasized that the creation of many modern enterprises is a long and laborious process. It should also be noted down that they train specialists for the creation and development of SME-oriented knowledge-based economy. For the needs of SMEs there will be created for a training system adapted to the specificities of individual industries and individual counseling system in the course of doing business. A very important problem for the development of the SME sector is the problem of raising capital. Financial barriers arise from a large and difficult to hedge risk that is associated with the operation of SMEs. Larger issues are at the new and innovative ventures. It should be noted that in present conditions of crisis on banks lending criteria apply particularly high. Lack of access to capital makes the situation for SMEs suffer from a lack of liquidity, limited growth opportunities, and often collapse of companies. The scheme to promote the development of small and medium enterprises consists of the following elements:

- building a culture of entrepreneurship and improve the quality of management;
- the guarantee and loan funds originating from public funds;
- venture-capital funds;
- encouraging the emergence of companies of all types and technology through grants.

In the design of the strategic development of the Eastern Poland, the attention has been much paid to the role of public administration in Eastern Poland, in particular the need to improve the quality of its action. It is one of the key factors shaping the conditions for the development of society, broadly defined, because the efficiency and effectiveness of many of administrative action translates directly into quality of life and the opportunity to develop through their economic and social activity. Modernizing activities of public administration in Eastern Poland should contribute to creating an effective public sector, supporting regional and local economic and social development.

#### **2.4. The operational Programme of the "Development of Eastern Poland"**

The very main purpose of the Operational Programme for the Development of Eastern Poland security is the implementation of the tasks contained in the strategy for socio-economic development of Eastern Poland, and consequently, the acceleration of the Polish East in accordance with the principle of sustainable development. It has been developed, just like the eastern development strategy, by specialists in various fields of economic and social life in close cooperation with the Polish Government. The tasks comprised in them are set until 2013. The Operational Programme is an instrument of state regional policy. The intention of the programme is to stop the trend of stagnation, have an impact on marginalization and dis to stimulate economic growth in the eastern provinces. This program provides an additional element of structural funds to support and enhance the operation of other programs on the eastern Polish territory through the implementation of discrete activities to stimulate economic and social development. The Operational Programme has been exposed to an extensive consultation in which local authorities took part, institutions, social organizations and local government employees, and education of Eastern Poland.

Operational Programme consists of five regional programs (separately for each province, forming a part of Eastern Poland) which are the most important instruments of the regional development policy in eastern Poland until 2013. The priorities of the program include:

- modern economy,
- infrastructure of informative society,
- regional growth centers,
- transport infrastructure,

- sustainable development of tourism potential based on natural conditions,
- technical assistance.

Regional Operational Programmes include the existence of the competitiveness of individual regions and the promotion of sustainable development. Within their frames the decisions will be taken on:

- research and technological development, innovation and entrepreneurship;
- informative society;
- local investments in the development and support structures for providing services to create jobs;
- environment and environmental protection infrastructure;
- prevention of natural and technological risk;
- tourism;
- investment in culture and increased role of culture in economic and social processes;
- development of regional and local transport infrastructure;
- energy investments, including improving energy security;
- investments in education;
- investments in healthcare and other social infrastructure.

The impulse to create a modern economy in the Eastern Polish regions will include projects related to:

- development of infrastructure of universities,
- infrastructure of informative society,
- promoting the innovation,
- promotion and cooperation.

The main objective of the Operational Programme (the need to accelerate the pace of socio-economic development in the Eastern Poland in accordance with the principle of sustainable development) will be achieved through the implementation of specific objectives which include:

- stimulating the development of a competitive knowledge-based economy;
- increasing the access to broad Internet in Eastern Poland;
- the development of metropolitan functions of selected provincial cities;
- improving the availability and quality of transport links in the Eastern regions;

- increasing the role of sustainable tourism in the economic development of macro-region;
- optimization of the implementation of the Operational Programme for the Development of Eastern Poland.

The Operational Programme will be implemented projects of key importance for the socio-economic development of Eastern five provinces. Firstly, investments will be financed in the infrastructure that supports scientific research activities and modernize the municipal or regional communication systems, projects that increase the attractiveness of investment and tourism regions that are being analyzed.

The Operational Programme will be implemented by the European Union supplies (European Regional Development Fund) and the state budget. For this program in the years 2007-2013 there will be involved 2.67 billion EUR. The funds allocated from the Programme of the European Regional Development Fund (ERDF) includes an amount of around EUR 2.27 billion, including about 992 million of special funds allocated by the European Council for the poorest regions of the European Union (EU-25). The remaining amount that is about 401.3 million comes from national public funds. Bearing in mind the efficient use of funds allocated for implementation of the DEP, it was the priority directions of funding, in an individual priority axes. The funds were distributed as shown in Table 7.

**Table 7. Rozdysonowanie środków PO RPW na poszczególne osie priorytetowe**

**Table 7. Allocation of resources PO RPW on individual priority axes**

Szacunkowa tabela finansowa PO RPW w podziale na osie priorytetowe The estimated financial table PO RPW in the division on the priority axes			
Priority axes	UE contribution in mln euro	National contribution in mln euro	Total in mln euro
Priority axis I	789.96	139.40	929.36
Priority axis II	255.12	45.02	300.14
Priority axis III	452.62	79.87	532.50
Priority axis IV	660.38	116.54	776.92
Priority axis V	47.50	8.38	55.88
Priority axis VI	68.21	12.02	80.25
Total	2273.79	401.26	2675.05

Source: Operational Programme Development of Eastern Poland 2007-2013, National Strategic Reference Framework, Detailed description of priorities, Warsaw 07.02.2008.

Layout of the priority axes of the operational program DEP is as follows:

**Priority Axis I: Modern Economy**

Komentarz [x2]: ???????

Komentarz [x3]: ???????????

I.1. University Infrastructure.

I.2. Developing support and deproducing of financial engineer instruments.

I.3. innovation support.

I.4. promotion and co-operation.

**Priority Axis II: Infrastructure of informative society**

II.1. The wideroad Net of Eastern Poland.

**Priority Axis III: Provincial Centres of the increase**

III.1. Systems of urban multiple transport.

III.2. Infrastrucure of congress and deal tourism.

**Priority Axis IV: Transport Infrastructure**

IV.1. Road Infrastructure.

**Priority Axis V: The maintained development of the potential tourism based on natural conditions**

V.1. Promoting the maintained developmet of tourism.

V.2. Bike routes.

**Priority Axis VI: Technical help**

VI.1. Support and Programme promotion.

In PO RPW projects will include:

- Universities;
- Units of territorial directive and some foundations that will take part in them;
- educational units, including basic organizational units of universities;
- searchable and developing units, including units of Polish Academic Science;
- Enterpreneurs;
- outgovernment organizations;
- General Administration of National Roads and Main Roads;
- institutions that are important for particular regions from the point of regional development, including:
  - statistics offices, dimensional offices of planning,
  - tourist organizations,
  - institutions of business and innovation surroundings (business organizations, business clubs, centres of investments' desk, economical centres, cost of technological transfer, technological parks, industrial parks, investment incubators);

- Institution that manages the Programme and the submanagement institution and other institutions assigned to maintain the programme;
- Organizations of government administration.

The Programme's funds were assigned to regions of Eastern Poland. The division was done according to the special scale. The division was shown in Table 8.

**Table 8. Algorithm for the distribution from PO RPW on provinces Eastern Poland**

Algorithm for the distribution from PO RPW on provinces					
Provinces	Algorithm for 992.19 mln euro	Distribution of 992.19 mln euro	Algorithm for 1213.39 mln euro	Distribution of 1213.39 mln euro	Total in mln euro
Lubelskie	26.69%	264.85	20.09%	243.72	508.57
Podlarpackie	25.54%	253.41	19.29%	234.07	487.48
Podlaskie	14.68%	145.61	19.88%	241.25	386.86
Swietokrzyskie	15.74%	156.21	18.06%	219.09	375.30
Warmińsko-Mazurskie	17.35%	172.11	22.69%	275.26	447.37
Eastern Poland	100.00%	992.19	100.00%	1213.39	2205.58

Source: Operational Programme Development of Eastern Poland 2007-2013, National Strategic Reference Framework, Detailed description of priorities, Warsaw 07.02.2008.

From the information that is shown in Table 8 one can deduct that the highest financial support is assigned to Lubelskie province, and the lowest is assigned to Swietokrzyskie province.

Podlaskie province, just like other Eastern Poland provinces form formal regions because they together create the administrative part of the society and were established on the government principal from July, 24th, 1998. It established the main three-step territorial division of Poland.

Main substances that assign the region are as follows: the area of region and the people that inhabit this area. The region is the chosen area, fairly homogenous, being rather different from other ones, especially including the natural traits or it has been created for economic, social and administrative needs. The region may attract or disattract investors in dependence of its attractiveness and rivalry of its economic, social area or natural environment.

The chance of the region is assigned to its possibilities to creating a powerful and well-qualified work force, modern communicative infrastructure, well-established institution of investing support and yet friendly procedures of government-administrative status, that is creating good investing climate.

The realization and financial system of the Programme RPW consists of the list of individual projects of the insitutional system. Projects' list of individual kinds ranges key institutions whose realization will mostly contribute to programme's future goals.

The projects that were put in the list will not be counted in the competition. Their realization will be rationalized from acceptance of full documentation of the project by the leading institution that manages the whole programme and by the grade given by the experts on the basis of the documenatation.

The institution that governs the programme is the Minister of Regional Development. He is responsible for effectiveness, efficiency and correctness od the management and implementing the programme. The duties of the institution that governs the programme are assigned to the organizational unit in frames of The Ministry of Regional Development. The function is currently assigned to Department of Coordinating Regional Developments. The administrative institution is assigned to the Polish Agency of Development and Enterprise. It is responsible for monitoring individual projects that are being prepared, doing procedure conclusions, granting, signing the deals for grant, verification of the conclusions, pay, controlling of projects' realizations, informative and promoting activities and monitoring and evaluation of priority axis being fulfilled.

## **2.5. Regional Operational Programmes of the provinces of Eastern Poland**

### **The Operational Programme of Podlaskie province**

From the information given in Table 7 it is clear that Podlaskie province belongs to the poorest provinces of Eastern Poland. Mainly, the structure of industry has changed drastically. In department structure of industry the highest income is assigned to consumption industry, including milk one (23.8% in intake and 48.1% in production). Machine industry consists 3.8% of industry production, light industry 4.2% of production. One should undermine that two last sectors are in the ending pahse. Therefore, in Podlaskie province there is a strong regress of machine and light industry. In the structure of consumption industry, being main industry, milk industry is the main industry. It is number one in the country taken to consideration many points, whereas milk services are known abroad and in the country. From these facts, the milk industry ought to be continually supported.

The strategic goal of PO RPW is to increase the tempo of its economy for creating new work places, while progressing its own natural and cultural ones. For increasing the

rivality and innovation of economy they are constantly supported financial projects aimed at creating and developing infrastructure fitted to needs of other developing investments. Innovation, efficiency, technological incubators and preparation of investing areas will be supported. The projects connected with building informative society will be realized and supported. It will be all done for modernization the telecommunicative infrastructure, especially the system of connection for needs of public administration and economy and offline access to the Internet. Investments of environmental protection infrastructure will as well be supported that correct the water supply, sewage cleanliness, waste economy, air quality, establishing the renewable energy supplies, preventing floods and supporting environment protection. Support of tourist activities will be concentrated on building and modernizing of recreational objects, accommodation facilities, gastronomic facilities and creating investing projects of spa county and yet creating systems of information tourist centres. Sports objects will be modernized. In the range of road transport, the support will be given to investing and modernizable entrepreneurs that rationalize the functioning provincial and county roads, including improving safety of travellers.

In terms of railway transport, the support will be centred on modernization of railway infrastructure of regional meaning and buying additional infrastructure. Support for public transport will be directed to development of infrastructure linked to purchasing the tabor, infrastructure aimed at increasing safety and acceptability to public transport net, building and modernizing streets of regional purpose. In the project there is a plan for building the regional airport. Support of educational infrastructure will be made of modernizing educational centres assigned to creating and improving educational quality and access to knowledge. Health infrastructure will be given support as well. It will be aimed at supporting the projects for improving the standard of healthcares and medical and informative equipment for the needs of ER centres. Cultural infrastructure will be supported by rebuilding, modernizing and increasing the acceptability to cultural objects. The preservation of cultural heritage will be aimed at supporting investments that goal to secure and conservation of objects of cultural heritage, conservation of monuments, bookfiles, update of historical urban centres, industrial areas of historical heritage for cultural aims, and realization of projects connected with creating informative systems of culture, including modernized Net system. In order to counteract the social and economic marginalization of areas that are less developed, some activities will be undertaken so that they are equipped with indispensable technical infrastructure. Objects connected with

building and modernizing county road will be supported of local meaning and the activities that lead to improving air quality, and activities connected with building and modernizing equipment that supply water, drainage of equipment that get out water and sewage.

### **The Operational Programme of Lubelskie province**

Lubelskie province in terms of the area and the people who live there is the largest province of Eastern Poland. The data shown in the Table 5 indicate that it is for many reasons overrated, and so it needs financial support for its development. Therefore, the aim of The Operational Programme of Lubelskie province is increasing the rivalry and at the same time fast economical growth and increase in intake, taking natural and cultural conditions.

Increasing the rivalry of investments will be conducted in terms of support given by investments that create the establishments of fairly new economic objects, the development of informative, financial, training services and the continuing modernization of functional entrepreneurs in the area. The investments that will especially be supported are the ones that are innovative and begin the trade in the advanced technology. Research will be financed in large entrepreneurs or realized in the co-operation with other ones, the development of high technological infrastructure. There will be larger access to indoor capital, and that will cause financial institutions to flourish (loan funds and credit funds) It's said that creating a friendly surrounding for investing and the economic maintenance will influence attractiveness of the region, and the increased area of well-equipped investing areas will therefore influence the number of entrepreneurs in the country and abroad. The increase access to the services offered by business institutions will enable the increase of rivalry of economic objects. The increase and development of informative services will affect the sector of investors in a positive sense and the quality of education and access to information for all inhabitants of the region.

In terms of railway transport, the support will be centred on modernization of railway infrastructure of regional meaning and buying additional infrastructure. Support for public transport will be directed to development of infrastructure linked to purchasing the tabor, infrastructure aimed at increasing safety and acceptability to public transport net, building and modernizing streets of regional purpose. In the project there is a plan for building the regional airport. Support of educational infrastructure will be made of modernizing educational centres assigned to creating and improving educational quality and access to knowledge. Health infrastructure will be given support as well. It will be aimed at

supporting the projects for improving the standard of healthcares and medical and informative equipment for the needs of ER centres. Cultural infrastructure will be supported by rebuilding, modernizing and increasing the acceptability to cultural objects. The preservation of cultural heritage will be aimed at supporting investments that goal to secure and conservation of objects of cultural heritage, conservation of monuments, bookfiles, update of historical urban centres, industrial areas of historical heritage for cultural aims.

### **The Operational Programme of Warminsko-Mazurskie province**

The main aim of The Operational Programme of Warminsko-Mazurskie province is increasing the rivalry and at the same time the number and the quality of net access. Increasing the rivalry of investments will be conducted in terms of large support because it's connected with rebuilding and modernizing of transport infrastructure, including: roads, main roads, railways of national meaning, tabor and infrastructure, traits of water transport, small ports, airports both regional and local. Roads that lead to industrial areas will need to be rebuilt, modernized and built as well. The investments that will especially be supported are the ones that are innovative and begin the trade with access to capital, knowledge, innovation, and possibilities that are connected with creating cooperative links, quality promotion, creating production and promotion of regional products.

Investitions of tourism protection infrastructure will as well be supported that correct the water supply, sewage cleanliness, waste economy, air quality, establishing the renewable energy supplies, preventing floods and supporting environment protection. Support of tourist activities will be concentrated on building and modernizing of recreational objects, accommodation facilities, gastronomic facilities and creating investing projects of spa county and yet creating systems of information tourist centres. Sports objects will be modernized. In the range of road transport, the support will be given to investing and modernizable entrepreneurs that rationalize the functioning provincial and county roads. For increasing the rivalry and innvoation of economy they are constantly supported financial projects aimed at creating and developing infrastructure fitted to needs of other developing investments. Innovation, efficiency, technological incubators and preparation of investing areas will be supported. The projects connected with building informative society will be realized and supported. It will be all done for modernization the telecommunicative infrastructure, especially the system of connection for needs of public administration and economy. Main roads are going to be built, so are the paths to well-

advanced medical services. In terms of cultural services, there will be supported small and big investments that will be assigned for renewing and adapting cultural places still maintaining the historical character of places. The support will be given to institutions for planning and protecting the system of natural environment by building and rebuilding and modernizing infrastructure, environment protection before polluting and degrading.

In terms of development of informative society there will be some projects realised connected with updating modern technical advances among the inhabitants of this region and using these technologies on a large scale. There will be projects to invest in the telecommunicative systems that would improve the lives of the people and objects that improve the quality of modern life will be built, as well as projects that improve the educational system at all levels, standard rooms for obtaining knowledge will be built and they will provide funds for equipments and other educational expenses. There will be projects that provide a high level of security and medical accessibility. In terms of the above activities, there will be better conditions of living for people and better conditions for setting up a particular business of small and large range, and in consequence, the rival activity will be more successful and based on actual knowledge. People will create places for tourism attractions.

#### **The Operational Programme of Swietokrzyskie province**

The main aim of The Operational Programme of Swietokrzyskie province is increasing the rivalry and at the same time the number of work places of regional economy. The funds will be given to supporting the sector of small and large entrepreneurs, business institutions, for credits and loans, and the support of search and development sector, building the informative society and preparation of investing areas. The investments that are aimed at increasing the level of economy innovation especially by strengthening the search and developing sector, increasing the cooperation with other entrepreneurs aiming at increasing the transfer of modern technology and the ability of using it.

The necessary element of The Operational Programme of Swietokrzyskie province is providing better communicative sector. The support will be conducted in such a way that it will make it possible to communicate with regional, national and european communicative means. This will be flourished because of the exchange of railway and road labor of local communication of transport which increases the quality of transports' services and reduces the negative impact on the natural environment.

The reduction in areas of technological infrastructure such as the environment and energetic protection will consequently affect the technological services that will need to be recovered.

It's said that cultural tourist and sports investments will accordingly be supported. As well as some activities including health and educational investments and the equipment needed to perform these services. The openness with the rest of provinces will equally be given and beside it, creating investment areas.

### **The Operational Programme of Podkarpackie province**

The main aim of The Operational Programme of Podkarpackie province is increasing the national and international rivalry of economy and the improvement of aerial access to the province. Supporting the building of rival innovative economy will be the realization of projects concentrated on the following main directions:

- eliminating the obstacles in developing and rivalry within a particular investment;
- eliminating the obstacles in access to the information connected with increasing the rivalry and innovation;
- economy promotion in terms of already existing sectors of the economy and industrial sectors of a high success and providing good international experiences;
- building the stable net of investing relations in production, finance, trade in all directions with foreign partners.

Financial support will be especially given to the activities that improve the technical infrastructure, including transport electricity and informative infrastructure.

There is established a strong support for those investments that would improve the country's economy of water and sewage type, protection against natural disasters and improving sewage economy as well as all other activities that are contricuttet to the protection of natural environment and its better use.

Sports, cultural and educational infrastructure will also be supported in terms of improving social infrastructure. They enable the communication between market needs and the profile of education.

Some activities are assigned to eliminating infrastructural and aerial obstacles by projects of social activation of the region, while creating new places of work except for agriculture, modernizing of degraded areas and giving them new economic, cultural and social functions. There will be strong need to build, rebuild and improve local base for social help, healthcare centres buying special medical equipment.

If all these activities are fulfilled in Podkarpackie province, the region will have a chance to have better results and will be close to other regions.

## **2.6. Summary**

From the results that are presented in the essay, one may deduct that particular regions of Eastern Poland differ from each other in terms of social, economic, structural and technical traits. The trait that joins them together is that they all belong to the poorest regions in Poland, and the standard of living is also very poor.

