

JAPAN INTERNATIONAL COOPERATION AGENCY (JICA)
GOVERNMENT CENTRE FOR STRATEGIC STUDIES
OFFICE OF THE KONIN GOVERNOR
REPUBLIC OF POLAND

**FINAL REPORT
FOR
THE STUDY
ON
REGIONAL DEVELOPMENT OF KONIN PROVINCE
IN THE REPUBLIC OF POLAND**

MAIN REPORT

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JULY, 1998

**UNICO INTERNATIONAL CORPORATION
INTERNATIONAL DEVELOPMENT CENTER OF JAPAN**

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Preface

In response to a request from the Government of the Republic of Poland, the Government of Japan decided to conduct "The Study on Regional Development of Konin Province in the Republic of Poland" and the study was implemented by the Japan International Cooperation Agency (JICA).

JICA sent a study team, led by Mr. Shozo INAKAZU of UNICO International Corporation, to the Republic of Poland three times between July 1997 and May 1998.

The team held discussions with the officials of the Government of the Republic of Poland, the office of the Konin Governor, and conducted related field surveys. After returning to Japan, the team conducted further studies and compiled the final results in this report.

I hope this report will contribute to regional development in the province and to the enhancement of friendly relations between our two countries.

I wish to express my sincere appreciation to the officials concerned from the Government of the Republic of Poland and the office of the Konin Governor, for their close cooperation throughout the study.

July, 1998



Kimio Fujita
President
Japan International Cooperation Agency

July 1998

Mr. Kimio Fujita
President
Japan International Cooperation Agency
Tokyo, Japan

Dear Mr. Fujita

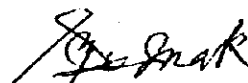
Letter of Transmittal

We are pleased to submit to you the report for the Study on Regional Development of Konin Province in the Republic of Poland. The report contains the study of the current status and prospects, of Konin Province and its regional industries, a master plan for regional development, and priority projects recommended for further development.

Restructuring and development of regional industries in the Konin Province is one of the highest priority tasks for Poland. The Government of Poland also expects that the project for Konin Province will then serve as a pattern for regions with similar economic structure. The projects recommended in the report provide the basis for a development scenario, and a development program, the implementation of which, we believe, will bring about a substantial contribution to the development of Konin Province as well as Poland.

We wish to take this opportunity to express our sincere gratitude to your Agency, the Ministry of Foreign Affairs, and the embassy of Japan in Poland. We also wish to express our deep gratitude to Government Center for Strategic Studies, Office of the Konin Governor and other public organizations as well as private enterprises in the Republic of Poland for the close cooperation and assistance extended to us during our investigations and study.

Very truly yours



Shozo INAKAZU
Team Leader,
The Study on Regional Development of
Konin Province in the Republic of Poland

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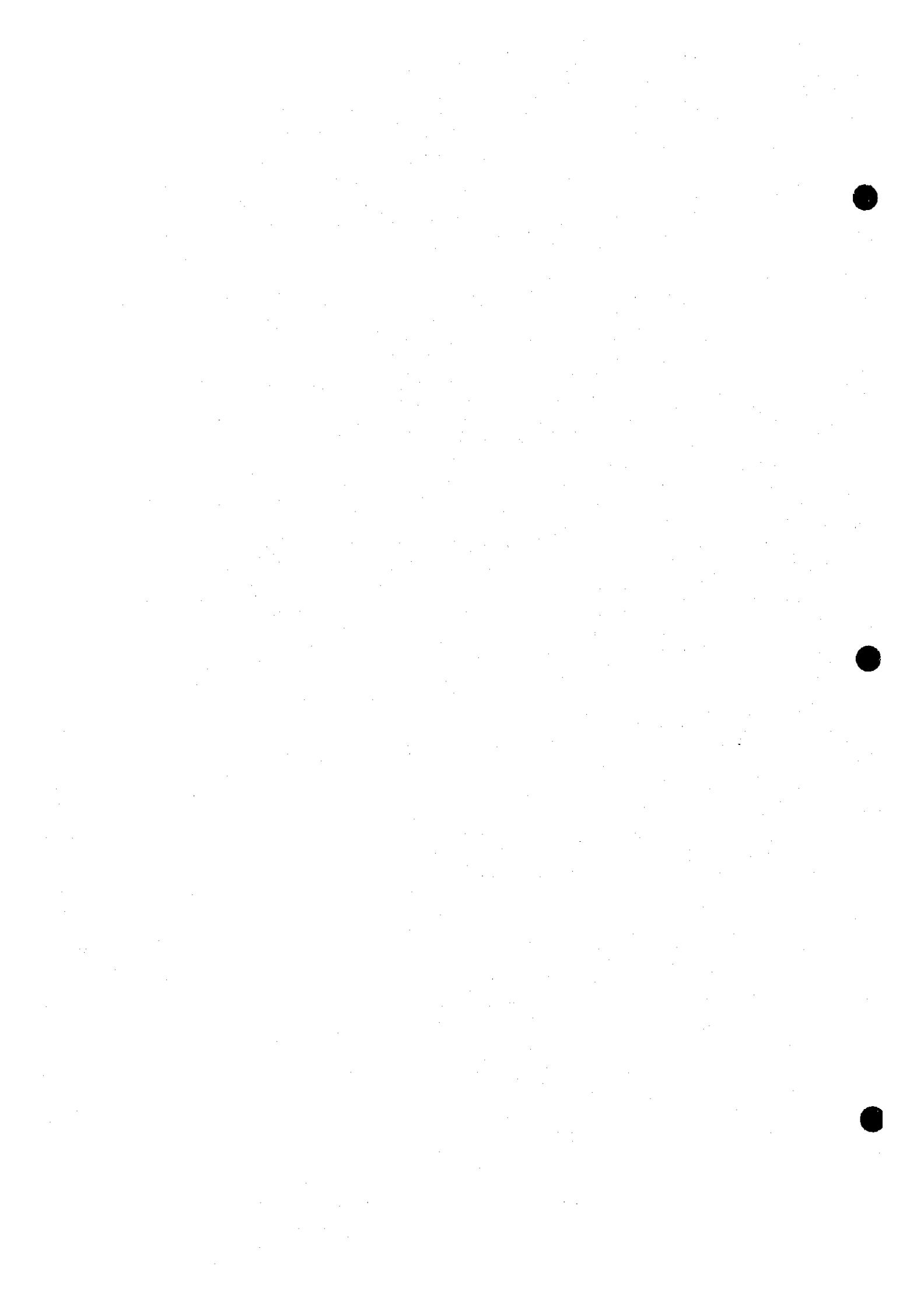
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Chapter 1

INTRODUCTION



Chapter 1 INTRODUCTION

1.1 Background of the Study

- (1) Poland has been transforming itself to a market economy since 1989. After some upheavals that accompanied structural changes in the entire economic system at the beginning of the 1990's, the country has achieved significant macro-economic improvements including stabilization of the currency and control of inflation. At the same time, however, adverse impacts of the economic reforms have surfaced. The Government of Poland is confronting the challenges of these impacts, by reducing regional economic disparities, improving environmental preservation, implementing viable and realistic industrial structure reform policy including privatization of state-owned enterprises, and invigorating agriculture.

- (2) Konin Province (480,200 population, 5,139km² of land area) is located in the central part of the country. As under the old system, the province has been serving as an energy and industrial center, characterized by brown coal mining, power generation (accounting for 11% of the country's supply) using the brown coal, and the only aluminum smelting plant in the country. However, the brown coal reserves might be exhausted in the 2030's at earliest, and the loss of this basic resource will force significant changes in the power and aluminum industries and thus have serious impact on employment in and the overall economy of the province.

The province also has a strong agricultural base and the population engaged in farming activity accounts for approximately 40% of the working population. At present, surplus workers created by privatization of state-owned enterprises is returning to the agricultural sector, thereby added to the already large farming population. Thus, the productivity of the sector has declined. At the same time, the sector is vulnerable to the adverse environmental effects of open mining of brown coal, power generation and aluminum production.

- (3) Under these circumstances, the Government of Poland requested the Government of Japan to provide technical cooperation for formulating an integrated regional development plan in Konin. The Study was expected to set forth the direction of future development including diversification of industries in the province and serve as a model case for other provinces. In response, the Japanese government sent a pre-study mission to the country in October 1996, followed by a project formulation mission in March 1996, and subsequently the Scope of Work for the Study was prepared and signed by the both governments. Finally, the Study was commenced since July of 1997 for 13 months.