One should underline that Eastern Poland is characterized by high natural environment, especially with a large number of forests, parks, lakes, and monuments. For the low level of industrialization and urbanization, air pollution is quite small. This creates good conditions for tourism and relaxation. It especially applies to Podlaskie and Warmińsko-Mazurskie province.

The European Union became very interested in the low level of air pollution and because of that the Union gave 2675 mld EURO which will have been used until the year 2013. The European Union, supporting the region, strictly determined the points of their usage in such hierarchy:

- modern economy,
- infrastructure of informative society,
- increasing centres of the whole province,
- transport infrastructure,
- a balanced development of tourism based on natural conditions,
- technical support.

The institution that manages the Development of Eastern Poland is Minister of Regional Development, their supportive institution is assigned to Polish Agency of Regional Maintenance. For effectiveness, efficiency and correctness Minister of Regional Development is responsible.

The Operational Programme of Development of Eastern Poland is the most important instrument of regional politics. Its main aim is to fasten the tempo of social and economic development of Eastern Poland in correspondence with a well-balanced development.

During the realization of the Programme, governments of particular provinces should perform a leading role improving at the same time development of the region and maintaining the funds for its development. The aim of activities and their area are all jotted

down in the text in terms of the Operational Programme. Their choice ought to be in accordance with the priority and the need for realizing some undertaking.

## Chapter III

### Development of Eastern Poland on the example of Bavaria

dr Wioletta Czemiel-Grzybowska\*

**Summary:** According to the analysis of the regional diversity published in National Strategic Reference Framework Eastern regions of Poland close the list of 254 regions of the enlarged EU ordered by GDP per capita. In contrast to the situation in Poland, Bavaria is one of the most important growth areas in Germany. Upper Bavaria is along with Munich the economic centre of the region. Their GDP growth is higher than the average of the whole country. Even though regional economic results in Bavaria are not uniform, the differences are not comparable with the differences between Eastern Poland and other parts of the country or between Eastern Poland and the average of the countries of the EU. Border location, rural areas and growing sector of small and medium enterprises can be a common pivot of development. The article points to the specific to the socially and economically underdeveloped regions instruments of development applied in Bavaria, application of which would have measurable results in Eastern regions of Poland.

**Key words:** regional development, area of growth, instruments of development.

#### 3.1. Introduction

Regional policy and regionalism are getting more and more important in the budget of the EU. Despite many years of efforts in the field of social and economic cohesion, on the territory of the EU there are still discrepancies between member states and individual regions. One of the main reasons for growing differences was accepting new members to the Community. The level of economic development of most of those countries differs considerably from the level of “old 15” and at present they are the poorest countries and regions of the enlarged EU. Differentiation of economic and social development in the EU is reflected in a number of economic indices describing the level of competitiveness of

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individual regions. Poland is in the group of the poorest countries where GDP per capita consisting of 2 elements, i.e. workforce productivity and the rate of employment is below 70% of the EU average and is clearly lower than the level achieved by the poorest regions of Greece, Portugal and Spain in the moment of their accession to the EU.

The regions pointed out by the EU as economically underdeveloped have a chance of decreasing the distance in development in comparison with the rest of the country in the years 2007-2013. “Social and economic development of Eastern Poland strategy by 2020”<sup>13</sup> contains a number of modern, applicable in the abovementioned areas, instruments of regional development. However, one programming period is not enough to compensate centuries of developmental neglect, which is why the Strategy encompasses a longer period with the focus on the need for continuation of the support for the poorest regions after 2020. Selection of the instruments from the ones included in Strategy depends on the specificity and endogenous factors of individual voivodeships of Eastern Poland. Taking into account the experience and efficiency of application of the instruments of regional development in Bavaria I would like to point out the possibilities of transferring them into the backward regions of Eastern Poland.

### 3.2. Determinants of the economic development of Bavaria

In contrast to the economic situation in Eastern Poland Bavaria is one of the most important areas of growth in Germany. Upper Bavaria is along with Munich the economic centre of the region. Their GDP growth is higher than the average for the whole country. Although regional economic results in Bavaria are not uniform, the differences are not comparable with the differences between Eastern Poland and other parts of the country or between Eastern Poland and the average of the countries of the EU.

Bavaria and their NUTS2 areas are not heterogeneous because the social and economic results of less urban areas such as Lower Bavaria, Upper Palatinate, Upper Franconia, Middle Franconia, Lower Franconia and Swabia are definitely lower than the growth index in Munich.

**Table 9. Characteristics of economically backward areas of Bavaria**

Area	Characteristics	Instruments of support
Lower Bavaria	Lack of an agglomeration centre. The most important sectors are industry, tourism and agriculture functioning within	<ul style="list-style-type: none"> <li>• Support for rural areas;</li> <li>• Cross-border cooperation with Czech</li> </ul>

<sup>13</sup> *Social and economic development of Eastern Poland strategy 2020* (project), Ministry of Regional Development, Warsaw December 2006, p. 8.

	SME (with the exception of BMW cars producer in Dingolfing). Unemployment rate is slightly below the average of Bavaria. The highways A3 and A92 connect the region with European road network. The Main Danube Canal is of great importance and the distance to the new airport in Munich is very small. Because of the border with Czech Republic interregional competitiveness is very important. At the present programming period Freyung-Grafenau and Regen are the areas of the objective 2, both of the regions are located near the border. Unemployment and structural changes are the main reasons for the support for rural areas of Regen and Freyung-Grafenau.	<p>Republic;</p> <ul style="list-style-type: none"> <li>• Development of innovation network encouraging the enterprises to locate their headquarters in the rural areas. Because of European expansion in the East the rural areas of Regen and Freyung-Grafenau are the bridge to the markets of Eastern Europe. Many companies and corporations have already chosen to be based in the rural region of Regen;</li> <li>• The main instruments are consolidation of the infrastructure, stimulation of regional competitiveness (investment subsidies and support for tourism).</li> </ul>
Upper Palatinate	Sector structure is dominated by electronic and metallurgic industry, precise engineering and car production.	<ul style="list-style-type: none"> <li>• Support for cross-border cooperation with Czech Republic;</li> <li>• Investment subsidies for the areas of objective 2, special programme for promoting new technologies among SME and promotion of tourism – the main measures are support for tourism, consolidation of the infrastructure and stimulation of the competitiveness.</li> </ul>
Upper Franconia	The leading industries are china and textile production, food processing, plastic production and car production.	<ul style="list-style-type: none"> <li>• Support for cross-border cooperation with Czech Republic;</li> <li>• Regional Policies within the present programming period offer investment subsidies for the areas of objective 2 (administrative regions, border regions: Hof, Kronach, Wunsiedel), a special programme for promotion of new technologies among SME and promotion of tourism;</li> <li>• Local activities coherent with the main regional policy support industrial investments and tourism, infrastructure and “technological offensive” attempt to increase a dissemination of knowledge.</li> </ul>
Middle Franconia	Mostly urban area with the characteristics similar to Upper Franconia	<ul style="list-style-type: none"> <li>• Regional policy aims at the improvement in living standards in the cities and dissemination of knowledge.</li> <li>• Areas of objective 2 are Fürth and Nuremberg whereas in Lower Franconia there is only one area of objective 2 (Schweinfurt). Included in regional development strategies ERD and ESF they concentrate on improving local development, competitiveness of SME and human capital.</li> </ul>

Source: Own analysis based on: H. Karl *Możliwości zastosowania instrumentów rozwoju regionalnego Bawarii we wschodniej Polsce*, Ruhr-University Bochum, Germany 2006, p. 4.

Similarly, strong and weak aspects of the economy of Bavaria vary in the individual administrative areas. In the vicinity of the growth centre in Munich there are rural areas where industry and agriculture are more important.

Border areas in the North of Bavaria within objective 2 are characterized by old industrial structures whereas the South is rural. The towns within area 2 are affected by structural unemployment (deficit of qualifications). The areas of expiring phasing-out aid are rural. The areas of objective 2 are mainly located near the Eastern border. European Regional Development Fund (ERDF) finances 90% of financial support of the EU in the areas of objective 2.

Economic situation of Bavaria, despite its diversity, is much better than development conditions of Eastern Poland. The size of functioning sectors, differences in production, territorial availability, well-developed technical infrastructure are the factors that differentiate the level of development of the compared regions.

Nevertheless, border location, rural areas and developing SME sector make a common base of development. Therefore, one should learn from the experience of the regions which, thanks to the proper selection of regional instruments, achieve better and better economic results. There is no need to copy all the Bavarian instruments but concentrate on those, application of which would result in the concrete development results.

### **3.3. Selected development factors of Eastern Poland**

According to the analysis of the regional diversity published in National Strategic Reference Framework Eastern regions of Poland close the list of 254 regions of the enlarged EU ordered by GDP per capita.<sup>14</sup> GDP of 5 the poorest regions is between 31-36% of the EU average. Differences among 5 voivodeships are from 70.3% of the Poland average in Lubelskie to 79.1% in Świętokrzyskie (Podlaskie 75.4%). At the same time, according to their territories the voivodeships constitute almost 1/3 of the country. They are sparsely populated with the population of 8 million 194 thousand, which is slightly more than 1/5 of the total population of the country.<sup>15</sup>

The state of technical infrastructure in Eastern Poland needs to be adjusted at least to the national level with the focus on the increase in accessibility to the voivodeships and

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<sup>14</sup> *National Strategic Reference Framework 2007-2013 supporting economic growth and employment*, Ministry of Regional Development, Warsaw 2006, p. 5.

<sup>15</sup> *Ibidem*, p. 5-7.

connecting them with other regions in order to minimize their peripheral state (Table 10). While analyzing road infrastructure of the voivodeships it should be pointed that the largest number of roads with firm surface can be found in Lubelskie which has also the largest territory (8% of total territory of Poland). The voivodeship with the smallest number of roads is Podlaskie which is the third voivodeship according to the territory (6.5% of total territory).

**Table 10. Indices characterising technical infrastructure of Eastern Poland**

Characteristics	Voivodeships of Eastern Poland				
	Lubelskie	Podlaskie	Podkarpackie	Swietokrzyskie	Warmińsko-Mazurskie
Public roads with firm surface in thousands of km	17.90	10.70	13.80	11.70	12.00
Road density per 100 km <sup>2</sup>	71.10	53.40	77.60	100.00	51.00
Length of railways in km	1100.00	682.00	984.00	722.00	1326.00
Airport	No	No	Yes	No	Yes

Source: Own analysis based on: *OP Development of Eastern Poland 2007-2013*, Ministry of Regional Development, Warsaw 2006, p. 14.

Taking into account the rate of road density per 100 km<sup>2</sup> Warmińsko-Mazurskie and Podlaskie are the least (53.4 km) and Swietokrzyskie the most accessible voivodeships of Eastern Poland.

Airport infrastructure of Eastern Poland is also behind the rest of the country. There is merely one domestic airport adapted to operating international flights Rzeszow-Jasionka in Podkarpackie, in Warmińsko-Mazurskie there are airports in Olsztyn and Szymany and the local airports in Ketrzyn and Elbląg.

Accessibility of the regions is the main reason for their slow development and low investment attractiveness. Measures aiming at connecting the regions with the national and international network will contribute to the improvement in their regional economic conditions. The abovementioned technical infrastructure is one of the factors determining the low level of competitiveness of Eastern regions. The state of social infrastructure and the prospects of its development in the years 2007-2013 are also essential and require separate analysis. Development of this factor ensures stable and long-lasting development based on the proper quality of human resources.

Among the unfavorable development phenomena occurring in Eastern Poland the following can be listed: lack of stimuli to initiate processes of long-lasting development, low professional activity and entrepreneurship as well as preserving low standards of living. The abovementioned phenomena result from historical and cultural conditions as well as division of labour taking place in the regions up to now. Processes of integration

can strengthen those factors by putting weaker regions in relatively worse situations in comparison with more developed regions. In long-term perspective maintaining excessive disproportions of development between regions is disadvantageous for social and economic development of both the whole country and the cohesion of the EU.

**3.4. Instruments of regional development of Bavaria**

Due to diversified level of development in individual regions Bavaria applies diversified selection of instruments repeating the most useful ones from the previous programming period.

While analyzing instruments applied in Bavaria it should be indicated that one of the efficient instruments of stimulation of regional development are commonly used private and public investment grants. Moreover, the costs of transaction connected with an access to ICT network as well as interregional and international networks between research institutions and the companies are much more important barriers for peripheral regions than for central areas.

**Table 11. Instruments of regional development of Bavaria**

EU instruments: EFRR and FS	Instrument within Common measure of regional development	Specific Bavarian instruments of regional development
Private investment gants	Private investment grants	Programme of Regional Development/Tourism Business cluster management
Public investment grants for infrastructure	Public investment grants for infrastructure	<ul style="list-style-type: none"> <li>• Support for SME:</li> <li>• Support for cooperation ,</li> <li>• Access to financial resources, private capital</li> <li>• Information and consulting connected with the new requirements of risk management of rating agencies and risk assessment within Basel II</li> <li>• Low interest loans,</li> <li>• Public guarantees to minimize the risk of private banks and second mortgage loans<sup>16</sup>.</li> </ul>

<sup>16</sup> Second mortgage loans are relatively new instrument in SME Policy. They are part of so called Mezzanine Capital, i.e. a form of hybrid financing of investments between loans and active investment capital. Mortgage loans allow including the loan in the capital which is important for most German SME because their level of ownership equity is relatively low and there are problems with attracting credit capital. The gap between credit capital and requirements of financing is especially important for SME in production sectors since the intensity of the capital is in most cases higher than in service sector. The success of application of the above-mentioned instruments is still unsure as many SME and agencies of promotion are not familiar with them and SME have to accept higher interest rates than in the case of subsidized loans.

Development of the endogenous potential: <ul style="list-style-type: none"> <li>• Support for services for the companies especially in management, market research as well as research and services which are common for many companies</li> <li>• Financing of the transfer of technology between companies and research institutions as well as financing of the innovations</li> <li>• Improvement in availability of financing and loans for the firms</li> <li>• Ensuring the infrastructure in proportion which is adequate to local development and development of employment</li> <li>• Support for the structures providing neighbour services with the aim of creating new jobs</li> </ul>	Improvement of accessibility through communication investments	Economy based on knowledge: <ul style="list-style-type: none"> <li>• Promotion of innovations (loans, grants),</li> <li>• Research and development infrastructure (universities, research institutions, etc.),</li> <li>• Support for IC technology,</li> <li>• Dissemination of innovations,</li> <li>• Centre of competence for applied research and transfers of knowledge.</li> </ul>
	Framework of integrated programmes of regional development	Support for development of Bayern (low interest loans, escape clause)
	Support for business clusters and networks	Support for a start (low interest loans, escape clause, investment capital, support for new firms oriented towards technologies)
	Support for tourism	<ul style="list-style-type: none"> <li>• Interregional cooperation,</li> <li>• Especially in cross-border areas</li> <li>• Cooperation of SME</li> <li>• Coordinated Policy in the field of environment protection and infrastructure</li> <li>• tourism</li> </ul>

Source: Own analysis based on: H. Karl, *Możliwości zastosowania instrumentów rozwoju regionalnego Bawarii we wschodniej Polsce*, Ruhr-University Bochum, Germany 2006, p. 11.

Research and development policies stimulate realization of innovations at the national or European level by supporting the leading business clusters and innovation networks whereas the innovation policies as a part of regional policies attempt to increase the possibilities of the underdeveloped regions to introduce innovations and border innovations as well as supporting the spread of innovations by:

- initiating spatial concentration and support for innovation networks;
- building the networks and infrastructure of dissemination;
- improvement in the institutional frames in order to use the knowledge and overcoming specific deficiencies in coordination, e.g. between public research institutions and private SME, or between firms and capital markets.<sup>17</sup>

Bavarian instruments of improvement in innovation dissemination, such as “Centre of Competence of Applied Science” etc., are useful in the area of dissemination of knowledge as well as promotion of SME in the peripheral underdeveloped areas. During the recent years small and medium enterprises in Bavaria have dealt with worse market

<sup>17</sup> Ibidem, p. 15.

conditions; internationalization results in growth of competitiveness and necessity of diversification of localization, requirements of financial markets require new methods of risk management and acceleration of innovation processes results in new challenges for application of new knowledge. Similarly to federal government, Bavaria uses national banks of development as agents for introducing or supporting programmes for SME. Lands are shareholders of the bank; moreover, there are close bonds between regional ministries of economic affairs and banks of development.

Peripheral areas of Bavaria also use the instruments of interregional development between Bavaria and Austria as well as Bavaria and Czech Republic. Interregional cooperation involves firms and SME and cooperation between regional governments. Economic cooperation is in accordance with the concept of improvement in the international networks and division of labour depending on the comparable cost benefits and aims at internalization of interregional surpluses of knowledge. In particular, improvement of communication infrastructure (as a part of trans-european networks) is an example of successful regional policy because of more frequent movement between Bavaria and Czech Republic.

### **3.5. Summary – conclusions for development of regions of Eastern Poland**

Bavarian experience clearly indicates that merging a number of modern instruments of regional development has its satisfactory development results. Infrastructure connected with education, ICT, research and development connected with the political support for innovative measures are key factors of stimulation of development of the economies based on the knowledge. Improvement in those key elements of growth based on knowledge is in accordance with the revised Lisbon Strategy as the regions are more attractive to investors, new better jobs are created, the possibility of innovations in the regions increases. Taking it into consideration the regional policies concerning Eastern Poland should establish a very high strategic priority for such measures as development and modernization of infrastructure connected with research and knowledge, dissemination of knowledge and access to research and innovation networks as well as support for a start for entrepreneurship and innovations.

While formulating the assumptions and objectives of regional policies it should be remembered that globalization opens new possibilities by eliminating the barriers against an access to new markets. Nevertheless, metropolization does not stop the regional

development in other areas because regional division of workforce and regional specialization caused by comparable benefits leads to the hierarchy of agglomerations. Therefore metropolitan areas can become a drive for developing regions.

Direct foreign investments are an essential financial support as an instrument of distribution and transfer of technologies in underdeveloped regions. In particular “balanced” direct foreign investments are very important in attracting investments connected with the region.

The European Union supports regional policy of the country towards a region and the regional development is driven by long-term growth factors. To some extent they can be positively stimulated by regional policies, however, in order to achieve a long-lasting success it is necessary to introduce additional local measures which would stimulate competitiveness, entrepreneurship, and direct responsibility (autonomy). It is interconnected with social capital and influences the economic growth and prosperity in a positive way.

Nowadays the regions of Eastern Poland are characterized by under-investment and therefore poorly developed and inappropriate transport infrastructure, lack of adaptation of the areas for investments, low level of innovativeness of the companies and poorly developed sector of high technologies. The above-mentioned areas should be incorporated in the process of producing economic growth and employment. Intensification of the measures aiming at development of Eastern parts of Poland by improvement in accessibility and communication functionality of the cross-border regions and by economic stimulation of the regions.

Ensuring social, economic and territorial cohesion in accordance with revised Lisbon Strategy requires cooperation of public authorities at 3 levels: central, regional and local for improvement in social and economic situation of the regions enabling efficient use of endogenous and exogenous factors. Bearing in mind that the success of the development of the poorest voivodeships will also be a national success, in accordance with the premise that excessive interregional diversity limits the possibilities of development of the whole country. Government should strive for as good as possible international atmosphere so that neighbouring countries think positively of cross-border interregional cooperation.

## Chapter IV

### The Eastern Poland and effective practices in Ireland of regional policy

dr Wioletta Czemieli-Grzybowska\*

**Summary:** New approach to the social, economic and territorial cohesion as part of the modified Lisbon Strategy obliged member states to take action being aimed at stimulating areas economically delayed by exploiting their endogenous potential, minimizing determining factors for their locations outside the center. In the article was paid attention to resemblance of regional diversifying Poland and Ireland, with showing determinants of the economic success of Ireland, achieved thanks to the effective regional policy. Through the systematization of the success of the Irish economy, crucial parts of the development of Ireland were portrayed, which can constitute the recommendation for poor regions in Poland.

**Key words:** endogenous potential, factors of development, regional diversification.

#### 4.1. Introduction

Each new the European Union's programming period has been emphasizing regionalism and regional policy. In spite of great achievements in the area of social and economic policy, the development disparities still exist between the European Union Member States and particular regions. The accession of ten new Member States has deepened already existing disparities. The level of economic development of most of these new countries is lower when we compared it with the level of "The Old 15". Therefore, they belong to the group of the poorest members of the enlarged European Union. Differences in social and economic development between those countries are reflected in the economic indicators which characterise the competitiveness of the particular regions.

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Poland belongs to the group of the poorest countries where GDP level for one inhabitant consisting of two elements such as labour force capacity and employment rate is less than 70% of the Union average.

Crossregional differences in Poland stem from the long-term retardation of the peripheral territories. Historical considerations are still present in the low level of development in particular economic areas of the east regions, in the level of infrastructure development, and in the approach toward enterprise.<sup>18</sup> A new approach toward social, economic and territorial cohesion as the issue of the modified *Lisbon Strategy*<sup>19</sup> obliged the European Union Member States to take some action in order to boost economically underdeveloped regions by means of activating their endogenic potential and by eliminating the factors that contribute to their periphericity. Having in mind substantial crossregional disparities in Poland, in 2005 the Luxembourg presidency, in the name of solidarity, proposed to establish a special foundation for the five poorest regions in Poland under the *Operational Program Eastern Poland Development*. The selection of these five regions was based on the lowest GDP level for one inhabitant according to current purchasing power of all regions across the enlarged European Union (The Nomenclature of Territorial Units for Statistics – NUTS).<sup>20</sup> The following regions of the so called Eastern Poland: Lubuskie, Podlaskie, Podkarpackie, Świętokrzyskie, Warmińsko-Mazurskie were chosen to receive additional financial aid.

In Ireland as well as in Poland the crossregional economic differences are determined by historical events and geographical location. For this reason, compensation processes should be a part of conventional economic policy. We can avoid a range of mistakes and failures during the process of accelerating regional development of the underdeveloped regions by taking into consideration the factors which have brought Ireland success and by using the instruments for regional development that can be successfully implemented in Eastern Poland.

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<sup>18</sup> Operational Programme Development of Eastern Poland 2007-2013, Ministry of Regional Development, Project 3, Warsaw 2006, p. 6.

<sup>19</sup> M. J. Radło, *Strategia Lizbońska – konkluzje dla Polski*, Instytut Spraw Publicznych, Warsaw 2002, p. 5.

<sup>20</sup> *The Nomenclature of Territorial Units for Statistics (NTS/NUTS)* – unitary scheme of territorial division of the EU's member states. In Poland NUTS was implemented by Rozporządzenie Rady Ministrów z dnia 13 lipca 2000 r. w sprawie wprowadzenia Nomenklatury Jednostek Terytorialnych do Celów Statystycznych (NTS) (Dz. U. Nr 58, poz. 685 z późn. zm.) NTS/NUTS is a five-degree hierarchic classification, with three regional (NUTS I - III) and two local levels (NUTS IV - V). NUTS is based on administrative division of the EU'S member states.

#### 4.2. Economically delay Regions in Ireland

Ireland is a small country which has strengthened the position of its regions by benefiting structural funds since 1989. However, the improving social and economic situation of the country reduces the number of regions which can receive funds. During 2000-2006 only two regions fulfilled conditions required for receiving structural funds. An agreement reached by Ireland during Agenda 2002 indicated the following regions as the Objectives of the Structural Funds:

- Borderland, Middle Ireland and West Region (BWM) which retained the status of the Objective 1 and qualified to receive the funds during the whole period up to 2006;
- South and East Regions (S&E), which qualified as ready to retreat from the Objective 1 of The Structural Funds during the period of six years till the end of 2005.

Ireland is a small country with centralised system of administration. In Poland there are two regions (Mazowieckie with the population of 5.1 billions and Slaskie with the population of 4.7 billions) where population outnumbers 4 billionth population of Ireland. The population of two other regions (Malopolskie and Wielkopolskie) is 3-4 billions. Next four regions have the polutation of 2 up to 3 billions (Dolnoslaskie, Kujawsko-Pomorskie, Lubelskie and Lodzkie). The population of the Irish BWM region is only 1.1 billion of inhabitants. In terms of population this region is similar to the four polish regions (Lubuskie, Opolskie, Podlaskie and Swietokrzyskie). Five regions which are defined as Eastern Poland have the population of 8.2 billions of inhabitants. It is twice as large as the overall population of Ireland and it is 8 times larger than population of BWM region. Two of these five regions (Lubelskie and Podkarpackie) together have a larger population than the whole Ireland.<sup>21</sup>

Regarding of territory, S&E region is larger than BWM (Table 12). The difference between two regions can be seen in the profile of the population in smaller towns and cities. While in S&E region the population concentrates in big urban centres, BWM region is characterised by more dispersed population living mostly in small towns and rural areas. Compared with these Irish regions, Eastern Poland is densely populated.

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<sup>21</sup> J. Bradley, *Strategia rozwoju społeczno-gospodarczego we wschodniej Polsce w latach 2007-2020. Studium możliwości zastosowania instrumentów rozwoju regionalnego Irlandii*, Economic Modelling and Development Systems, Dublin 2006, p. 11.

**Table 12. Indicators characterising BWM, S&E regions and Eastern Poland**

Specification	BWM Region	S&E Region	Eastern Poland
Area (1000km <sup>2</sup> )	32.481	36.414	98.700
urban : rural	32% : 68%	68% : 32%	30%:70%
Population density (per km <sup>2</sup> )	30.000	73.000	87.000
The main urban centres	1.000	4.000	6.000

Source: Author's personal study based on Bradley J., *Strategia rozwoju społeczno-gospodarczego we wschodniej Polsce w latach 2007-2020. Studium możliwości zastosowania instrumentów rozwoju regionalnego Irlandii*, Economic Modelling and Development Systems, Dublin 2006, p. 43 and Operational Programme Development of Eastern Poland 2007-2013, Ministry of Regional Development, Project 3, Warsaw 2006, p. 26.

The whole region of Eastern Poland is three times larger than analysed Irish regions. There are 6 urban centres. Analysis reveals the similarity of urban and rural areas proportions between Eastern Poland region and BWM region. As it can be noticed, the rural areas are prevailing with the proportion of 30%-70% in Eastern Poland and 32%-68% in BWM.

Added value is not varied in the analysed regions. S&E region recorded higher value (110) than BWM and Eastern Poland (74). Comparing the Union average, added value was higher in S&E region (102%). Whereas lower value than the Union average was recorded in BWM (70% less than the Union average) and in the regions of Eastern Poland (Table 13).

**Table 13. GVA in BWM, S&E Regions and Eastern Poland**

	S&E Region	BWM Region	Eastern Poland
GVA for one inhabitant (1996)	110	74	74
% of the average for the Community GVA	102	70	30

Source: Author's personal study based on Barry F., *Peripherality in Economic Geography and Modern Growth Theory: Evidence from Ireland's Adjustment to Free Trade*, World Economy, 1999, vol. 19, No 3, p. 345-365.

Some substantial differences between the analysed regions appeared in employment rate. The highest employment rate was recorded in S&E region (62%). Slightly lower rate was recorded in BWM (58.3%) and in Eastern Poland (43%) (20% lower than in S&E region).

**Table 14. Workforce in BWM, S&E regions and in Eastern Poland**

	S&E Region	BWM region	Eastern Poland
Employment rate	62.0%	58.3%	43.0%
Unemployment rate	7.6%	8.3%	20.2%

Source: Author's personal study based on Bradley J., *Strategia rozwoju społeczno-gospodarczego we wschodniej Polsce w latach 2007-2020. Studium możliwości zastosowania instrumentów rozwoju regionalnego Irlandii*, Economic Modelling and Development Systems, Dublin 2006, p. 44.

The lowest unemployment rate in promotion to employment rate is in S&E region (7.6%) and the highest is in Eastern Poland (20.2%).

The distribution of workforce and employment rate show the distribution of population across these two regions. However, there are some differences between the GDP average and income. In the S&E region a larger concentration of graduates can be found. To some extents it is due to the fact that the concentration of larger industrial units, more advanced technological sectors and higher educational institutions are located in Dublin. Moreover, agricultural units which produce higher added value of goods are concentrated in the S&E region. The regions of Eastern Poland are characterised by much worse indicators than poor Irish regions. But, we should remember that these Irish regions have received funds from the Union since 1989, whereas Poland has had this right only since 2004. For this reason it can be expected that social and economic situation of the Polish regions receiving structural funds will gradually improve.

#### **4.3. Factors which brought Ireland success**

Creation of Ireland's economic policy since 1989 was largely based on economical openness, export direction toward developing markets and products and also making the market more equal. Moreover, Irish regions were characterised by large monetary and fiscal autonomy.

Experiences of Irish regional policy has effected by incorporation internal problems into "national" and "sectoral" operational programs under the three National Development Programs (NDP) which have been implemented since 1989. As a result, the problems of poorer Irish BWM region was perceived as second rate compared with national problem connected with regional diversity. Ireland worked out four national strategies connected with external economy modification:<sup>22</sup>

- to develop policy which would ensure better quality and rise of education and professional training;
- substantial improvement of the quality of economic infrastructure. During the first two periods of NDP (1989-93 and 1994-1999) Ireland was defined as the Objective 1 which meant that it was „lagging behind” the EU' s average. According to the

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<sup>22</sup> J. Bradley, *Strategia rozwoju społeczno-gospodarczego we wschodniej Polsce w latach 2007-2020. Studium możliwości zastosowania instrumentów rozwoju regionalnego Irlandii*, Economic Modelling and Development Systems, Dublin 2006, p. 72.

present NDP 2007-2013 only one Irish region was defined as the Objective 1 and the source of the funds for it comes from the country itself;

- to facilitate the growth of economic competitiveness by improving management, quality marketing, improved services, lower costs of municipal services and by more systematic relation to other complimentary activities;
- government providing stable environment for national macroeconomic policy. The growth during earlier periods was unbalanced and boosted mainly by immense increase of public expenditure and also by lowering tax rate. It effected in instabilization of public finances.

After the years, implementation of these strategies brought some measurable effects. However, endogenous and exogenous factors were the key elements in the success of Ireland.

Entering the European Monetary System (EMS) established in 1979 was very advantageous for Ireland. Initially, world financial markets did not believe that Ireland was able to stabilise its market and function within European Monetary System. Lower rates of interest of German currency (Mark) was not available for the Irish economy until the late 80's when liability was finally confirmed. After this achievement Ireland appeared a significant increase in investment (especially housing) and consumption.

The effects of the structural funds has been noticeable from the end of 80's until now. Supply and demand is one of these results. Road building results in the rise of income as well as in expenditures. However, the real long-term benefits coming from road building appear only when there is the opportunity to make connection between cities and provide more efficient flow of goods into and out of the relevant economy. To put it shortly, beneficial effects of structural funds initially appeared in the form of boom in the building market and gradually fuelled supply during implementation of other project.

One of the significant factors which brought Ireland success was increased inflow of mainly American investments, mostly in the sector of advanced technologies. It was the side effect of structural funds which improved infrastructure and human capital. It was also due to the fact that Ireland entered European Market and started to export some goods produced by international enterprises in Ireland.

Another factor was the fiscal stabilisation during 1987-89. Implementation of monitoring and evaluation improved system of public investment (required by EU in order to receive structural funds) resulted in dramatical decrease in public consumption.

Moreover, social partnership was developing (including employing organisations, trade unions and government). This partnership alleviated the conflicts connected with economic revival and sudden growth.

High results of international competition empirical means are essential for the economy attractiveness in Ireland. Those means include cost of salaries, cost of production, indicators of profitability, etc. In addition, wider means connected with product innovation, design, quality and reliability are significant too.<sup>23</sup> National policy can have a significant impact on weak competition. Prevailing tendency in the last decades included funds for work, capital, energy and other things connected with lower interest rates for legal persons. State intervention in Ireland was directed on strengthen of international average level of costs, especially by tax reduction for legal persons and subsidies.

#### **4.4. Summary – conclusions for the Regions of Eastern Poland**

Comparing with Poland Ireland is a small country. However, the level of development of its regions differs from the Polish ones. Although the poorest regions in Ireland analysed in this paper represent a high level of economic development, it should be remembered that they have received funds from the European Union for four decades. Effective usage of funds has resulted in a present development of these regions. Comparing with Ireland, the regions of Eastern Poland are at the initial stage of developing strategies and they have an opportunity to receive aid from the EU for social and economic infrastructure development. However, this would be difficult to achieve without adequate knowledge based on researches.

Sovereign countries which have made adequate researches can use economic policy as a factor affecting the environment where business can be efficient despite the reduced freedom of activity. Because fiscal and monetary force was passed to such supranational organisations like The European Union.

Regions can co-create industrial policy by making profitable changes in their social and economic conditions. Nevertheless, creators of policy should realise and understand how national economic policy can affect them. A prevailing tendency in poorer regions is applying for “recompensation” which balancing real or noticeable losses in the state.

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<sup>23</sup> Analysis and monitoring of competitiveness is currently the main and essential component of creation of common policy in Ireland, especially realized by National Council for Competitiveness.

Inevitability of applying tax rates for legal persons in east regions means that they will be unfavourably located compared with neighbouring countries where tax rates are lower. Poland stays outside euro zone, so it means that a strong Polish currency makes the Polish enterprises position disadvantageous and uncompetitive. On the other hand, the regions of Eastern Poland do not need to finance deficits in public sector from their own tax sources. This and the benefits coming from Warsaw enable those regions to involve themselves into public expenditure program with a wider scope. However, the high factor of subsidies for private enterprises do not provide long-term advantages. There is a possibility that a culture sector which seeking grants will discourage ready to risk enterprise.

Researches show that regional development is most successful when two conditions are fulfilled:<sup>24</sup>

- Sufficient political autonomy: that allows to take free actions to solve local problems;
- Economic and business policies are developed and implemented simultaneously: the first one creates attractive conditions for business growth, the second spots and use income opportunities and also provide feedback for policy creators in a case of problems and obstacles.

Appropriate connection of economic policy with business strategies can create cooperation in economic growth and convergence. Such cooperation will be achieved by considering autonomy of economic policy. This would enable to concentrate on weak points determined by industrial strategies such as Diamond of Porter. The creators of regional policy should be hermetic and concentrate on internal matters which refer to division of means. Regions should be more open and involve themselves into more complicated and fluent political rules of global market. This would help to find optimal profits in initiatives of local policy.

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<sup>24</sup> J. Bradley, *Strategia rozwoju społeczno-gospodarczego we wschodniej Polsce w latach 2007-2020. Studium możliwości zastosowania instrumentów rozwoju regionalnego Irlandii*, Economic Modelling and Development Systems, Dublin 2006, p. 8.

# Social Cohesion of European

## Chapter V

### The role of human capital in the socio-economic development of a region

Anna Bagińska\*

**Summary:** Human capital is a significant factor in the regional development. The following study presents views on the issue of investment in human capital as well as the importance of human capital as shown in the models of economic growth described by prominent economists. For Poland to become oriented towards a knowledge-based economy, it is necessary to develop an information society and to reinforce human capital in order to create knowledge, transfer it to the production process and utilize it efficiently in business. The following analysis shows a significant diversity of both human resources and human capital in various EU countries and in Polish voivodeships. Economic growth necessitates the enhancement of the quality of human capital through training, continuing education and the development of employees.

**Key words:** human resources, human capitals, economic development model.

#### 5.1. Introduction

The success in contemporary economy relies on the company's competitiveness, its fast development and the implementing of new technologies. The development of a knowledge-based economy requires appropriate human resources. Successful management of human resources requires more than merely financial incentives. What is needed is

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motivation by means of courses, training and other educational forms which will increase the competencies and skills of the employees.

The purpose of this study is to emphasize the importance of the development of human capital as a factor enhancing the competitiveness of a region. In addition, it shows the possibilities of financing this development with the funds provided by the Human Capital Operational Programme.

## **5.2. The concept of human capital**

Human capital is understood as "the knowledge, skills, and capabilities of individuals that represent some economic value for organizations". It also encompasses so-called know-how and the ability to efficiently execute tasks in various, even unusual situations, as well as corporate culture, values and human relations. According to other definitions, human capital is constituted by employees including the company's top management.<sup>25</sup> Domański defines "human capital" as the resources of knowledge, skills, health and vital energy contained in a society. He also draws attention to the important fact that even though it is a resource conditioned by the genetic traits of a given population once and for all, it is still possible to enhance it through investments called investments in the human being. Sadowski says that "it is primarily human, social and cultural capital that is accumulated in human resources."<sup>26</sup> Human capital involves knowledge (education), professional skills, and health together with the capabilities of using it, the knowledge of foreign languages, computer skills, the readiness to make new contacts and thus flexibility with regard to different cultures and lifestyles.<sup>27</sup> Szczepański also emphasizes that "human capital" means "the skills of individual people, their accumulated knowledge, and ability to cooperate and undertake joint enterprises."<sup>28</sup>

### **Investing in human capital as shown in early economic thought**

Adam Smith can be considered the main precursor of economic views concerning profits and expenses of education. He argued that one of the major components of fixed capital, apart from machines, tools, utility buildings, is competence, which further belongs to social resources.<sup>29</sup> In addition, Smith claimed that higher salary is an equivalent to a

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<sup>25</sup> R.E. Lucas, *On the Mechanics of Economics Development*, Journal of Monetary Economics, 22(1)/1988, p. 52.

<sup>26</sup> *Operational Programme Human Capital, National Strategic Reference Framework 2007-2013*, Ministry of Regional Development, Warsaw 2007, p. 258.

<sup>27</sup> *Ibidem*, p. 238.

<sup>28</sup> P. Romer, *Endogenous technical change*, Journal of Political Economy, 98/1990, p. 11.

<sup>29</sup> A. Smith, *Badania nad naturą i przyczynami bogactwa narodów*, PWN, Warszawa 1954, p. 347.

profit from an investment, depending on whether the acquisition of a given skill is easy and cheap or difficult and expensive.<sup>30</sup> Summarizing it can be stated that Smith noticed a significant relationship between labour productivity and labour quality. Consequently, he attracted a lot of attention to the concept of competence, which requires development through education and acquisition of skills. Education and learning should be defined as an investment in people. What is distinctive then about Adam Smith's views on the influence of education on economic growth is that he defined the role of competence. Competencies are acquired through learning and practice, and they are the foundation of a country's wealth. He also noticed that the productivity of skilled workers was higher than that of non-skilled workers.

Jean Babtiste Say follows Smith in referring to human capital as a fluctuating variable, defining it as a set of natural and acquired human skills, which are applicable to both material and non-material production.<sup>31</sup> According to Say, the creation of human capital has its sources in different forms of education, e.g. upbringing in the family background, the system of schooling, on-the-job training and acquisition of skills.<sup>32</sup>

Alfred Marshall is a neoclassical economist who to a great extent focused on the issue of the importance of human capital, including its development through investment, such as investment in education. He compared human investment to material investment, whereas here investors are often affluent parents.<sup>33</sup>

### 5.3. Human capital in models for economic growth

Two approaches to the concept of human capital can be noticed in the literature on the subject matter. First, the accumulation of human assets directly generates economic growth. Second, human capital, a significant factor in economic growth, has an impact on creating innovations and implementing new technologies.

Human capital is given a lot of consideration in models for economic growth. The truth that knowledge and technology have an impact on the economic growth seems self-evident. The Gary Becker model gives prominence to human investment. It assumes that higher level of knowledge accelerates economic growth. This explains the reason why it is impossible for the countries with low level of human capital but high birth rate to achieve

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<sup>30</sup> Ibidem, p. 131.

<sup>31</sup> J.B. Say, *Traktat o ekonomii politycznej*, PWN, Warsaw 1960, p. 128-136.