1.2 Objectives of the Study

The objectives of the Study were to prepare a regional development master plan in order to propose new directions for the future development of Konin Province, Republic of Poland, and to prepare a terms of reference of high priority projects selected from a long list to be prepared in the master plan. Also, technology transfer in the relevant fields were made to the Polish counterpart throughout the process of the study.

1.3 Scope of the Study

The Study was required to be conducted in accordance with the Scope of Work which was agreed upon by the Polish counterparts (Central Office of Planning* and Konin Voivodship) and JICA on October 25, 1996 in Warsaw. The master plan is to cover the development of Konin Province through 2010.

(* Due to the restructuring of the central government in January 1997, the Central Office of Planning was liquidated. Therefore, at the end of July 1997, the Government Center for Strategic Studies succeeded to the position of the counterpart of the Study).

1.3.1 Study Area

Konin Province (5,139 km²) and the outskirts area of the province in central Poland

1.3.2 Target Sectors

Target sectors consist of:

- (1) Agriculture
- (2) Industry
 - Lignite mining
 - Power industry
 - Aluminum industry
 - New industry including supporting industries
 - Small and medium-scale enterprises
- (3) Physical Distribution and Transportation
- (4) Tourism

Institutional infrastructure is also studied regarding:

- (1) Land use
- (2) Local administration
- (3) Human resource development

1.4 Methodology of the Study

1.4.1 Overall Design of the Study

The entire study process is shown in a flow chart (Figure 1). The Study was commenced from 22nd of July, 1997 and conducted for thirteen months. It was roughly divided into three phases, the basic approach of each phase is described as follows.

Phase I: (July 1997 - September 1997)

Data collection, review of the present status and existing policies/plans, identification of development potential and constraints, and preparation of development scenarios

Phase II: (September 1997 - December 1997)

Formulation of a regional development master plan, and identification of priority projects

Phase III: (January 1998 - July 1998)

Preparation of terms of reference of high priority projects and making a recommendation

1.4.2 Questionnaire Survey

The questionnaire survey was conducted as a portion of the field survey, to understand the social and cultural background of the Konin Province, the local government system, and the actual operation of existing farms and enterprises including those in the transportation sector. Collected data and information were used as the basis of performing detailed analysis of development needs and willingness among local residents, farmers, industries and local self-governments. The detail analysis of the questionnaires are reported in each relevant sector, but number of replies are summarized as follows:

<u>Questionnaire for</u>	<u>No. of Mailings</u>	<u>No. of Replies</u>
Manufacturing (less than 500 employees)	356	310
Farmers	200	200
Local governments	48	48
Transportation traders	52	52

1.4.3 PCM and Workshops

The Project Cycle Management (PCM) method was adapted to the Study, for which two sectors, agriculture and industry, were selected. Workshops for PCM were held three times in August, 1997, with participation by the Polish counterparts and the members of the Team.

1.5 Organization of Study Operation

1.5.1 JICA Study Team

The study was conducted by a joint venture formed by UNICO International Corporation, being the prime contractor, and the International Development Center of Japan (IDCJ). To obtain additional expertise, the joint venture asked Taiyo Consultants Co., Ltd. and Overseas Merchandise Inspection Co., Ltd. to join the Team. UNICO is responsible for coordination of the Team.

The Team was split into five groups each with its own theme. Team coordination is summarized in Figure 2.

1.5.2 Counterparts

The Government of Poland assigned the Government Center for Strategic Studies (in Warsaw) and Konin Voivodship (in Konin) to act as counterparts to the Study. Konin Voivodship assigned the following local counterparts for the Team.

Team Leader/Regional Development Planning	Mr. Włodzimierz Matecki
Industrial Diversification Analysis	Mr. Sławomir Pyra
Management Analysis and Privatization	Mr. Kazimierz Brzeg
New Business Development/Environment	Ms. Ewa Lewandowska
Farm-management Analysis	Ms. Renata Konowalek
Manpower Management	Ms. Jadwiga Tylczak
Local Administration	Ms. Krystyna Rosiak
Physical Distribution/Transportation	Mr. Maciej Kasznia
Agro-technology Development	Ms. Renata Konowalek
Land Use Development	Mr. Andrzej Wydro

1.6 Presentation of Reports

Since commencement of the field survey in July of 1997, the following reports were submitted to the Polish government.