<sup>32</sup> Ibidem, p. 156.

<sup>33</sup> A. Marshall, *Zasady ekonomiki*, Arcta, Part II, Warsaw 1928, p. 8-9, 56.

high rate of economic growth, which in turn may explain the uneven distribution of wealth in the world.

In his work, B. Weisbord (1962) claims that society already began to perceive that economic growth brings not only changes in machines but also in people. Human investment fosters technological progress and further growth.<sup>34</sup>

Hirofumi Uzawa, in his classical work of 1965, refers to the importance of education in capital growth and in his model the growth of technology is possible thanks to such allocation of resources which allows optimal growth. Education increases human productivity, which further enhances their competence and health, and increases the value of human capital. Education is a factor defining productivity growth rate determining at the same time the growth rate of the entire economy.

The fact that human capital is considered a factor indispensable for technological growth gives an entirely new perspective in the human capital theory.

In 1966 Richard Nelson and Edmund Phelps formulated a new hypothesis which was to explain economic growth. The authors suggested that the rate at which the gap between technological frontier and the current level of productivity is narrowed is dependent on the level of human capital. Nelson and Phelps emphasized the importance of education in the process of innovation as well as diffusion of technology whilst economic growth depends primarily on human capital, a main factor in the process of creating and implementing innovations.

Pioneering works of Paul Romer<sup>35</sup> (1991) and Robert Lucas (1988) concerning endogenous growth theory, which in the mid-80s marked the beginning of intensive research concerning determinants of economic growth, revealed the need to give special attention to the question of human capital. R. Lucas created two versions of classical model which differed in the way human capital is accumulated; in the process of schooling or through on-the-job training.<sup>36</sup> Human capital is defined here as skills of an individual useful for the production of goods, which means that the production quantity of a given commodity depends primarily on the level of specialized human capital.<sup>37</sup>

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<sup>34</sup> K. Cichy, K. Malaga, *Kapitał ludzki w modelach i teorii wzrostu gospodarczego* [in:] M. Herbst, *Kapitał ludzki i kapitał społeczny a rozwój regionalny*, SCHOLAR, Warsaw 2007, p. 24-33.

<sup>35</sup> P. Romer, *Endogenous technical change*, *Journal of Political Economy*, 98/1990, p. 71-102.

<sup>36</sup> R.E. Lucas, *On the Mechanics of Economics Development*, *Journal of Monetary Economics*, 22(1)/1988, p. 3-42.

<sup>37</sup> Cichy K., Malaga K., *Kapitał ludzki w modelach i teorii wzrostu gospodarczego w: M. Herbst, Kapitał ludzki i kapitał społeczny a rozwój regionalny*, SCHOLAR, Warsaw 2007, p. 24-33.

The Barro model (2001) presented the means of measuring the quality of education, proving a greater impact of the *quality* of education rather than its *quantity* based on the level of comprehensive and higher education.<sup>38</sup>

Human capital is thus a critical factor in socio-economic growth and plays an important role in the growth across Eastern European countries. These countries ought to accelerate the growth rate and enhance the level of competitiveness of their economies in order to catch up with the advanced Western Europe. This process requires indispensable human capital. The aforementioned countries do not abound in economic capital resources but they have relatively sufficient human resources. This in turn constitutes one of the few opportunities of successfully bridging the economic backwardness.<sup>39</sup>

The research done by Krzysztof Cichy shows that in order to account for the disparities in the national income in the economies across the world, the growth models should take into consideration effects resulting from both human capital and technological progress.<sup>40</sup>

#### 5.4. The factors of economic growth and regional competitiveness

European Union places emphasis on creating an economic system based on competition; a system which is capable of acquiring and developing knowledge. This model of economy incorporates the process of increasing the competition among regions. The competitiveness of the regions can be defined as their capability of adapting to the changes in economic environment in order to maintain their position or advance in regional competition.<sup>41</sup>

Competitiveness is regarded as the key element indicating success in economic policy, and it includes a number of factors listed below:<sup>42</sup>

- the bridging of technological gap measured with the increase in number of patents and their application directly affecting the level of innovativeness;

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<sup>38</sup> R.J. Barro, Education and Economics growth, In Helliwell J.F. (ed.), *The Contribution of Human and Social Capital to Sustained Economics Growth and Well-Being*, OECD, chapter 3/2001, p. 14-41.

<sup>39</sup> W. Kosiedowski, *Wykształcenie jako czynnik rozwoju kapitału ludzkiego państw Europy Środkowowschodniej na tle Unii Europejskiej* [in:] D. Kopycińska (ed.) *Polityka Unii Europejskiej*, Szczecin 2008, p. 104.

<sup>40</sup> K. Cichy, *Kapitał ludzki i postęp techniczny jako determinanty wzrostu gospodarczego*, Instytut Wiedzy i Innowacji, Warsaw 2008, p. 188.

<sup>41</sup> Winiarski B., *Czynniki konkurencyjności regionów*, [in:] M. Klamut (ed.) *Konkurencyjność regionów AE* Wrocław 1999, p. 9.

<sup>42</sup> E. Wysocka, *Istota i czynniki konkurencyjności w regionie*, [www.dlaczegopolska.pl](http://www.dlaczegopolska.pl) – data dostępu

- supporting small and medium-sized companies which create new workplaces and reduce unemployment;
- the growth in foreign investment introducing new technology products and necessitating the increase in the workforce competencies;
- the development of the transport infrastructure which increases accessibility and guarantees market expansion;
- easy access to energy sources, which diminishes disparity between central and peripheral regions;
- the reduction of disparities in human capital, including educational level, health and public assistance; this increases activity and engages communities in enhancing the standard of living;
- the development of business environment institutions which will effectively support entrepreneurship and transfer of technology;
- enhancing the potential of public administration as regards development of law and policies defined as *creating learning administration*;
- the ability to utilize European structural funds, which constitutes an incentive and opportunity for all actors engaged in regional development.

Based on the aforesaid factors which impact on the economic growth in the process of regional competition, the quality of human capital must be defined as a set of human assets facilitating permanent competitive edge in a given region or country.

The macroeconomic usage of the concept of human capital identifies it as a resource of knowledge, skills, health and energy present in a community or nation. Therefore a number of actions will influence the *qualit* of human capital:<sup>43</sup>

- education acquired in the process of schooling;
- learning and professional training programmes as well as on-the-job training;
- continuing education for adult learners;
- health care services increasing the life span;
- people's physical condition and inclination to take intensive effort;
- migration of the population; the accumulation of information and scientific research, especially regarding the quality of human capital; the standard of living; moral health of the society;
- the effort put by individuals in the upbringing process;

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<sup>43</sup> Four levels of human capital in the company, [www.ipo.pl/zarzadzanie\\_w\\_firmie/artykuly - data dostepu](http://www.ipo.pl/zarzadzanie_w_firmie/artykuly - data dostepu)

- leisure time essential to the recovery of work efficiency;
- the cost of lost opportunities borne by individuals currently creating their own capital;
- economic activity undertaken by households whose aim is to create human capital of family members and society in general;
- individual and social ethical standards which bear impact on pro-effective and pro-social attitudes;
- the factors depreciating human capital financially and structurally and their influence on a country's economic growth; age structure of the population, aging of skills and knowledge.

### 5.5. The diversity of human capital in European Union

European Union countries present a highly diverse educational level. The average of 48.6% of the population in the 25-64 age bracket completed secondary education while 22.4% higher education. (Table 15).

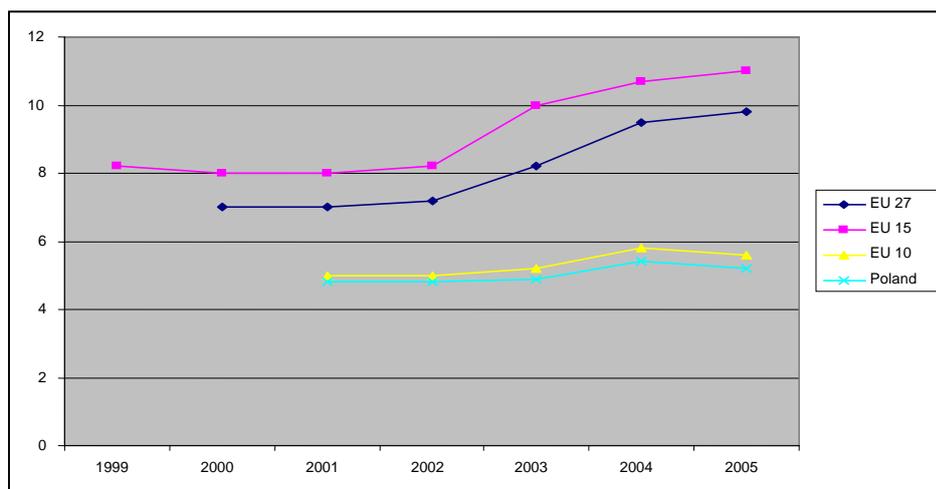
**Table 15. Percentage of population with secondary or higher education ages 25-64, EU-27, 2005**

Country	Percentage of the population ages 25-64, 2005			
	Secondary education	Position in EU-27	Higher education	Position in EU-27
<b>EU-27</b>	<b>48.60</b>	-	<b>22.40</b>	-
Austria	62.80	5	17.80	19
Belgium	35.00	24	31.00	4
Bulgaria	50.90	14	21.60	15
Cyprus	38.70	21	28.80	9
Czech Republic	76.90	1	13.10	23
Denmark	49.10	15	33.50	2
Estonia	55.80	11	33.30	3
Finland	44.20	17	34.60	1
France	41.50	19	24.90	13
Germany	58.60	10	24.60	14
Greece	39.40	20	20.60	16
Hungary	59.30	9	17.10	20
Ireland	35.50	23	29.10	8
Italy	38.50	22	12.20	25
Latvia	64.00	4	20.50	17
Lithuania	61.30	7	26.30	12
Luxemburg	45.20	16	26.50	11
Malta	13.90	26	11.40	26
Netherlands	41.70	18	30.10	5

<b>Poland</b>	<b>68.00</b>	3	<b>16.80</b>	21
Portugal	13.60	27	12.80	24
Romania	62.00	6	11.10	27
Slovakia	73.90	2	14.00	22
Slovenia	60.10	8	20.20	18
Spain	20.60	25	28.20	10
Sweden	54.30	13	29.20	7
United Kingdom	55.60	12	29.60	6

Source: *Ocena postępów Polski w zakresie spójności z Unią Europejską*, Report 2007, Warsaw 2007, p.43.

In Poland the percentage of the population with at least secondary education ranks the country at the top of the list whilst the percentage of people who have attained higher education with only 16.8% gives it merely 21st rank among other EU countries. Recent years however, have shown a rapid increase in the gross scholarisation rate<sup>44</sup> of higher education from 12.9% in 1990/1991 to nearly 50% in 2004/2005.<sup>45</sup> This means that almost half of school leavers continue their education. If the current ratio remains, Poland has a very good chance of bridging the gap for the population up to the age of 64.



**Picture 6. The percentage of lifelong education in Poland and EU, 1999-2005**

Source: *Ocena postępów Polski w zakresie spójności z Unią Europejską*, Report 2007, Ministry of Regional Development, Warsaw 2007, p. 44.

<sup>44</sup> Gross scholarisation rate is the ratio of the percentage of all learners studying currently at a given level (here higher level) to the population of people at a corresponding age.

<sup>45</sup> *Ocena postępów Polski w zakresie spójności z Unią Europejską*, Report 2007, Ministry of Regional Development, Warsaw 2007, p. 42.

The results of the study presented in Picture 6. prove that adult Poles rarely, compared with the EU-27 average, increase their professional competencies through courses and training. Picture 5. shows the percentage of respondents in the 25-64 age group who answered positively to the question about their participation in any form of education or training 4 weeks prior to the survey.

The research conducted by K. Cichy shows that the country with the highest level of human capital is Sweden. It surpasses the resources in the countries with longer average years of schooling, which in conclusion means that the quality of education and the quality of human capital in Sweden are very high. Among the countries with the highest human capital resources are also Finland, Norway and Canada. The countries with the highest quality of human capital are, apart from Sweden, Finland, Netherlands and Denmark.<sup>46</sup> The countries with the lowest human capital resources are Portugal, Poland, Italy and Hungary, the reason for this being a short schooling period in Italy and low quality of education in the remaining countries. Poland has a relatively long average schooling period while having very low quality of education. In most countries with comparable period of education the human capital resources are almost twice as high.<sup>47</sup> T. Sowinski proposed a rate of the human capital quality which includes the following:<sup>48</sup>

- the number of higher education graduates;
- the number of patents;
- the percentage of people who qualified further with the aim of increasing their salaries;
- the percentage of people who started using the Internet;
- the percentage of people who started their own business;
- the percentage of people who have been downgraded;
- the occurrence of tuberculosis;
- the percentage of people who took a better paid job;
- the percentage of people who have been unable to find employment having graduated from school.

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<sup>46</sup> K. Cichy, *Kapitał ludzki i postęp techniczny jako determinanty wzrostu gospodarczego*, Instytut Wiedzy i Innowacji, Warsaw 2008, p. 186.

<sup>47</sup> Ibidem, p. 187.

<sup>48</sup> T. Sowiński, *Przestrzenne zróżnicowanie jakości kapitału ludzkiego a rozwój gospodarczy*, [in:] D. Kopycińska (ed.), *Zarządzanie wiedzą we współczesnej gospodarce*, Szczecin 2008, p. 43.

Table 16. presents a human capital quality rate which serves as a basis for the division of Polish voivodeships into three categories: high, medium and low quality of human capital. Labour productivity is calculated as GDP for 1 employed person in 2006 and compared with GDP *per capita*.

**Table 16. The rate of human capital quality, work productivity and GDP per capita (2006)**

Voivodeship category	Voivodeship	Human capital quality rate	GDP/1 employed person per month	GDP per capita
High human capital quality	Masovian	0.522	8611.800	44381
	Pomeranian	0.514	6963.700	27372
	Lesser Poland	0.491	6007.100	24111
	Lower Silesian	0.473	7368.900	29739
	Opole	0.433	6233.400	22347
	Greater Poland	0.413	6247.200	29279
	Kuyavian-Pomeranian	0.379	6003.900	24301
	Silesian	0.364	7171.900	29497
Medium human capital quality	West Pomeranian	0.361	6886.200	25324
	Podlaskie	0.320	4964.800	20396
	Lubusz	0.308	6598.400	24733
	Łódź	0.216	5702.800	25512
	Subcarpathian	0.194	4910.600	19024
Low human capital quality	Warmian-Masurian	0.119	5919.600	21005
	Lublin	0.035	4490.900	18779
	Świętokrzyskie	-0.004	4938.700	21130

Source: T. Sowiński, *Przestrzenne zróżnicowanie jakości kapitału ludzkiego a rozwój gospodarczy*, [in:] D. Kopycińska (ed.), *Zarządzanie wiedzą we współczesnej gospodarce*, Szczecin 2008, p. 45, Statistical Yearbook of the Regions 2008, GUS, my own calculations.

In order to answer the question of the influence of human capital on the economic growth, a Pearson correlation coefficient was calculated between human capital quality rate and GDP for 1 person, giving a value of 0.63 for the year 2006. The result of the correlation was a positive number. The comparison between the rate of human quality capital for individual voivodeships and their labour productivity gave an even higher positive number – the correlation coefficient being 0.748. It can be thus concluded that higher human capital quality correlates with higher labour productivity.<sup>49</sup>

What testifies to the importance of human capital among European communities is the fact that educational policy, involving the policy of lifelong learning, has been an important agenda in EU. Due to the changing economic circumstances, a large number of people choose some form of professional enrichment. Lifelong learning becomes a safety measure taken by individuals to combat social marginalization. It necessitates mobility which finally leads to permanent personal development. The disparities in various social

<sup>49</sup> My own calculations.

groups that occur in access to educational opportunities become the major challenge to contemporary education. This is why European Union established a set of priorities in the educational policy:<sup>50</sup>

- equal opportunities in education regardless of sex, nationality, religion, disability, region;
- enhancing the quality of education by putting emphasis on the practical aspect of the curricula;
- introducing at least two foreign languages in the educational process; religious, racial and social tolerance.

Whilst general education aims at the personal enrichment, vocational education allows faster integration of the unemployed, better training of the workforce and provides new qualifications. One of the aims of the European Commission is to strengthen the workforce with the spectrum of learning programmes. The goal of the vocational education policy is to provide and distribute information about the necessity of further training and the possibility of gaining new qualifications in order that the workers can adjust to contemporary labour market. Another aim is to monitor the quality and variety of educational activities, which will guarantee better terms of employment.<sup>51</sup> For an employee an expected profit from the investment in human capital includes increased salaries, greater job satisfaction, better career prospects.<sup>52</sup>

About 60% of businesses in EU which employ more than 10 people provide them with part-time training courses (60%) or internship (40%). The most popular form of education is on-the-job training (66%) as well as lectures (59%). 24% of employees who took further training changes the workplace.<sup>53</sup>

## **5.6. Human Capital Operational Program (HC OP)**

The Human Capital Operational Programme and a range of initiatives within Regional Operational Programmes have been launched in order to enhance human resources development. The overall value of financing from the European Social Fund

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<sup>50</sup> K. Głębicka, *Polityka społeczna w Unii Europejskiej. Aspekty aksjologiczne empiryczne*, Wyższa Szkoła Pedagogiczna Towarzystwa Wiedzy Powszechnej w Warszawie, Warsaw 2001, p. 264.

<sup>51</sup> *Ibidem*, p. 275.

<sup>52</sup> A. Baron, M. Armstrong, *Zarządzanie kapitałem ludzkim*, Oficyna Wydawnicza Wolters Kluwer Business, Krakow 2008, p. 21.

<sup>53</sup> K. Głębicka, *Polityka społeczna w Unii Europejskiej. Aspekty aksjologiczne empiryczne*, Wyższa Szkoła Pedagogiczna Towarzystwa Wiedzy Powszechnej w Warszawie, Warsaw 2001, p. 276.

designated for the implementation of measures within the HC OP amounts to EUR 9.7 million, which is six times more than that in the previous programming period and, if invested appropriately, it may contribute to substantially lowering the unemployment level and raising personnel qualifications which are decisive for modern economic competitiveness. The primary objective of the Human Capital Operational Programme is *to ensure making full use of the human resources potential through increasing employment, improving the adaptational potential of enterprises and their employees, enhancing the society's educational attainment, reducing social exclusion areas and supporting the establishment of state administration structures.*<sup>54</sup>

The HC OP continues the activities initiated under the HRD OP in the folio wing fields:

- support for systems and structures in the areas of the labour market, social integration and education,
- adaptability of the qualifications of company personnel,
- activities aimed to enhance the level and quality of the society's educational attainment so as to meet the needs of regional labour markets.<sup>55</sup>

The HC OP continues the activities initiated under the IROP with regard to knowledge transfer popularisation, lifelong education of adults and the development of entrepreneurship.

The programme comprises<sup>56</sup> Priorities which are divided into two levels - the first six are to be implemented at the central level and the remaining ones at the regional level:

- Priority 1. Employment and social integration.
- Priority 2. Development of human resources and adaptation potential of enterprises and improvement of the health condition of working persons.
- Priority 3. High quality of the educational system.
- Priority 4. Tertiary education and science.
- Priority 5. Good governance.
- Priority 6. The labour market open for all.
- Priority 7. Promotion of social integration.

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<sup>54</sup> [www.efs.gov.pl](http://www.efs.gov.pl), [data dostępu]

<sup>55</sup> K. Cichy, K. Malaga, *Kapitał ludzki w modelach i teorii wzrostu gospodarczego* [in:] M. Herbst, *Kapitał ludzki i kapitał społeczny a rozwój regionalny*, SCHOLAR, Warsaw 2007, p. 106.

<sup>56</sup> K. Głębicka, *Polityka społeczna w Unii Europejskiej. Aspekty aksjologiczne empiryczne*, Wyższa Szkoła Pedagogiczna Towarzystwa Wiedzy Powszechnej w Warszawie, Warsaw 2001.

- Priority 8. Regional human resources of the economy.
- Priority 9. Development of education and competences in the regions.
- Priority 10. Technical assistance.

The amount of about EUR 1.4 billion is to be designated annually for the HC OP for the years 2007-2013. These are significantly greater funds those acquired before. The most substantial funds are allocated to project falling within Priorities 6 to 9 (Table 17.).

**Table 17. Sources of financing the Human Capital Operational Programme 2007-2013 by priority**

Priority	Community contribution	Domestic contribution	Total	Absorption in 31.12.2008
	in 000 EUR			(%)
1. Employment and social integration	430260	75928	506189	32.20
2. Development of human resources and adaptation potential of enterprises and improvement of the health condition of working persons	661310	116701	778011	22.50
3. High quality of the educational system	855300	150935	1006235	12.70
4. Tertiary education and science	816311	144055	960366	12.50
5. Good governance	519225	91628	610853	12.20
6. The labour market open for all	1918389	338539	2256928	15.90
7. Promotion of social integration	1319970	232935	1552905	8.50
8. Regional human resources of the economy	1350207	238271	1588478	6.50
9. Development of education and competences in the regions	1447911	255513	1703424	5.80
10. Technical assistance	388287	68521	456808	11.90
<b>Total:</b>	<b>9707176</b>	<b>1713031</b>	<b>11420207</b>	-

Source: Human Capital Operational Programme, National Strategic Reference Framework 2007-2013, Ministry of Regional Development, Warszawa 2007; [www.efs.gov.pl](http://www.efs.gov.pl) – data dostępu

Projects aimed at human resources development in the years 2007-2013 will be conducted under Measure 2.1 "Development of human resources for the modern economy". Measure 2.1 is aimed to raise and adapt the qualifications of employees and entrepreneurs to the requirements of a knowledge-based economy. The measure is meant to provide courses or postgraduate studies, promote enhancing professional qualifications, research the competence gaps of employees or future professions, and disseminate e-learning and innovativeness in organisations. Financial allocation for Measure 2.1 amounts to EUR 504 million, including a community contribution of EUR 428 million and a public funds contribution of EUR 75 million. The maximum share of the EU funds in qualified expenditures at the project level amounts to 85%.<sup>57</sup>

<sup>57</sup> [www.ipo.pl/zarzadzanie](http://www.ipo.pl/zarzadzanie), [data dostępu]

Measure 4.3 - "Enhancement of competences of the R&D personnel" is meant to support programmes aimed at strengthening cooperation between the science sector and commercial companies in the field of research and development projects and thus diminish the technological gap between Poland and most European Union countries through investments in the development of competences of the R&D sector. Measure 8.1 "Development of personnel and enterprises in the region" is meant to support the development of professional qualifications of the employed in enterprises through counselling and open and closed trainings.

As of the end of My 2008, 18.900 applications that have passed formal evaluation were submitted under the Human Capital Operational Programme, for a total of PLN 17.85 billion.<sup>58</sup>

By May 14th 2010, the average value of contracted funds under the Human Capital Operational Programme in the programming period 2007-2013 was at 39.5 % with the highest value for the Subcarpathian voivodeship at 55.9%. (Table 18.).

**Table 18. The expenditure under the regional component**

<b>Voivodeship</b>	<b>Allocation 2007-2013 (in EUR)</b>	<b>Allocation 2007-2013 (in PLN)</b>	<b>Contracted funds</b>	<b>Contracted funds (in %)</b>
Lower Silesian	485369	1900365	773647	40.70%
Kuyavian-Pomeranian	400457	1567909	537900	34.30%
Lublin	511956	2004461	781310	39.00%
Lubusz	178833	700185	315730	45.10%
Łódź	504101	1973707	814402	41.30%
Lesser Poland	590598	2312368	1020572	44.10%
Masovian	907076	3551475	977288	27.50%
Opole	174335	682574	305132	44.70%
Subcarpathian	432312	1692631	946740	55.90%
Podlaskie	260402	1019552	405211	39.70%
Pomeranian	375502	1470203	594736	40.50%
Silesian	738062	2889734	1188595	41.10%
Świętokrzyskie	317490	1243069	570501	45.90%
Warmian-Masurian	312792	1224675	633424	51.70%
Greater Poland	605931	2372402	605609	25.50%
West Pomeranian	306515	1200098	523482	43.60%
<b>Total:</b>	<b>7101731</b>	<b>27805407</b>	<b>10994279</b>	<b>39.50%</b>

Source: Internet website of the Ministry of Regional Development: signing of province contracts [www.mrr.gov.pl](http://www.mrr.gov.pl) - data dostępu

Within the years 2007-2010 the total expenditure from public resources reached nearly 6 billion PLN (including 4 billion from the budget resources and 2 billion from The Work Fund).

<sup>58</sup> Ibidem.

### **5.7. Summary**

The meaning of the contemporary concept of human capital is much broader than the classical concept of the work factor. Intensive studies into the determinants of economic growth have shown the necessity to give it due attention. The results of these prove that it is not only the human resources but first and foremost the quality of human capital that contributes to the economic growth. The economic growth models should also include the effects of technological progress. The educational level among EU countries shows great diversity. Poland should strive at increasing the quality of education and foster further development of higher education and lifelong learning. The rate of human capital quality displays a strong correlation between the level of human capital, labour productivity and GDP for 1 person.

## Chapter VI

### Selected aspects of Podlasie province

Barbara Wojsznis\*

**Summary:** Polish accession to the European Union structures proved to be a very beneficial move, allowing the use of EU funds and the transfer of systemic practices that govern the development of countries of the EU bloc. A common policy aims to level the differences between countries and regions, which is particularly important when we look at economic integration, which provides benefits only to the well-developed regions. In this paper the development of selected indicators of Podlasie province have been characterized and compared to national data. The assumptions of "Development Strategy of Podlasie Province by 2020" have also been traced. The strategy defines the mission of developing the province, sets objectives to be achieved, and other associated priorities. The analysis of social and economic indicators helped to identify economic activities that contributed to the development of Podlasie province and the range of issues which require the intervention of central authorities because of certain limitations of local government.

**Key words:** Podlasie, strategy of development, EU grants.

#### 6.1. Introduction

The variations in the regional development of our country have been there for many years and one can state that they are of historical conditions. For a long time there has been a division of Poland A and Poland B and the latter is the so-called "Eastern Wall", which, in fact, has much lower economic potential, underdeveloped transport infrastructure but very high natural conditions which are not always used in an effective manner. Many years of discussion on accelerating the growth of areas of northern-eastern Poland indicated its positive solution after the year 2004, when the strategy of cohesion with the European

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Union prevailed the development of all regions of our country. The method of co-operation and the instruments that should be used to achieve this have been recorded in the "Strategy of socio-economic development of Eastern Poland till 2020". This document is a reference to apply, inter alia, for public funds. It is not possible to bridge such a long delay of socio-economic development without the participation of the state. It requires high costs and long-term co-operation of local government authorities with the central government and the local community which in this area is characterized by low social activity.

A key document that sets out the principles and directions for the development of Podlasie province is a "Strategy of the development of Podlasie province until 2020". Its implementation will increase the competitiveness and socio-economic cohesion of the region through effective use of already possessed potential.

## **6.2. History of development of Podlasie province**

Analyzing the historical conditions of development of Podlasie province and evaluating the current situation it can be stated that the future of this region had been recorded in the past. This is a typical agricultural region and this fact has not been changed since the period of partition. Regaining our country's independence, the period of the Second Republic, had no positive impact on the development of Podlasie province. The division for Poland A and Poland B slowly fortified and investment expenditures were concentrated in the western provinces in the so-called "Eastern Wall", which creates five provinces (Lubelskie, Podkarpackie, Podlaskie, Swietokrzyskie, Warminsko-Mazurskie), the traditional agriculture was developed and, in the same way, these areas were effectively deprived of the necessary capital for development. An example of this may be a number of industrial investment in the area. In the years 1950-1985 for the provinces mentioned above only 0.1% accounted of all investments from that period.<sup>59</sup>

Political changes (since 1989) have not been favourable either for Eastern Poland. The entire effort of the whole country was directed to assistance in maintaining the development of industrial regions. The period of transformation was not favourable to close the gap; it even led to increasing diversification of regional Poland as a result of central government decisions.

The European Union preaccession aid was mainly used by the central and western provinces. Disparities in the development of our country have become so apparent that the

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<sup>59</sup> ...Development of Strategy, 2008, p. 4.

Council of Ministers adopted a "National Regional Development Strategy 2001-2006" in which Eastern Poland was pointed as the weakest region due to the efficiency of development, infra-structure, the level of life, and, therefore, it strongly requires a serious structural change. The persistence of these disparities threaten the EU's cohesion policy.

### 6.3. Socio-economic indicators of Development of Podlasie province

Podlasie province is approximately 6.5% of our all country and it is the sixth largest region in Poland and is bigger than the average region at NUTS 2 level in the EU. It takes up 20.4% of Eastern Poland area (Table 19) and is as far north-east province of Poland. Consequently, it borders with Belarus and Lithuania with a total area of 364 km. Podlasie province was divided into 14 districts and 3 municipal districts, 118 communities and 3304 villages. The region's biggest cities are Bialystok, where there live about 300 thousand people, Suwalki (about 70 thousand inhabitants) and Lomza (about 64 thousand inhabitants). The entire settlement consists of 36 cities and 3945 rural localities. This area is inhabited by about 1.2 million people that is 3.1% of the total population. The population density is only half the average of our country.

**Table 19. Characteristics of Podlasie province and other Eastern regions (year 2008)**

Specification	Provinces					Country in general
	Lubelskie	Podkarpackie	Podlaskie	Swiето-krzyskie	Warmińsko-Mazurskie	
The area in km <sup>2</sup>	25122	17845	20187	11710	24173	312679
People in thousands	2161.8	2099.50	1191.50	1272.80	1427.10	38135.90
Density of population / km <sup>2</sup>	86.10	118.00	59.00	109.00	59.00	122.00
Migration balance / 1000 inhabitants	-2.00	-1.10	-1.40	-1.80	-2.20	-0.40

Source: Own analysis based on: Statistical Yearbook of Poland 2009, p. 78-80.

In the years 1998-2008 number of people who live in podlasie province decreased by 2.6% (i.e. 32.3 thousand people). Forecasts for 2035 predict a further reduction in the population of 117 thousand people, mostly in the age groups up to 50 years of age and the increase in the number of older people, which are characterized by reduced mobility. Podlasie province has also trouble in keeping well-educated and highly-skilled people who emigrate in search of attractive jobs in the country and abroad. This causes negative consequences in the labor market and enforces preventive actions on the part of local authorities. Basic demographic data for Podlasie is presented in Table 20.

**Table 20. People of Podlasie Province**

Specification	1996	30.09.2009	Forecast 2035
Total number in thousands	1 223.10	1 190.70	1072.30
City	701.50	716.60	668.60
Countryside	521.60	474.10	403.70
<b>Structure in %</b>			
Total numbers in %	100.00	100.00	100.00
City	57.40	60.20	62.40
Countryside	42.60	39.80	37.60
Demographical dependency ratio	77.40	58.60	

Source: Own analysis based on: information from Work Office Białystok.

Currently, in Podlasie province 33.2% of the total workforce is employed in agriculture, also in market services (28.7%), industry and construction (20.3%) and non-market services (17.8%) which include public administration, social welfare, education and health protection.

**Table 21. Registered unemployment for men and women in Podlasie province against the background of the country in the years 2007-2009 (data from the end of year)**

Specification	2007	2008	2009
<b>Poland</b>			
Registered unemployment rate	11.40%	9.50%	11.90%
Unemployed people in total in thousands	1764.10	1473.80	1892.70
Including women in %	57.70%	56.60%	51.10%
<b>Podlasie province</b>			
Registered unemployment rate	10.70%	9.70%	12.60%
Unemployed people in total in thousands	48.80	45.80	61.20
Including women in %	53.50%	50.40%	46.00%

Source: Information from Work Office Białystok.

The analysis of the data in Table 21. shows that in 2009 there was a significant increase in the level of unemployment in Podlasie province (33.5%). Among men, unemployment has risen by about 43% and among women it has risen by 21%. This significant increase in unemployment among men was associated with suppression of wood industry, the repair of rolling, machinery manufacturing, and yet transportation. Further announced closures of establishments will cause further increase of high unemployment that is already noted.

Podlasie province is characterized by a low level of economic development measured in terms of GDP per inhabitant.

**Table 22. Gross domestic product per 1 inhabitant (including current prices)**

Specification	Years			Poland =100		
	2000	2005	2007	2000	2005	2007
<b>Poland</b>	19458.00	25767.00	30873.00	100.00	100.00	100.00
Lubelskie province	13620.00	17591.00	20913.00	70.00	68.30	67.70
Podkarpackie province	13574.00	17789.00	20829.00	69.80	69.00	67.50
Podlasie province	14642.00	19075.00	22896.00	75.20	74.00	74.20
Swietokrzyskie province	15083.00	19274.00	23741.00	77.50	74.80	76.90
Warminko-mazurskie province	15238.00	19709.00	22961.00	78.30	76.50	74.40

Source: Own analysis based on: Statistical Yearbook of Voivodeships 2009, p. 89.

In 2000 the average GDP per inhabitant in Podlasie province was 14642 PLN which accounted for 75.2% of the national average and 2.3% of national product. The data analysis in Table 22. shows that Podlasie province since 2005 has remained a fixed percentage share in GDP. In 2007 the entire Eastern Poland produced 15.3% of gross domestic product. If one refers it to the area and population then is an indicator that is two times lower than the average GDP per inhabitant in the country. The fact that is indeed disturbing is that in the last decade, not a single region of Eastern Poland expanded its share in gross domestic product. In the years 2000-2003 GDP growth was in average 2.7% and after we joined EU structures, in the years 2004 to 2007 it was already 6%, which allowed Poland to achieve 56.4% EU average – 27 in 2008.

It should, however, be noted down that despite the economic crisis and GDP growth that was announced in 2010 by 3.4% in 2009, Poland has achieved 61% of EU average gross domestic product per inhabitant, ahead of only Latvia, Lithuania, Romania and Bulgaria. According to Eurostat, Luxembourg has achieved the highest income (268% EU average), Ireland (131%) and the Netherlands (130%).

The unemployment rate in the Podlasie province is very similar to the average one in the whole country and is definitely lower than in other regions of Eastern Poland. Unfortunately, this has nothing to do with jobs but is due to, inter alia, a big interest of the inhabitants of Podlasie in working abroad. According to the Ministry of Regional Development the proportion of farm households, of which at least one person worked abroad, in 2008 in Podlasie province it was 9.5%. A larger number of departures was

recorded in Podkarpackie, Opolskie, Zachodniopomorskie and Pomorskie provinces. Lowering the unemployment rate is also influenced by high employment in agriculture (33.2% of all employed people) which attests to hidden unemployment in this sector. In the years 2005-2008 the number of people employed in agriculture in our country decreased by 1.4%, and in Podlasie province by 2.8%. This phenomenon is very beneficial but we must remember that in the European Union the number of people who work in agriculture is on average 4.5% (1.6% in the UK), and in Poland – 15.6%. The highest employment in agriculture in 2008 was reported in Lubelskie province (36.2%). It exceeded twice the national average.

A measure of the level of economic activity in the society is the number of enterprises per 1000 inhabitants. In Poland there are 985 entities registered in REGON system, i.e. an increase by approximately 18% compared to the year 2000. In Podlasie province during this period 50 new companies registered and the growth was about 7%. The highest proportion of companies was reported in Swietokrzyskie province and it was 86.5% of the country's average.

**Table 23. Economic factors that characterize Podlasie province (year 2008)**

Specification	Podlasie province	Poland
People employed in agriculture in %	33.20	15.60
Economic indicator per 10 thousand inhabitants	757.00	985.00
Capital expenditures in zlotys per inhabitant	4046.00	5700.00
<b>Financial incomes in zł / inhabitant</b>		
In total	2313.00	2453.00
Including self-owned revenues	947.00	1208.00
<b>Emission of air-pollution in thousand tones</b>		
Of dust	1.30	76.80
OF gas without carbon dioxide	11.20	1785.40
Railways per 100 km <sup>2</sup>	3.80	6.40
Public roads of hard surface / 100 km <sup>2</sup>	56.30	83.60
The average monthly gross salary	2610.21	2942.17

Source: Own analysis based on: Statistical Yearbook of the Regions 2009 and Statistical Yearbook of Poland 2009.

The residents of Podlasie province and other regions of Eastern Poland are characterized by a low level of life. The data in Table 23. shows that the average wage in Podlasie province was 88.7% of total wage in Poland. These results are directly related with the rate of poverty risk. Throughout the country this is an average of 17% of the population. In Podlasie province it is 18% and is the lowest value in Eastern Poland, the highest is in Lubelskie province, i.e. 28%.

In Eastern Poland there are no large industrial centers and the last decade has seen a marked reduction in the production potential especially in Podlasie, whose investment, based on the hybrid accounted for 70% of the average national investments. Podlasie province classified on the 15th place (12683 PLN) based on one inhabitant when one takes into account the volume of industrial output; the last place was assigned to Lubelskie province (10694 PLN).

The measure of prosperity and the autonomy of local government units is income of communities, including their own revenues. In Podlasie total income, as in other provinces of Eastern Poland was close to the national average, in Warmińsko-mazurskie province total income amounted to 105.3%. Individual income of communities in the analyzed provinces reached the level from 67% to 93% of the country. In Podlasie per one inhabitant the individual income amounted to 947 PLN, and across the country it was 1208 PLN. The lowest income was recorded in Lubelskie province (809 PLN). Such a situation affects a huge reliance of local authorities of the analyzed areas from governmental grants and subsidies.

Podlasie is a region of outstanding natural beauty and scenery and is appreciated by people who like contact with nature. Forests cover about 29% of province, the share of grassland is about 20%, and barren land, mostly wetlands, cover 3% of the total area. Over 55% of the area has a high degree of naturalness and, therefore, approximately 33% of Podlasie is strictly protected by law. The National Park in Białowieża has become a UNESCO World Heritage.

The residents of Podlasie are strongly diverse in ethnicity. People who inhabit the land are also the Belarusians, the Lithuanians, the Ukrainians, the Tatars and yet the Romanians who cherish its cultural diversity, taking care of the traditions and folklore of the area of border regions. These are qualities valued by tourists. However, a major obstacle to the development of tourism in this area is the technical infrastructure or rather its lack. The location of Podlasie region in the middle of Europe offers great opportunities for national and international communication system just because transport routes run from Helsinki via the Baltic countries to Warsaw and Berlin via Warsaw, Grodno and Minsk to Moscow. There are also nine border crossings, including five roads and four railways. The opening of new border crossings with Lithuania and Belarus led to a significant increase in transit traffic of cars and trucks. It, however, destroys road surfaces and makes life more difficult for inhabitants of Podlasie province.

The density of hard surface roads is 56.3 km/100 km<sup>2</sup> from the national average 83.6 km/100 km.<sup>2</sup> In this respect Podlasie province occupies the 15th place in the country.

The network of public roads with hard surface consists of 9026 km (in 2007) of which approximately 80% of the surface has already improved in quality. Despite the intensive use of public roads, degradation is common and roads need repairing. A current transport infrastructure in Podlasie is the worst in the country and is an obstacle to the development of tourism, agriculture, and food industry. It lowers the standard of living.

The average density of the railway in province amounts to 3.8 km per 100 km<sup>2</sup> (6.4 km in the country) and is the lowest in Eastern Poland. In the last 5 years in five provinces 660 km of unprofitable railways were excluded from use. Railways require modernization and adaptation to the European standards, including the rate in passengers' traffic (160 km/h) and trademark' traffic (120 km/h).

The air transport in Podlasie does not exist. Another airport locations in the vicinity of Bialystok have not yet received a final decision and it makes environmentalists protest. By 2015, the airport should be built from the EU funds. Its cost was estimated at 500 million zlotys. Taking into account the procedures and progress on the new location, residents of Podlasie will use the communication with the capital route No. 8 or the use of the few rail connections.