July 1997	: Draft Inception Report
August 1997	: Inception Report
September 1997	: Progress Report
December 1997	: Interim Report
March 1998	: Draft Final Report

Final Report consists of three reports, namely a main, sector, and project report.



Figure 1 FLOWCHART OF THE ENTIRE STUDY

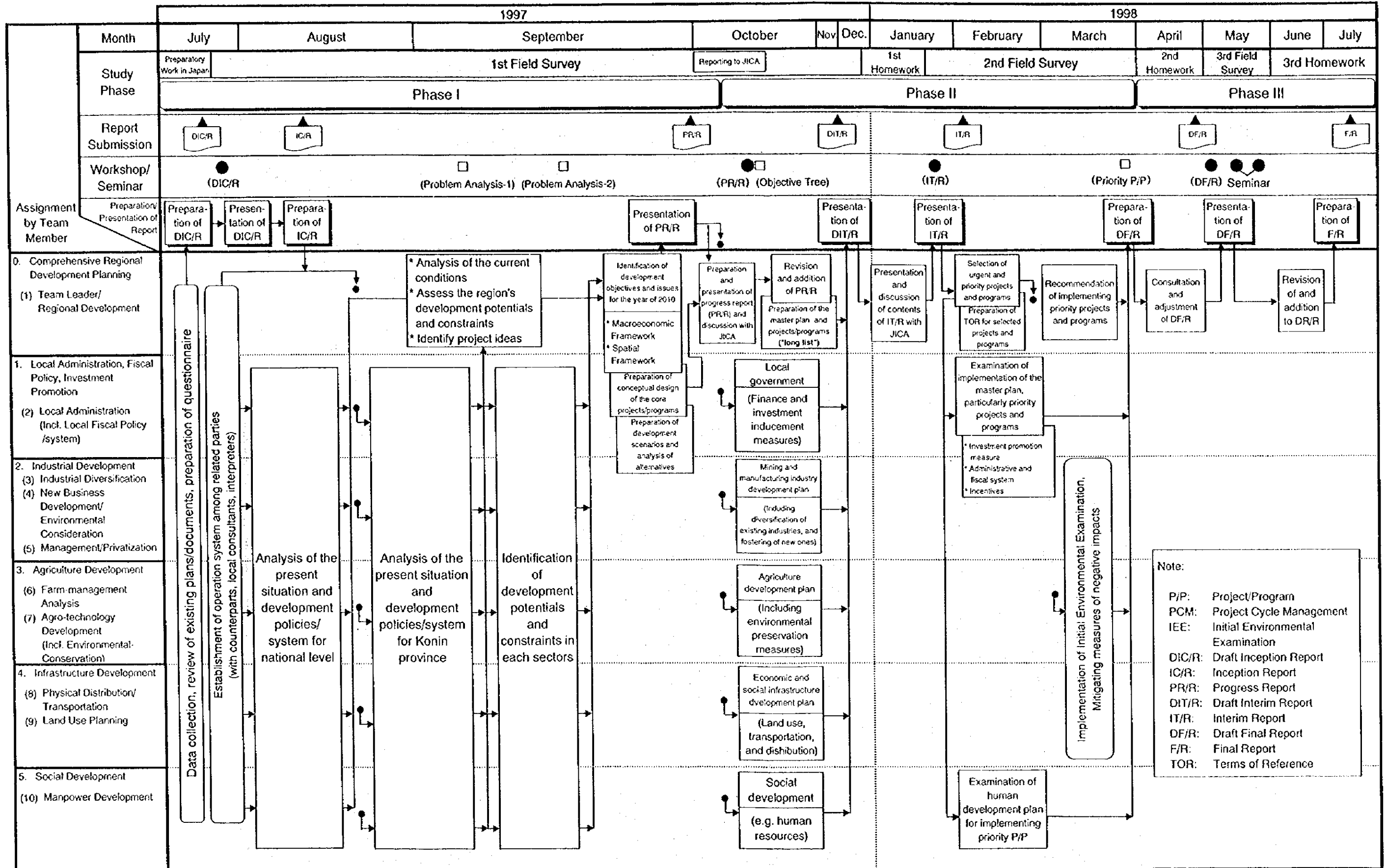
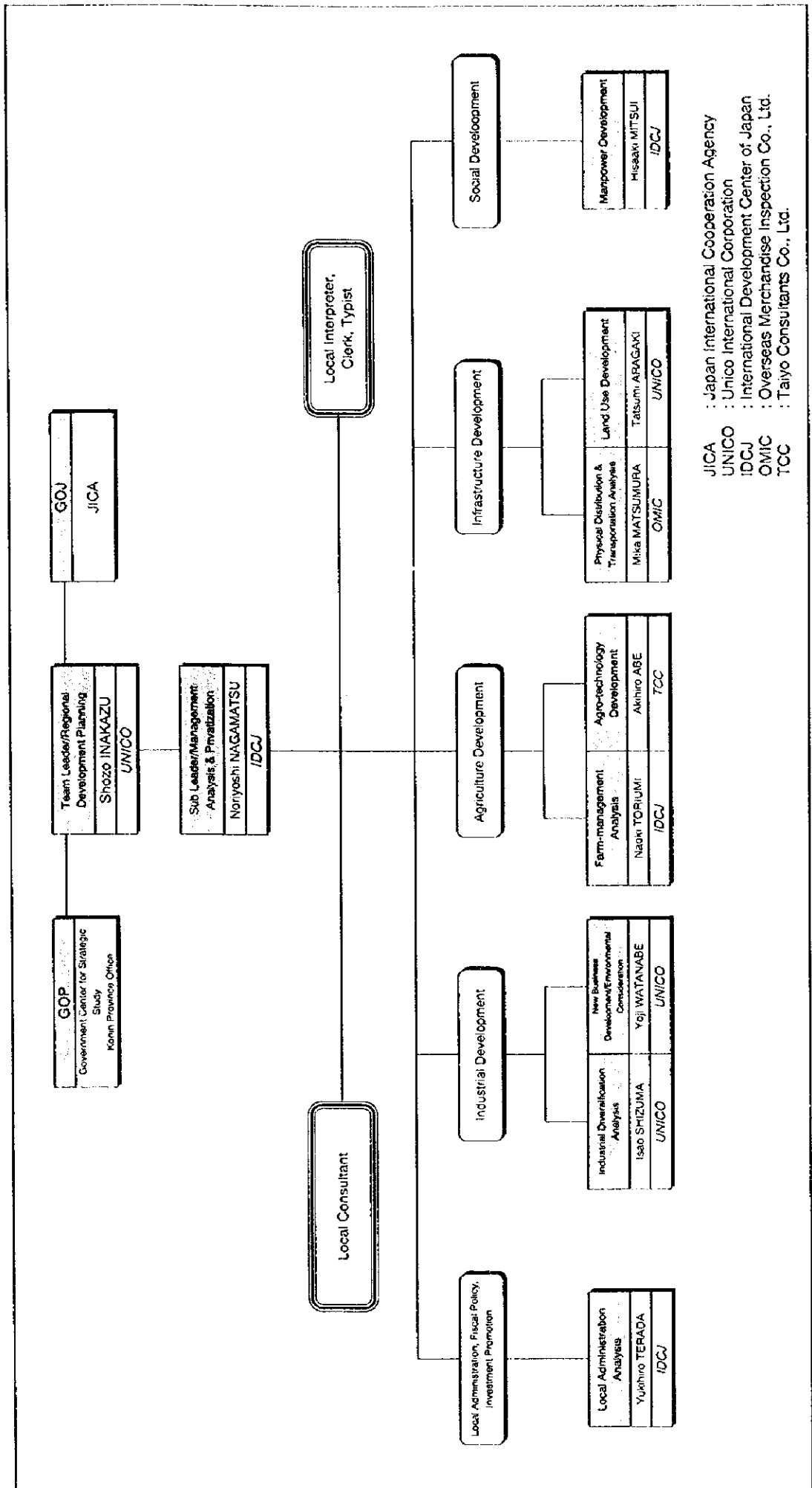