A major problem for the development of Podlasie is its little interest in foreign capital due to the low levels of uptake of industrial development and the availability of communication. Investment attractiveness of Podlasie, which was made up of partial assessment of the economic infrastructure, social and transport efficiency and sales, the level of development of industry, labor, business, tourist attraction tangent, in the assessment of synthetic, allowed Podlasie to be on the 15th place. The data in Table 21 shows that Podlasie still belongs to the poor, slow-developing region in comparison with the other five in the country.

#### **6.4. Development Strategy in Podlasie**

The basic EU document which outlines a framework for socio-economic development of the European Union's Lisbon Strategy was adopted in 2000; its goal was to make the EU the world's leading economy by 2010 through more efficient use of the already owned revenues.

In Poland a strategic document that sets out goals and directions for development is Development Strategy for the years 2007-2015 (SRK). It indicated that the main purpose of strategy is to "raise the level and quality of life of the Poles".<sup>60</sup>

SRK strategic objectives are the same as the objectives of the European Union and their implementation. They should guarantee social, territorial and economic cohesion in all regions of our country to other EU countries. The Regional Development Strategy of Podlasie demonstrated an extremely low level of consistency across all these dimensions. Among the priorities it was technical infrastructure, social and economic base that were set out. The objectives to be achieved include:

- strong increasing of attractiveness of Podlasie,
- human resource development in accordance with the needs of the labor market,
- strengthening the competitiveness of companies in Podlasie in the national and international aspects,
- environment protection,
- development of tourism using natural and cultural heritage,
- using border and transboundary location of province,
- development of agriculture and creating conditions for the multifunctional rural development.

The authorities of Podlasie do a lot for the development of the region. A lot of effort was already put in the promotion of the city, local events promote multiculturalism of the area. Table 24. shows EU funds for Podlasie.

**Table 24. Resources for investment financed by the EU funds for Podlasie in National Development Strategy 2007 - 2015 (in millions of euros)**

Operation Programme	The EU funds	Polands funds	Total
Regional Operation Programme	636.21	114.04	750.25
PO human capital	221.34	39.06	260.40
PO Development of Eastern Poland	386.86	68.27	455.13
Summing up	1 244.41	221.37	1 465.78
PROW	276.21	90.32	366.53
In total	1 520.62	311.69	1 832.31

Source: Own analysis based on: information from Ministry of Regional Development.

In the years 2004-2006 within the framework of the Integrated Regional Operational Programme, the allocation for Podlasie amounted to 109.89 million euros. Currently, 16 projects are located in the basic list for the OP and they are Innovative Economy and

<sup>60</sup> Country Development Strategy 2007-2015, Ministry of Regional Development, Warsaw 2006, p. 24.

Infrastructure and Environment; 14 projects are still in the reserve list. Can anyone use such good time to invest in this area? The question remains unanswered.

In 2005, GDP growth in Poland was 3.5% and when measured by purchasing parity power it reached half the average of EU-25 which is 11.7 thousand euros. The area with the lowest GDP per one inhabitant is still Podlasie and the whole Eastern Poland. One should strive to ensure the long-term economic growth in this area.

Development of the region requires skillful use of regional economy of these areas that are competitive in a national and international scale. All dairies in Podlasie are the largest and most modern in the country and they send their products to markets located in Western and Eastern Europe.

Territorial cohesion of Podlasie and other Eastern regions is known to be the lowest in the European Union. Railway transport, road and air transport particularly do not exist. Lack of technical infrastructure limits the flow of foreign capital and has a negative impact on the effectiveness of local enterprises. Fast railway connection, especially with Warsaw and the efforts to include Podlasie with Eastern Poland connections with other areas of the country and the European Union are a must.

## **6.5. Summary**

Development of Podlasie, since Poland's entry to the EU structures, is much slower than that of other Polish regions. Despite the financial support from the Union, which said disparities in regional development of our country, it is highly difficult to talk about success, particularly in relation to Podlasie province. Ensuring social, economic and territorial cohesion requires the cooperation of regional and local public authorities from central government. Accurate and stable legal solutions are altogether needed, even for territorial cohesion policy. Without co-operation of local authority government it will become difficult to carry out Development Strategy of Podlasie due to limited powers of provincial authority. The algorithm for distribution of funds that depends on the area of province and density affect limiting financial resources for regional development for the regions of large area and low density. Despite such limitations in the years 2007-2015, 832.31 million will be given to Podlasie province as a part of the National Development Strategy, including 244.41 million within the framework of the National Cohesion Strategy. After this period Podlasie province may benefit a lot.

## Chapter VII

### Social economy sector as a way to social cohesion

dr Wioletta Czemieli-Grzybowska\*

**Summary:** Realization of the guidelines of Lisbon Strategy concerning social cohesion is possible due to the dynamic activities strengthening the social sector which is a driving force for the economic and territorial cohesion. In Poland the concept of social economy, in accordance with the definition of the European Commission, points to the significant role of the development of social enterprises in the market economies and of the creation of the democratic society.

**Key words:** social cohesion, social economy, social economy entities

#### 7.1. Introduction

Due to the current slump on the world markets realization of the objectives of Lisbon Strategy is a real challenge for all the European countries and Poland in particular. Corporate social responsibility and development of social sectors based on the entrepreneurship are new to us whereas they flourish in the countries of the EU.

In Poland the profitability of the social responsibility policy is usually emphasized whereas the European research shows the variety of motivation. In Europe 1/3 of the entrepreneurs point to the moral values as indicators of the measures taken by the company in order to solve the social problems. Nowadays the European economic and social policy is based on the assumption that strengthening of the competitiveness of the enterprises can and should go together with the increase in the level of social cohesion by actual involvement of the sector of business in the cooperation with the social sector.

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## 7.2. Evaluation of social economy in Europe

While identifying social economy I do not analyze a scientific discipline called economics but a group of entities running businesses of certain characteristics.

Social economy, also called social entrepreneurship, is a very extensive concept and its history dates back to the 19th century. Two Frenchmen, D. Demoustier and D. Rousselier, in their study pointed out that the concept of social economy in the 19th century comprised, among other things, political economy extended by the concept of generation of the sources of existence such as education or health. According to them the concept of social economy supplements the market economy with the public economy. In the 1920s a concept of solidarity economy appeared followed by the cooperative economy. Return to this subject matter is noticeable in the 1970s due to the scientific discussions concerning the third sector, solidarity economy, alternative economy or so called non-profit sector. Such a diversity of the concepts requires precautions while using them as, despite the common socio-economic background and dealing with the similar phenomena, they are not equal.<sup>61</sup> One of the definitions describes the social economy as an economic entity which:<sup>62</sup>

- creates jobs of good quality and enhances standards of living,
- offers a frame for new models of entrepreneurship and work,
- plays an important role in the local development and development of social cohesion,
- participates in making the market economy stable and diverse,
- agrees with the values and main objectives of the European Union, i.e. social cohesion, full employment, struggle against poverty and social exclusion, participatory democracy, better governing, and steady development.

Social economy became a subject of interest of the European Union in the early 1980s and in 1989 a separate department of the European Commission was established: *Economie Sociale* dealing with the subject of social economy. According to the European Commission the characteristics of the entities of social economy are the following:

- superiority of the objectives of satisfying the needs of those for whom they are created, not making profits from the invested capital,

<sup>61</sup> P. Sałustowicz, *Koncepcje i funkcje ekonomii społecznej*, [in:] Sałustowicz P., Guzowska H., *Ekonomia społeczna a bezradność społeczna – perspektywy i bariery*, Biuro Rzecznika Praw Obywatelskich, Warsaw 2006, p. 4.

<sup>62</sup> P. Sałustowicz, *Pojęcie, koncepcje i funkcje ekonomii społecznej*, „Ekonomia społeczna” no 2/2007, p. 33-35.

- the principle according to which they manage is “one member, one vote”,
- flexibility and innovativeness – they exist in order to deal with the economic and social changes,
- membership is not obligatory.

Definition by EMES (European Research Network<sup>63</sup>), gathering experts and researchers of the social economy, groups the entities according to given economic and social criteria. On the basis of the abovementioned Polish experts formulated groups of entities of specific legal characteristics.

**Table 25. Membership of the sector of the social economy entities according to the economic, social and legal criteria (according to EMES)**

<b>Economic criteria</b>	<b>Social criteria</b>	<b>Criterion of the legal form of social economy in Poland</b>
<ul style="list-style-type: none"> <li>• relatively steady and regular activity based on the economic instruments;</li> <li>• independence of the institutions from the public institutions;</li> <li>• economic risk;</li> <li>• existence of paid personnel (even if its number is very small).</li> </ul>	<ul style="list-style-type: none"> <li>• clear orientation towards socially useful objective of the undertaking;</li> <li>• grassroots, civic character of the initiative;</li> <li>• specific, maximally democratic management system;</li> <li>• maximally participatory character of the activity;</li> <li>• limited profit distribution.</li> </ul>	<ul style="list-style-type: none"> <li>• cooperative organizations; and worker cooperatives representing the forms of activity which are very different from the activities of housing cooperatives, consumer cooperatives, or student cooperatives;</li> <li>• Cooperative banking;</li> <li>• Credit unions (SKOK);</li> <li>• Mutual insurance companies;</li> <li>• Nongovernmental organizations in the form of associations and foundations running businesses.</li> </ul>

*Source:* Own analysis based on: Izdebski H., Małek M., *Formy prawne podejmowania i prowadzenia działalności służącej realizacji celów społecznie użytecznych poza sektorem finansów publicznych, w szczególności w zakresie aktywizacji osób bezrobotnych, w świetle idei ekonomii społecznej i obowiązującego stanu prawnego*, research commissioned by Akademia Rozwoju Filantropii w Polsce, Warsaw 2005, p. 2-4.

The abovementioned criteria of membership of the social economy sector are general but at the same time narrowing to the entities which are obligatorily oriented towards the social utility while running a business. The management of the entities takes place in accordance with the principles of modern enterprise management by grassroots initiatives with taking economic risk into account.

<sup>63</sup><http://www.emes.net/>, [20.02.2009].

### 7.3. Evaluation of the social economy entities in Poland

The diversity of definitions and forms applied to social economy makes it difficult to systemize the entities within this sector. Making an attempt to distinguish the mechanisms influencing their establishment, the following entities can be listed:<sup>64</sup>

- institutions of “old” social economy – referring especially to the cooperatives which join in providing the goods that go beyond satisfying the needs and interests of their own members. According to data of Central Statistical Office at the end of 2007 in Poland there were more than 18000 cooperatives, some of which do not function. According to National Cooperative Council the number of active cooperatives in Poland amounts to about 12 000 institutions. The cooperatives are an extremely diversified environment, namely there are 5000 housing cooperatives, 1.300 worker cooperatives, 1.100 Agriculture Producer Cooperatives, 2.500 other agriculture cooperatives, about 800 cooperative banks including 118 Credit Unions. At the turn of the 1980s and 1990s the number of the cooperative was growing, however, in the late 1990 it started to decrease. Currently the process is continuing, even though it is not so rapid as it used to be. Obviously new cooperatives are still created but it is not such a massive phenomenon.
- institutions of the “third sector” – nongovernmental organizations which use economic instruments in order to achieve the social objectives. It applies to about 20% of the entities which altogether generate a significant part of the income of the sector. However, for most of the entities this kind of income is an insignificant component of their total budgets. Only 5% of the organizations get more than ½ of the annual income from these sources. Undoubtedly, not all the nongovernmental organizations can be counted as the social enterprises<sup>65</sup>. The percentage of the social enterprises in the third sector in its standard meaning is estimated at 4 to 9% according to the given criteria such as the employment of all the personnel or a share of the income from the economic activity. However, the total number of the associations and foundations amounts to almost 4 000 institutions.
- institutions of “new” social economy including:

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<sup>64</sup> D. Bukalska, *Współpraca organizacji pozarządowych z firmami w nawiązaniu do idei społecznej odpowiedzialności i zaangażowania biznesu, Trzeci sektor*, No 15, 2008, p. 19-21.

<sup>65</sup> K. Wygnański, *Ekonomia społeczna w Polsce – definicje, zastosowania, oczekiwania, wątpliwości*, [in:] *Raport: W poszukiwaniu polskiego modelu ekonomii społecznej*, Fundacja Inicjatyw Społeczno-Ekonomicznych, Warsaw 2006, p. 54-58.

— *Social cooperatives* – introduced by the Act of 20 April 2004 on employment promotion and labour market institutions. Their legal form enables their members (mainly the persons from the so called area of social exclusion, i.e. the unemployed, disabled, addicted, etc.) to return to the normal social life as well as labour market. Social cooperatives taking on the role of worker cooperatives are based on the principle of personal providing work by their members. They function in a number of various sectors, e.g. construction industry, gastronomy, tourism. Because of the lack of mechanisms supporting their functioning such as increasing the service quality, adaptation measures or access to the resources for the investments, they run much risk. Nowadays many of them have little chance to survive on the open market.

— *Social Integration Centres (CIS) and Employment Activation Units (ZAZ)* - can be brought into existence by the public sector as well as non-public institutions, in case of running such an institution by the administration, i.e. public sector it is difficult to say that this institution belongs to the sector of social economy. ZAZ is an entity which functions in the zone of supported employment as well as the assistance for the disabled on the market. Since 1997, when the law establishing ZAZ was introduced, relatively few of them have been created. The activity of ZAZ was frequently limited by the bureaucracy and consequently lack of flexibility in their functioning, which is indispensable in work with the disabled. Social Integration Centres and Social Integration Clubs in their legal form were introduced by the Act on social employment in 2003. It is assumed that they prepare people in danger of social exclusion for entering open labour market (by employment or establishing a social cooperative). The centres can run businesses (about 36% of them do it). The most frequently the founders of these forms of activity are the local authorities or the institutions of public administration functioning in the field of social assistance, even though they can be established by both public and private entities.

- hybrid institutions – it is impossible to distinguish many of the activities of social economy according to the entity. It happens that strictly market entities (such as companies, where the social direction is achieved by the entity of the activity or a specific character of organization of the production) are used for realization of the social objectives. Overcoming the inter-sector barriers (of business, public

administration and nongovernmental organizations) brings innovative initiatives. The social economy entities can function on the basis of partnership, bringing new quality in the social field. Such activities can manifest themselves in the form of separate legal entities (such as associations or cooperatives of body corporates) or on the basis of the formal agreements (e.g. employment pacts).<sup>66</sup>

**Table 26. Number of the entities of the social economy sector**

Type of institution	Approximate number of institutions	Number of the employed (rated according to full time employment)	Number of members
Associations and foundations	75 000	~ 65 000	9 – 10 000 000
Organizations of the local government	5 500	33 000	1 100 000
Cooperatives	12 800	469 000	~ 10-11 000 000
Including the cooperatives of the disabled	350	5500	30 000
Mutual Insurance Companies	9	500	Bd
Other mutual organizations	880	Bd	Bd
Social Cooperatives	120		400
Employment Activation Units	48	1700	Bd
Social Integration Centres	55	500	Bd
Social Integration Clubs	300	Bd	Bd
Total	~ 94 000	~ 600 000	~16-17 000 000

Source: P. Frączak (red.), J.J. Wygnański, *Polski model ekonomii społecznej. Rekomendacje dla rozwoju*, Fundacja Inicjatyw Społeczno-Ekonomicznych, Warsaw, 2008, p. 21.

The number of the entities of social economy in Poland clearly indicates that the prevailing forms are foundations and associations. Historical connotations result in transparent principles of their functioning and positive social perception. It is much easier to realize the initiatives from the social area by more common legal forms than the new ones of unknown names. In Western Europe growing trends towards development of the social economy entities can be noticed as well as growth of employment in this sector at the higher level than in the sector of enterprises. The improvement in the quality of human resources at the disposal of social enterprises is also noticeable. The European trend clearly indicates that the abovementioned entities are the new source of socio-economic development in globalized Europe.

<sup>66</sup> D. Bukalska, *Współpraca organizacji pozarządowych z firmami w nawiązaniu do idei społecznej odpowiedzialności i zaangażowania biznesu*, *Trzeci sektor*, No 15, 2008, p. 19-21.

#### 7.4. Tasks and functions of the social economy sector

Social economy strives for moderating and even solving many social problems created by the market and the state. SE has a supplementary function in relation to the state and the market, it cannot replace or displace the market in order to remain social. It is a field where the basic segments of social system interconnect. Despite belonging to the organization of the third sector it also comprises some activities of public or private sector. However, by the systematization of the functions of social economy the following can be enumerated:<sup>67</sup>

- according to the employment and labour market policy (so called jobmachine) – what is expected from the social economy are new jobs, especially the ones addressed to persons who are marginalized or in danger of marginalization as well as services concerning professional training and transfer to so called first labour market;
- according to the social policy (in other words compensation of the unreliability of the market and the social state) – providing the individuals, the communities and local societies with the social services, especially if the private and public sectors are not able to satisfy growing social needs;
- according to the social integration – the function of the social economy is multiplying the social capital;
- according to the process of democratization (school of democratization) – involvement of the individuals and social groups in the process of making political decisions is expected;
- according to the social change – social economy is supposed to be a place of creation of alternative economic and social system.

It is assumed that social economy is a sector of economy in which the organizations are oriented towards the social utility and the surplus is used for realization of the social objective. Such a mission results from and is protected by freedom of management, democratic decision-making and local roots of these organizations.

Many of these functions attributed to the social economy sector are general and possible to fulfill by the activities of many different entities. Compensation of the

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<sup>67</sup> H. Izdebski, M. Małek, *Formy prawne podejmowania i prowadzenia działalności służącej realizacji celów społecznie użytecznych poza sektorem finansów publicznych, w szczególności w zakresie aktywizacji osób bezrobotnych, w świetle idei społecznej i obowiązującego stanu prawnego*, research commissioned by Akademia Rozwoju Filantropii w Polsce, Warsaw 2005, p. 23-24.

deficiencies of the market, such as inflation, unemployment, unequal access to the goods and services, lack of complete information or insecurity, is extremely difficult but due to their macroeconomic range one should take all the possible measures in order to limit the above-mentioned phenomena.

### **7.5. Summary**

In conclusion, there is one question to be answered: if the motto of the social economy entities says “with profit but not for profit”, isn’t generating the profits for development (not only for satisfying the current needs) worth considering? Only a very limited percentage of the entrepreneurs are of such opinion. Unfortunately, the main motivating factors of the activity of the social economy entities are accumulating the sources for realization of the mission or solution of the problems of local society as well as return of the expenses of the statutory activities carried out by the organization and improvement in the living standards of its members. Therefore, it is legitimate for the economic entities functioning exclusively for the profit to cooperate with the entities of the social economy sector. Mutual complementing of the objectives will bring concrete results for both of the sectors. Private enterprises have an opportunity for the functioning within the socially responsible business whereas the entities of social economy can get the knowledge about the strategic management of the company in the changeable legal conditions. It is how the development of the social area due to the flourish of the sector of social economy brings the EU nearer to the realization of not only social but also economic objectives assumed in Lisbon.

## Chapter VIII

### Problems of financing the social economy entities in Poland

Anna Zimnoch\*

**Summary:** The concept social economy refers to organized activities which primarily aim at serving the community. Most are based on voluntary participation, membership and commitment. The main driving force of the Social Economy is the benefit of the public or the members of a particular associations, and not the profit motive. However, social economy organizations present particular and distinctive characteristics which may make it more difficult for them to achieve access to external finance. Such a market failure would provide the rationale for a policy debate about the financing of social economy organizations and for interventions to create and resource special financial vehicles for the social economy.

**Key words:** social economy, subjects of social economy, financing.

#### 8.1. Introduction

Theoretical analyses of the social economy have their own history<sup>68</sup>. Nowadays the interest in social economy is undoubtedly due to the European Union policy which strives for the development of social economy institutions as an efficient form of socio-professional integration. The concept of social economy is coherent with such strategic objectives of the EU as social cohesion, full employment, struggle against poverty and social exclusion, citizen participation and steady development. Acceding the EU Poland

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<sup>68</sup> Between WWI and WWII Stanisław Grabski, among others, wrote about social economy in Poland. He included his theory of socio-economic development in his book *Ekonomia społeczna*. Leopold Caro, one of the leading Polish ideologists of the corporatism published a book *Zasady nauki ekonomii społecznej*.

joined the European debate devoted to social economy and started building its own model with the support of structural funds.<sup>69</sup>

It has been noticed that it can be an opportunity for an activation of the excluded and creation of the positive attitudes among young people; to some extent it can also be an element of the employment policy, etc. Various initiatives supporting SE have appeared, however, there are numerous problems faced by social economy and one of the most important is difficult access to the sources of financing.

The article aims at reviewing the potential financing sources of the social economy entities as well as demonstrating that noble objectives of the entities make them less credible on the financial market.

## **8.2. Sources of financing of the social economy entities**

Some of the most important criteria of the selection of the sources of financing can be: accessibility to the source of the capital, costs of raising and administrating of the capital, financial flexibility, the price of the financial leverage effect or the risk of using a particular type of capital. As far as the social economy entities are concerned the list of potential sources of financing and its accessibility is additionally limited by the objective of their activities. Specificity of the social economy entities makes the financial institutions consider the cooperation with them more risky.

The activity which is not oriented towards generating the profit gives a cause for concern about maintaining a good financial situation, which is a requisite for e.g. loan and interest repayment in time. Moreover, usually low expenditures on the financial and accounting services are not conducive to ensuring high level of the financial management.

Nevertheless, the social economy entities can, at least theoretically, benefit from the same sources of financing as SME:

- self-financing,
- partners' contributions,
- bank credits,
- credit guarantees,
- leasing,

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<sup>69</sup> Within Operational Programme Human Capital, Priority VII Promoting of Social Integration there is a measure 7.2 counteracting exclusion and strengthening the social economy sector. The aim of the measure is the improvement in the accessibility to employment of persons threatened by social exclusion and development of the social economy sector.

- franchising,
- support funds,
- mercantile credit,
- factoring,
- business incubators,
- non bank loans (including subsidies from the labour offices),
- loans from family and friends.

In addition to that, they can use the following sources (depending on the activity):

- membership fees,
- donations from the private persons (including 1% of the personal income tax for public benefit organizations),
- donations from corporate bodies,
- collections, auctions, lotteries,
- sponsoring,
- fundraising,
- subsidies from the public sources.

The sources of subsidies from the public sources are:

- local governments of all levels:
  - programmes of cooperation with nongovernmental organizations;
  - entrusted and financially supported tasks;
- local government of commune level (Municipality/Commune, Social Assistance Centres - OPS);
- local government of poviat (district) level (Poviat, Poviat Regional Labour Offices – PUP, Local Family Assistance Centres - PCPR);
- local government of voivodship level (Municipality, Regional Family Assistance Centres - ROPR);
- government administration:
  - Voivodship Office;
  - Ministries;
  - special-purpose funds (National Disabled Persons Rehabilitation Fund - PFRON, Polish Agency for Enterprise Development – PARP, National Fund for Environmental Protection and Water Management - NFOSiGW);

- special-purpose reserves of the national budget (Operational Programme Civic Initiative Fund - PO FIO).

The subsidies can also come from the foreign sources, most of all from the European Union, but also from Embassies or Funds, etc.

**Table 27. Dilemma of the financing the social economy sector**

<b>Financing from the public sources</b>	
<b>Potential advantages</b>	<b>Potential disadvantages</b>
<ul style="list-style-type: none"> <li>• co-realization of the social objectives and the „entrusted tasks” stabilizes NGO activities,</li> <li>• lower risk of the supported social activity, psychological and financial support for the NGO activity,</li> <li>• improves the accessibility to the beneficiaries of the support and information,</li> <li>• enables the synergy effect (organization, financing, promotion),</li> <li>• enables the substitution effect and complementary social, government and NGO objectives,</li> <li>• enables gaining experience and learning the cooperation with authorities (contacts).</li> </ul>	<ul style="list-style-type: none"> <li>• obtaining the public sources requires appropriate high skills and it is formalized,</li> <li>• limits the independence of NGO in the realization of the social objectives,</li> <li>• does not guarantee stability of the support,</li> <li>• creates attitudes of demand of the support,</li> <li>• weakens the entrepreneurship and activeness in searching for the customers ,</li> <li>• is a potential source of corruption when only the selected are supported,</li> <li>• is a source of dishonest competitiveness and conflicts caused by division of the sources (the support is an advantage that others cannot have),</li> <li>• is a threat of wastefulness in the sources management .</li> </ul>
<b>Financing from the private sources</b>	
<b>Potential advantages</b>	<b>Potential disadvantages</b>
<ul style="list-style-type: none"> <li>• enables independence in realization of a mission and social policy,</li> <li>• gives psychological satisfaction,</li> <li>• positive image and social perception,</li> <li>• stimulates the positive aspects of learning the entrepreneurship and gaining experience (contacts),</li> <li>• increases flexibility of the activities and makes the reaction to the social needs faster,</li> <li>• enables avoiding bureaucratic formalities deterring the activities.</li> </ul>	<ul style="list-style-type: none"> <li>• determines the necessity of taking and accepting the risk in the entrepreneurship,</li> <li>• requires professionalism (which usually increases operational costs),</li> <li>• lack of the formal exterior support increases the risk of the activity,</li> <li>• forces to take higher risk of the failure into account,</li> <li>• makes the consequences of the failure worse.</li> </ul>
<b>Financing from the repayable foreign funds</b>	
<b>Potential advantages</b>	<b>Potential disadvantages</b>
<ul style="list-style-type: none"> <li>• increases the possibilities and the range of activities of NGO,</li> <li>• enables the financial leverage effect,</li> <li>• helps in case of an „emergency” (e.g. enables maintaining financial liquidity),</li> <li>• stimulates economic and investment processes,</li> <li>• enables undertaking some activities and investments.</li> </ul>	<ul style="list-style-type: none"> <li>• requires the knowledge of the complex procedures of applying for the sources,</li> <li>• requires the ability to obtain the sources,</li> <li>• requires strict financial and material discipline,</li> <li>• requires long-term planning and stability of an organization,</li> <li>• requires drawing up a special financial product for NGO,</li> <li>• is unattainable for many NGO (for various reasons).</li> </ul>

Source: M. Płonka, *Dylematy finansowania podmiotów ekonomii społecznej*, *Ekonomia Społeczna*, Quarterly No 1/2008 (2), p. 29-30.

Reviewing the potential sources of financing requires an analysis of their advantages and disadvantages, for which purpose the sources of financing the social economy sector were divided into 3 groups:

- financing from the public sources,
- financing from the private sources,
- financing from the repayable foreign funds.

Dilemma of the financing the social economy sector from the abovementioned sources are presented in Table 27.

It is worth remembering that a desirable characteristic of the projects financing, including the social projects, is the ability to find and combine various sources for the realization of the objectives. Dependence on one source (especially the public sources) can cause that an unpredicted withdrawal of the sources will paralyze the functioning of the whole organization. This is the reason why more beneficial, from the point of view of development of social economy undertakings, is for example giving them as entrepreneurs the public procurement for providing services, deliveries or construction work instead of subsidies. Such a form of support involves mutual obligations of the partners (carrying out the order by the social enterprise and the payment by the public ordering party) and it is neutral as far as the public budget is concerned because it involves spending the sources which were aimed at realization of the particular order anyway. In addition to that, such a form of task realization generates value added in the social area.

### **8.3. The results of the research concerning the finances of the social economy entities<sup>70</sup>**

All the economic criteria of the social enterprise<sup>71</sup> are fulfilled by hardly 4 % of all nongovernmental organizations in Poland (about 2000 entities). Some insignificant

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<sup>70</sup> The data is a result of the research *The state of the nongovernmental organizations sector in Poland 2006* which was carried out by the Association Klon/Jawor as a part of the Programme Third Sector financed by Trust for Civil Society in Central & Eastern Europe and Stefan Batory Foundation. At the same time the analysis of the nongovernmental organizations was a part of a larger research undertaking called "The state of social economy entities in Poland" realized within the project "Searching for the Polish model of social economy" financed by European Social Fund within Equal Community Initiative.

<sup>71</sup> European Research Network EMES gathering experts and researchers of the social economy concept suggested defining the social economy entities by pointing to the economic and social criteria distinguishing those entities. The economic criteria are the following: relatively continuous and regular entrepreneurship based on the economic instruments; independence, sovereignty of the institution over the public institutions; economic risk; paid personnel. The social criteria are: clear orientation towards the socially useful objective of the undertaking; grassroots civil initiative, specific, as democratic as possible management system, participatory character of the activity, limited profit distribution.

moderations of the criteria, i.e. less strict approach to the “economic risk” (income from the economic activity at the rate of at least 20% of total annual revenue) does not result in a considerable increase in the number of potential organizations (i.e. 5% of nongovernmental organizations). Only resigning from the requirement of “paid personnel” results in significant increase in the abovementioned group, which at present consists of about 9% of nongovernmental organizations i.e. about 4000 entities.

Annual revenue of half of the nongovernmental organizations does not exceed 10000 PLN, one out of ten organizations does not have any revenue and one out of five has a revenue lower than 1000 PLN. No more than 4% of the organizations declared the revenue higher than 1 million PLN. Therefore, there is a discrepancy among the organizations, which is being strengthened. According to the data from 2003 10% of the organizations of the highest revenue cumulated in total about 83% of all the sources supporting the nongovernmental sector and in 2005 the number increased to 90% of the sources.

The crucial problem is lack of the assets, which is declared by as many as 8 out of 10 organizations. Only 4% of them own premises, 3% declare ownership of the land and the same percentage – means of transport. 5% of the organizations have other assets which include all kinds of equipment and furniture. Assets such as shares in the company or property rights are not common (0.5% and 1.1% respectively). As many as 76% of the organizations believe that if they lost all the sources of income their financial reserves would allow them to exist up to 6 months.

Approximately 37.4% of the organizations have been searching for the financial sources for the last two years. The sources were meant mostly for realization of their own projects (25.5%) and ensuring financial liquidity of the organization (14.4%), less frequently for investments (investments in entrepreneurship – 5%, investments in other activities – 11.7%). It should be mentioned that only 14% of the organizations searching for the financial sources applied for the repayable sources (credits or loans). Approximately one out of four organizations applying for the sources for investments (i.e. 4% of all organizations) managed to get them, however, only in case of 3% of organizations it involved taking a credit.

Despite very limited experience in contacts with banks more than a half of the organizations (58%) is satisfied with the bank offer and would not change anything in it, whereas among the organizations interested in making some changes the largest number (approx. 10% of all organizations) would expect a set of services adjusted to the specificity

of the nongovernmental sector. Only 3.2% of the organizations notice lack of the credits which are adequate for their needs and possibilities whereas 1% would expect an access to guarantees or sureties.

In 2006 18% of all nongovernmental organizations were involved in entrepreneurship or other paid activities and the most common answer to the question about barriers they encountered was “difficulty in obtaining financial sources for investments”. Undoubtedly it results from the fact that for 2 years as many as half of them had been searching for the sources for investments – 11% had been applying for the non-repayable sources and 14% had undertaken serious investments (in relation to 4% of all organizations).

Within the abovementioned group the percentage of the organizations signaling inefficiency of bank offers, i.e. lack of services (including credits) adequate for their needs, is much higher than among all the organizations (27%). Similarly, the need for counseling in finance management is much more frequently stressed. It should be pointed out that over 40% of all organizations cannot count on professional accountant support.

Taking the abovementioned data into account, the state of the nongovernmental organizations is far from good and financial problems seem to be the most important barrier for most of them. One of the methods of improving the situation can be using at least part of the sources from, for example, structural funds for strengthening such entities – their professionalism and independence. It should not lead to dependence on subsidies but to creating certain conditions for working out such a financial system which will ensure their stability and development.

#### 8.4. Sources of limitations of using the capital by the social economy entities

The undertakings carried out by the social economy entities differ from the commercial undertakings at many levels. The main differences are presented in Table 28.

**Table 28. Comparison of decision criteria for the commercial and social undertakings**

<b>Investment characteristics</b>	<b>Commercial undertaking</b>	<b>Social undertaking</b>
<b>Formal control over the enterprise</b>	Possible	Not always (possible legal forms do not give such a right or limit it)
<b>Objective of the financing</b>	Undertaking aiming at economic profit	Undertaking aiming at social and economic profit
<b>Expected return on investment</b>	Yes (economic)	Yes (social and economic)
<b>Risk of the investment</b>	Various (possible to define)	Various, often difficult to define
<b>Sureties</b>	Yes	Frequent lack of tangible sureties (assets), possible personal and/or

		informal securities
<b>Access to information</b>	Yes, standards and agents	Unequal, greater openness, but the information is often difficult to compare due to the lack of standards and agents
<b>Out option</b>	Yes, always	Not always (patient capital <sup>72</sup> ), social exchange
<b>Reporting standards enabling the comparison of the investments</b>	Yes	Not always or not enabling the comparison of data about social profit/objective
<b>Economic profit</b>	Yes	Yes
<b>Social profit</b>	Not always	Yes, main investment criteria
<b>Agents</b>	Many, specialization	Not many
<b>Costs</b>	Lower (scale, competitiveness)	Higher (scale, competitiveness)

Source: A. Królikowska, *Podstawowe zasady finansowania podmiotów ekonomii społecznej*. [in:] *Finansowanie i otoczenie prawne podmiotów ekonomii społecznej*. J. Hausner, Uniwersytet Ekonomiczny w Krakowie, Małopolska Szkoła Administracji Publicznej, Krakow 2008, p. 57.

The differences, resulting from the specific characteristics of the social economy entities, make the financial institutions see an additional risk in the cooperation with them. No matter how many of those characteristics are wrongly perceived as a potential source of the risk, according to the persons responsible for credit policy of the banks, they do present such a risk. Among the abovementioned characteristics there are:<sup>73</sup>

- profit is not an objective – activities which are not oriented towards generating the profit cause concern for maintaining good financial situation which determines credit and interest repayment in time. Moreover, usually low expenditure on the financial and accountant service do not allow ensuring high level of finance management;
- defective documentation – lack of the expenditure on the professional service forces versatility of the employees who fulfill various tasks (including administrative and office tasks), often with no clearly personally defined duties. It can lead to some chaos, defective documentation or its laconic style. In the consequence it can result in difficulty in carrying out the analysis of the efficiency of the organization in case of applying for the repayable financing;
- tangible securities – the entities of social economy sector usually have relatively limited possibilities of securing the credits. The exceptions are the NGO with essential fixed asset. Financial securities (e.g. guarantees or policies) require an application and the procedure similar to the credit application;

<sup>72</sup> *patient capital* – capital characterised by long-term source involvement, long-term pay-off and/or low cost and low level of transfer of the control of the institution management.

<sup>73</sup> P. Kazimierczyk, *Współpraca NGO z bankami: wymogi zarządzania ryzykiem a perspektywy rozwoju*, Bank DnB NORD Polska SA, Warsaw 2008, p. 18-21.

- management securities – owners or members of management of the commercial enterprises often add their personal credit securities while completing application documents in order to strengthen their credit credibility. It does not happen in NGO due to the fact that management does not see the necessity of risking their own capital;
- own contribution – the banks usually require from the borrowers so called own contribution to the financed undertaking. In case of NGO their own contribution can be slight or close to zero. Only the organizations carrying out the entrepreneurship or able to obtain subsidies regularly can allow for more significant input;
- bonds between the capitalist and the company v bonds between the sponsoring and the sponsored – the likelihood is that in case of a difficult financial situation of the economic entities their owners can incline towards giving support for credit repayment. The similar cannot be expected from the founder – foundation relation;
- conflict with a donor – it is assumed that NGO, contrary to the economic entities, which consistently exact amount dues from their debtors, behave more carefully in the conflict situations. They would also resign from the legal measures more frequently as claiming their rights (e.g. in court) would influence their reputation in a negative way and consequently reduce the number of the potential sponsors;
- low wages and personnel rotation – according to the statistics the NGO employees fulfilling the tasks which are similar to the ones of the employees of the commercial enterprises get lower salaries. Therefore, it can be referred that low pay results in low efficiency at work and higher risk of quitting;
- legal risk – this kind of risk results from defective law leaving a lot of space for interpretation;
- lack of statistics – the number of credits taken and repaid by NGO is relatively lower than among other segments of potential borrowers, which prevents the potential financing party from using more advanced models of credit risk assessment.

Unfoundedly some of the abovementioned characteristics are perceived as a potential source of the risk. For example, as far as personnel is concerned the social economy sector often has more loyal and devoted workers than many well-paying private enterprises. It is connected with the personal characteristics of those people and their inner need for work

which gives certain social results. Many of the abovementioned persons show the leaders' characteristics, initiate and coordinate social entrepreneurship at the local level.

### **8.5. The Polish-American Community Assistance Fund as an example of responsible borrowing by the social economy entities**

The fact that social economy entities, searching for the external sources of financing deal with many problems does not mean that they can be a priori regarded as unreliable borrowers or participants of financial market in general. It can be demonstrated on the example of The Polish-American Community Assistance Fund (PAFPIO).<sup>74</sup>

PAFPIO was established in 1999 as a loan fund for the nongovernmental organizations and the non-for-profit initiatives. It originates from The Polish-American Enterprise Fund (PAPF), which successfully allocated 1250 thousand USD for the realization of the programme of the loans for non profit sector. It turned out that organizations need loans and at the same time they are reliable borrowers that repay incurred debts and the interest.

The mission of PAFPIO is support for the non-for-profit institutions in securing their financial liquidity which is indispensable for an efficient realization of their statutory activities.

The loans can be divided into:

- bridge loans – e.g. pre-financing of the activities which enables realization of the project before the organization signs the contract or receives the first tranche of the sources or finalization of the project awaiting the cost return;
- investment loans – e.g. for the purchase of the means of transport or equipment, roof repair, window renovation, etc.;
- operational loans – e.g. for maintaining financial liquidity, development of entrepreneurship enabling start or continuation of the activities before the organization obtains the planned income.

The organization applying for a loan should indicate the reason of the weakening of its financial liquidity and justify how the granted loan will allow the organization to survive the difficult period, not causing its total financial breakdown.

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<sup>74</sup> <http://www.pafpio.pl/>; [10.10.2010].

PAFPIO offers the loans of higher rate of interest than the commercial banks<sup>75</sup>, which results from the necessity of covering not only costs of functioning but also of higher risk due to the untypical situation of a client and lack of the tangible securities (the only accepted security of the loan repayment is a blank bill of exchange). However, it should be pointed out that very few banks address their offers to the nongovernmental organizations.<sup>76</sup>

**Table 29. Information about the loans extended by PAFPIO up to now**

Loans:	Number	Value (PLN)
Extended	1369	107315850
Repaid	1236	94275893
Active	133	12341456

Source: Own analysis based on <http://www.pafpio.pl/>; [10.10.2010].

Information about the number and value of the loans extended by The Polish-American Community Assistance Fund is presented in Table 29. Up to 1 October 2010 PAFPIO extended as many as 1369 loans of total value of 107315850 PLN. In the group of 448 borrowers (281 of which were associations and 131 foundations) only 14 turned out to be unreliable clients which ended up with the final and valid court verdicts with the order to pay of total value of 595950.70 PLN.

## 8.6. Summary

The range of potential sources of financing the social economy entities is extensive. However, the abovementioned entities make use of them to a very limited extent. In fact, they should have a possibility of using the same forms of support as other entrepreneurs. At the same time the specific character of their activities and their objective, i.e. realization of a social mission, are the reasons of different then in case of *classic* enterprises approach. Therefore, the financial and legal frameworks of the social economy sector should define *the golden mean* between the state protectionism and free market competitiveness as well as the economic risk. Among the possible measures the following can be listed:<sup>77</sup>

<sup>75</sup>In September 2010 the rate of interest of the PAFPIO loans was 12% per annum for the loans connected with realization of the projects co-financed from the European funds (so called euro-loans), for other loans the rate of interest was 15% per annum. In addition to that administrative fee (1% of the borrowed capital) is charged in advance, i.e. the loan amount is reduced by the amount of the fee.