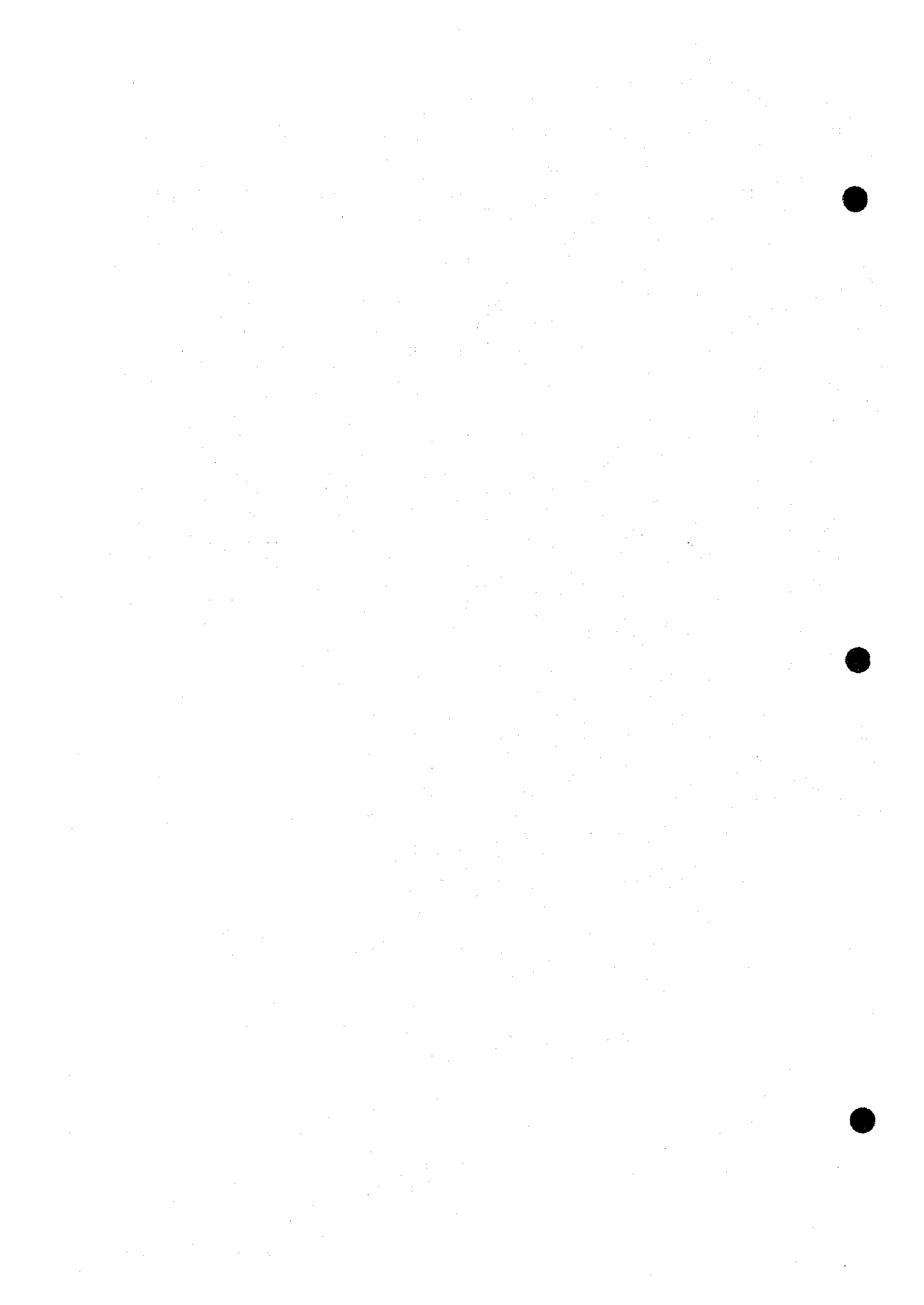
Figure 2 JICA STUDY TEAM COORDINATION DIAGRAM