<sup>76</sup> In Poland only few of the banks finance the entities of the third sector, e.g. Bank DnB NORD or some social banks.

<sup>77</sup> A. Królikowska, *Finansowanie zwrotne instytucji ekonomii społecznej w Polsce. Raport otwarcia Bank BISE*, *Ekonomia społeczna. Teksty* 2006, p. 56.

- databases of organizations realizing public projects (subsidies, contracts) along with the obligation fulfillment record;
- promotion of good practices in finance management;
- support for the organizations in the fields which are indispensable in the tasks realization and require specific knowledge (accountancy, finance management, ICT, law);
- security instruments for the organizations (funds and sureties networks), networks of organizations financing NGO (exchange of experience or establishing common practices).

The changes in the market of financial services, e.g. appearance of FM Bank<sup>78</sup> - the first bank for micro and small enterprises in Poland, give hope that, similarly to the SME sector, which in the past did not appear to be an attractive client for the banks and now the approach towards it is gradually changing, in the future the social economy entities will be regarded as valuable partners. The example of organizations such as The Polish-American Community Assistance Fund proves that the entities of social economy which search for the external sources of financing are prepared to bear higher costs of obtaining the capital in comparison with offers of, for example, commercial banks. The higher costs are the consequences of the untypical undertakings and mainly non-commercial character of the activities.

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<sup>78</sup> 23 February 2010 FM Bank received a license from Komisja Nadzoru Bankowego for operational activity. The aim of establishing the bank was providing micro and small enterprises with modern bank services and enabling access to financial sources for development and investments. The bank was based on 15-year-experience of Mikro Fund – an expert in financing that group of customers.

## Chapter IX

### Solidarity investments in social economy

dr Wioletta Czemiel-Grzybowska\*

**Summary:** The Conception of the *social economy* is concerning to organized action which above all are aimed at a help of people defavoured. This action is most often leaning on the voluntary participation, the membership and employing this kind of person. Public goods or members of the given organization, rather than a profit are a primary goal of this sector. However its particularities cause that entities of this sector have the hampered access to outside funding sources. It is justifying for the political debate about financing entities and creating of special solutions for social economy.

**Key words:** social economy entity, solidare investments.

#### 9.1. Introduction

Interest of the European Union in the social economy (SE) comes from the possibilities created by functioning and development of that sector. What should be kept in mind here is not only financial benefits in the field of the increasing role of the sector in producing GDP but also social benefits in the form of development of social and professional integration. The initiation and development of various forms of activity in the social area agree with the strategic objectives of the EU such as: social cohesion, full employment, struggle with poverty and social exclusion, citizen participation and steady development.

As early as in 1996 International Association of Investors in the Social Economy in the publication *Bankers of the future* pointed out that a significant number of financial tools are introduced within the third sector and most of them are concentrated around the

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entities of so called old social economy, i.e. cooperatives and mutual organizations, which date back to 19 century.<sup>79</sup>

Among resources which are indispensable for the activities in all the sectors there are financial resources. A common occurrence is also lack of the financial resources for the development. Many publications deal with the financial barriers preventing the steady development of the enterprises in Poland. Social enterprises (entities of social economy) face not only traditional limits of access to financial resources but also many others. The chapter contains the outline of the specificity of financing of the social economy entities as the participants of the market with more detailed characteristics of solidarity investments.

## 9.2. Identification of social economy

The approaches toward defining the social economy in Poland are based on the concepts already existing in the world<sup>80</sup>. They vary from the common understanding of the social economy entities in Poland associated with nationalized economy.

Unfortunately, historical connotations strengthen this incorrect idea in social and economic system.<sup>81</sup> Therefore, complete information as well as unambiguous definition of SE in Poland are indispensable. Only then the ones functioning in this sector or intending to start their activity would be able to fully benefit from the EU resources financing their current functioning as well as development. Therefore, among the most important concepts of the entities of Polish social economy are the following ones: according to Woolcok social economy is an entity which:<sup>82</sup>

- creates a financial base for civic organizations,
- promotes alternative forms of a credit,
- strengthens social capital,
- regenerates local public space,
- is conducive to realization of the concept of citizenship,
- facilitates reforms in the sector of public services.

On the other hand, Leadbeater Ch. defines social economy by connecting it with the role of social entrepreneur, who:

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<sup>79</sup> P. Frączak, J.J. Wygnański (ed.), *Polski model ekonomii społecznej. Rekomendacje dla rozwoju*. Fundacja Inicjatyw Społeczno-Ekonomicznych, Warsaw 2008, p. 5.

<sup>80</sup> P. Sałustowicz, *Pojęcie, koncepcje i funkcje ekonomii społecznej*, *Ekonomia Społeczna Teksty*, 2007, p. 4.

<sup>81</sup> T. Kaźmierczak, M. Rymśza, *Kapitał społeczny. Ekonomia społeczna*, Instytut Spraw Publicznych, Warsaw 2007, p. 12.

<sup>82</sup> Anheier, Helmuth K., *The Third Sector in Europe. Five Theses*, London School of Economics Working Papers, 2002.

- generates jobs (in a short period of time), which generate additional value or make savings in public expenses,
- introduces solutions (in a medium period of time), which result in the reforms of traditional welfare state,
- creates and uses social capital in a long period of time.<sup>83</sup>

The role of social economy entities is moderating and even solving the social problems caused by the market and the state.<sup>84</sup> At the same time one should keep in mind that social economy plays only a supplementary role towards the state and the market, it cannot replace or displace the market. Social economy is a field where basic segments of social system interconnect and despite the fact that it is connected with the organizations of the third sector to large extent, at the same time there are some measures undertaken by the public or private sector.<sup>85</sup>

### 9.3. Financing of social undertakings

The rules of the financial market in analyzing debtor's credibility (the relation between the price and the risk level, investments in the projects of the highest rate of return, necessity of investment protection) refer also to the entities of social economy sector. Keeping in mind specificity of their activities, the analyses should be carried out with taking additional elements such as priorities of investors and financing beneficiaries, essential decision criteria and the role of public entities in the economy into account (Table 30).<sup>86</sup>

Difficulties with access to sources of financing the undertakings realized by social enterprises are determined by the following factors:

- poor economic condition of SE entities – low value of the capital and scarce financial resources for realization of the objectives,
- objective of the activity – pointing to the realization of social objectives as priorities and economic objective as indispensable but still supplementary disqualifies the entity as a potential borrower in a commercial financial institution,

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<sup>83</sup> Ibidem.

<sup>84</sup> P. Sałustowicz, *Pojęcie, koncepcje i funkcje ekonomii społecznej*, *Ekonomia Społeczna Teksty* 2007, p. 4-5.

<sup>85</sup> Ibidem, p. 10-11.

<sup>86</sup> P. Kazimierczyk, *Współpraca NGO z bankami: wymogi zarządzania ryzykiem a perspektywy rozwoju*, analysis commissioned by Bank DnB NORD Polska SA., Warsaw 2007, p. 15.

- low profitability of social undertakings –it is not a determinant which encourages creditors to finance the application.

**Table 30. Comparison of decision parameters while financing the commercial and social undertakings**

Investment characteristics	Commercial undertaking	Social undertaking
Formal control over the enterprise	Possible	Not always. Possible legal forms that do not provide this kind of right or limit it.
Financial objective	Undertaking which aims at gaining an economic profit	Undertaking which aims at gaining a social and economic profit
Expected return of investment	Yes (economic)	Yes (social and economic)
Investment risk	Various, possible to define	Various, often difficult to define
Security	Yes	Frequent lack of tangible assets security Personal and informal security available
Availability of information	Yes, standards and agents	unequal, greater openness, but the information is often difficult to compare because of lack of standards and agents
Out barrier option	Yes, always	Not always (so called patient capital) social exchanges
Reporting standards	Yes	Not always, or not allowing the comparison of the data about the profit (social objective)
Economic profit	Yes	Yes
Social profit	Not always	Yes, key investment criterion
Agents	Many, specialization	Not many
Costs	Lower (rate, competition)	Higher (rate, competition)

Source: A. Królikowska, *Podstawowe zasady finansowania podmiotów ekonomii społecznej*, [in:] J. Hausner, *Finansowanie i otoczenie prawne podmiotów ekonomii społecznej*, MSAP Uniwersytetu Ekonomicznego w Krakowie, Krakow 2008, p. 57.

Specificity of the functioning of social economy sector within the third sector but with tight connections with public administration and the enterprise results in the abovementioned difficulties. Transferring part of the state tasks into this sector did not result in redirecting the financial resources for realization of those tasks. It evoked a number of barriers in development of those entities. Identification of the problems at the EU level resulted in introducing a number of subsidies for social enterprises and undertaking administrative measures toward the member states with the aim of greater involvement in starting an organizational and legal structure heading for facilitation of the development of the sector.

Involvement of the financial institutions functioning for the investment profits in the cooperation with the social economy entities can evaluate on the condition of concrete

benefits for both sides. The following factors encouraging the financial institutions to cooperate with SE can be enumerated:<sup>87</sup>

- looking for new markets – growing competition on the market and opening new firms influence the prices. Along with the growth of financial institutions on the market the margins they can obtain decrease;
- diversification, i.e. limitation – it is a way of limiting the risk of the investment wallet by the financial institutions. It consists in investing in various types of investments. At the same time, if diversification means risk limitation, the limitation of diversification is risk connected with the new sector;
- growing margins – entities of social economy are not attractive partners for the financial institutions because of their low profitability. Financial institutions deal with the costs connected with risk assessment, recognizing the entity and the sector, analysis of the undertaking and the profit generated from the investment is usually lower than expected;
- decreasing risks – growing stability of financing of social economy entities is one of the factors influencing the risk. It is caused by, among other reasons, transfer of professional personnel from the sector of enterprises to the sector of non-governmental organizations; building information channels;
- social image – involvement in the activity of social economy entities has always a positive impact on the image of an institution.

Unfortunately, additional factors, which have not been taken into account so far, require establishing clear rules of cooperation, larger flexibility of the financial institutions in analyzing social projects but also greater professionalism from the social enterprises in preparation and realization of those undertakings.

#### **9.4. Sources of financing of the social economy activities**

Access to the capital of the economically weaker companies is the most important barrier in their development. In the case of capital instruments the basic decision factor is the amount of the capital return in time. Even when the company applies for a loan or a credit of a high rate of return (it is not common in social companies) its financial standing

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<sup>87</sup> A. Królikowska, *Podstawowe zasady finansowania podmiotów ekonomii społecznej*, [in:] Hausner J., *Finansowanie i otoczenie prawne podmiotów ekonomii społecznej*, MSAP Uniwersytetu Ekonomicznego w Krakowie, Krakow 2008, p. 58.

results in a high credit price (interest rate) or refusal for a financial support. Therefore, it is much more difficult to receive a financial support from the bank than from the loan funds which are not obliged to create special purpose reserves. The main instruments of financing.<sup>88</sup>

- subsidies (EU, national budget, local budgets, private donors),
- credit institutions (banks, loan funds),
- capital instruments,
- guarantee instruments and instruments securing the risk of the undertaking realization,
- hybrid instruments – combining both obligations and subsidies.

Along with the traditional commercial financial institutions, the entities of social economy are more and more frequently supported by financial institutions specializing in financing or co-financing this kind of undertakings. Their advantage lies in the familiarity with the area of functioning of social economy sector. Their main activity is financing the ones with no access to traditional investors. They are called solidarity financiers. The most frequently those institutions are based on the cooperative activity which can be characterized by a tradition of creating their own solutions in the fields where the market does not provide them or provides them for a too high price. Among the specialized institutions the following ones should be mentioned:<sup>89</sup>

- micro-financial institutions – working for the socially excluded persons (e.g. Association pour le Droit a l'Initiative Economique – ADIE);
- social economy banks – working for the local communities, often in the form of a cooperative (e.g. Banca Etica, Credit Cooperatif);
- ethical and ecological banks – financing the investments in accordance with their general name and purpose (e.g. Triodos Ethibel);
- local banks – oriented toward local projects (e.g. Caisse Solidaire du Nord Pas-de-Calais, Charity Bank).

The role of specialized institutions in financing social enterprises is growing at the time of striving for minimizing social problems and growth of the significance of the

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<sup>88</sup> I. Herbst, *Analiza możliwości finansowania podmiotów ekonomii społecznej w Polsce*, Bank DnB NORD Polska SA., Warsaw 2007, p. 12.

<sup>89</sup> H. Izdebski, M. Małek, *Formy prawne podejmowania i prowadzenia działalności służącej realizacji celów społecznie użytecznych poza sektorem finansów publicznych, w szczególności w zakresie aktywizacji osób bezrobotnych, w świetle idei ekonomii społecznej i obowiązującego stanu prawnego*, analysis commissioned by Akademia Rozwoju Filantropii w Polsce, Warsaw 2005, p. 243-244.

undertaking minimizing the spread of negative phenomena in the civil society. Thereby, the activity of specialized financial institutions requires an individual approach to the analysis of every project designed for a financial support. Standard formal and organizational procedures do not count for the specificity of the areas of functioning of SE entities. At the same time the experience of the abovementioned entities so far indicates that 8 out of 10 undertakings in the social field are realized successfully. Development of cooperation will ensure even higher rate of successful projects.

### **9.5. Solidarity investments as a tool of financing social enterprises**

The concept of solidarity finance is not regulated in the Community or national legal acts. It is a term which appeared in order to define specific type of sources of financing of a social activity. Other synonyms of the word “solidarity” are:<sup>90</sup>

- social – having a positive impact on the society or a particular community, e.g. local community;
- alternative –also looking for other than only an economic profit;
- ethical – paying special attention to the target of financial resources.

In Poland the most common is using the term solidarity finances (not social) because of historical connotations from pre-1989 period. Besides, it does not mean that financial institutions running commercial businesses are unethical or antisocial. Therefore solidarity finances are such investments which, along with obtaining planned return on investment, aim at realization of other objectives which can be treated as a so called social return on investment. Selection of a form of activity as well as financing obliges to maintain financial balance. Nevertheless, the equivalent criterion is achieving non-financial objectives included in regulations or a statute of a functioning entity.

Among detailed conditions that have to be fulfilled in order to be eligible for solidarity finances there are:

- period of investment – within solidarity finances some of the investments are long-term or even not defined. This is how a term “patient capital” appeared and it means the capital whose owners are aware of the possibility that their return can be in a very distant future.

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<sup>90</sup> A. Królikowska, *Podstawowe zasady finansowania podmiotów ekonomii społecznej*, [in:] Hausner J., *Finansowanie i otoczenie prawne podmiotów ekonomii społecznej*, MSAP Uniwersytetu Ekonomicznego w Krakowie, Krakow 2008, p. 59.

- out options – usually refer to the investments of lower liquidity. As there is a limited number of investors ready to engage their free resources at any moment. Limitation of the out option amounts to the situation when a withdrawal from the investment can lead to danger in realization of the social undertaking,
- security – entities of SE have a greater human than economic capital. Therefore specificity of an investor as a solidarity financier should be taken into account.

Among the most popular tools of solidarity finances there are:

- micro-credit,
- solidarity saving.

**Micro-credit** is an instrument transferring the capital between two sides. In 2006 it was awarded with Peace Nobel Prize for the founder of Green Bank – Muhammad Yunus as well as for Green Bank itself. In the justification it was pointed out that *micro-credit is (...) liberating force, especially in the societies where women oppose against unfavourable social and economic conditions.*<sup>91</sup> The creator of this tool points to its characteristics which are (among others):

- promotion of an instrument as a human right;
- lack of security, lack of the contract with legal effects but basing on the trust in return;
- destiny is a profitable activity, not consumption;
- in order to obtain the credit a person (organization) have to become a member of a credit group;
- every new credit is given not earlier than after the repayment of the previous one;
- repayment of the credit in installments;
- the price of the credit is a market price;
- great emphasis is put on creating the social capital.

Credit institutions develop in the fields where there are no commercial investors or there is a difficult access to their products. Other general characteristics of the micro-credits are also: short-term, quantity, high price of their obtaining.

**Solidarity saving** – it is an instrument created in response to social needs. The barrier of financing the social economy by traditional financial institutions is an obligation to maximize economic values for shareholders and to avoid higher than has been agreed

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<sup>91</sup> Announcement of Norwegian Nobel Committee: [www.nobelpeaceprize.org/eng\\_launouce2006.html](http://www.nobelpeaceprize.org/eng_launouce2006.html), [26.11.2008].

financial risks of the entrusted resources by financing parts (e.g. bond creditors, depositories). Therefore the enterprise financing the undertakings which do not guarantee planned return rate and below the agreed risk can face the accusations of acting against the entities which entrusted their resources. On the other hand the abovementioned solidarity financiers agree on financing the social undertakings and even demand that only such undertakings are financed from their resources. These entities are offered special investment programmes called solidarity saving. The difference between solidarity saving product and the traditional one lies in including solidarity mechanisms (element of profit division). Two concepts can be distinguished in this field. First of them is based on investing some of the resources into solidarity undertakings (from French *investissement solidaire*). The second is based on transferring part of the profit to solidarity undertakings (donation). Examples of products offered within solidarity savings are shown in the Table 31.

**Table 31. Solidarity saving products offered by selected solidarity financiers**

<b>Name of the product</b>	<b>Characteristics of the product</b>
<b>Deposit account in Banca Etica</b>	Depositors have a possibility of choosing investment area: measures against exclusion, environment protection, fair trade and support for the countries from the third world, education and culture. In addition to that an investor has a right to choose the interest rate – lower interest than indicated by Banca Etica makes that resources from such deposit account are lent for a lower price.
<b>LaNef</b>	LaNef is a cooperative financing social projects carried out by associations aiming at environment protection and improvement in local living standards. The rate of interest varies depending on the period of the deposit account (2-10 years) and can be additionally decreased at depositor's request. Minimal amount of the investment 500 euros.
<b>CITRA account in Charity Bank (community investment tax relief deposit account)</b>	Account designed for local investments with tax relief. It combines characteristics of solidarity investments and donation. Deposited resources are allocated for financing organizations working for the local communities. An investor has a right for 25% tax relief for the period of 5 years. The interest 0-2%. Lower interest enables the bank to lower the credit interest.
<b>Units of investment fund „Choix Solidaire”</b>	Credit Cooperatif – in 2000 French cooperative bank created an investment fund which invests from 5 to 10% of its resources in social economy entities and micro-loans institutions under the condition of complying to ethical criteria. <sup>92</sup>

Source: Own analysis.

The abovementioned solidarity investments are the most popular tools financing the social enterprises in the world. However, no Polish examples can be found. Rise of so

<sup>92</sup> Borzaga, Carlo, Tortia, Ermanno, Social Economy Organisations in the Theory of the Firm, [in:] Antonella Noya, Emma Clarence (ed.): The Social Economy. Building Inclusive Economies, OECD, Paris 2007.

called solidarity financiers requires legal founds as well as encouraging legal and organizational environment for those who are interested in the involvement in social enterprises (e.g. tax relief). Unfortunately, the concept of social economy is not commonly known in Poland. Therefore the interest of financial institutions as well as the state as a legislator is very limited.

### **9.6. Summary**

Researches and analyses of social and economic results of the functioning of this sector in Europe clearly show the significant increase in the number of social enterprises which can be characterized by a higher level of management and efficiency as well as increase in employment (higher than employment rate in the sector of enterprises). Transfer of the qualified human resources from commercial entities to non-governmental organizations is another noticeable feature. It results from the growing area of the functioning of social economy as well as from growing importance of the third sector in the civil societies and consequently appearance of SE environment including satisfactory pay for professional personnel who can also co-participate in the undertakings which are much more difficult than investments in commercial firms, i.e. the social undertakings.

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