Chapter 2

REGIONAL DEVELOPMENT POLICY AND FINANCING SOURCE



Chapter 2 REGIONAL DEVELOPMENT POLICY AND FINANCING SOURCE

2.1 National Policy for Regional Development in Poland

2.1.1 Economic Development Policies and Plans of Poland

(1) Overview of the national economy and economic development plan

Poland's economic transformation program, launched in January 1990, has been successfully implemented in many areas. Although GDP fell by about 12 percent in 1990 and about 8 percent in the following year, it has steadily recovered since 1992 and the recovery trend has been continuing until the present. In fact, Poland was the first transition economy to recover and overtake the 1989 (pre-transition) national income level. It is generally forecast that the era of hyper-inflation experienced in the late 1980's will not be seen in the near future. This section reviews the past performance of Polish economy and gives a forecast of the future.

Table 2.1-1 shows key economic indicators of the past and their projections for the future. The forecasts are from three documents, "Strategy for Poland" (April, 1994), "Package 2000" (March, 1996) and "Socio-Economic Progress between 1996-2000" (January, 1996). The former two were prepared by Dr. G.W. Kolodko and the last by the Central Planning Office that was reorganized in 1997. Actual performance has well exceeded those forecasts in GDP growth rate and unemployment rate and badly fallen below the forecasts in inflation rate.

In the process of economic transformation to date, the Polish government has not prepared any medium/long term economic development plan. However, there are two important medium/long term economic policy papers, the "Strategy for Poland" and "Package 2000" mentioned above. These two papers are not government-made documents but are treated as policies of Polish government. The Polish governments is said to be avoiding use of the terms government-made "plan" or "policy" as they would remind people of the former centralized society.

Those policy documents have guided the direction of the Polish economy and have played an active role in determining the contribution of the state to the economy. They clearly refer to the importance of investment promotion, access to credit on the part of small and medium size enterprises, technological innovation, export promotion through an export credit guarantee system, the protection of the environment and guidance in the direction of establishing a market-oriented economy replacing a centrally planned economy.

(2) Strategy for Poland (April, 1994)

"Strategy for Poland" was prepared to facilitate development of the state's economy while decreasing the social cost of the economic reforms or transformations. It presents a strategic concept of economic development with three priorities:

- Priority 1) Fast economic growth
- Priority 2) Macro and micro economic stabilization
- Priority 3) Improvement of living standards

It puts its basis on the proposal of new negotiation rules for labor relations, a partnership system, in which the conflicts of interests in economy take place mainly between different social groups but not between such groups and the state or the government.

In terms of Priority 1) fast economic growth, mobilization of domestic savings and facilitation of foreign direct investment are the source of financing for growth. An improvement in microeconomic allocation, as a result of structural changes, will also make the economic growth more dynamic.

Priority 2) macro and micro economic stabilization includes three elements. The first element is reduction of the ratio of public debt to the state economy. By the year 2004, it should not exceed 60% of GNP. That is a threshold value for complete integration with the European Union. The second element is reduction of inflation. The financial policy is focused on bringing inflation down to a single digit level by 1997. The third element is gradual stabilization of the trade balance and the current

accounts. By 1997, the negative balance of that should be at the level of 1.5% of GNP.

Priority 3) improvement of living standards, forms the social core of "Strategy for Poland." An almost 11% increase of the real average wage and salary during the 1994-1997 period is expected through the implementation of the policy program. An active unemployment prevention program was also initiated. The unemployment rate should decrease to less than 14% at the end of 1997.

In a longer perspective, the international competitiveness of the Polish economy is a key to economic success. An increase in foreign capital in flow, especially as private direct investments, is one of the instruments of the policy for improving the competitive position of Polish producers. In order to improve competitiveness of the economy and attract foreign capital, the government will initiate large projects in infrastructure and sector scale restructuring programs. During the following years, the export growth rate will be higher by almost a half than the national product growth rate.

With regard to integration with the European Union, the aspiration of the nation, the implementation of "Strategy for Poland" is in line with the European Union's long term program. However, Polish producers are in a disadvantageous situation in terms of competition from subsidized goods from Western Europe both in the domestic and international markets. It is necessary for the government to continue to seek wider opening of the EU market while intensifying the adjustment activities of Poland with the objective of full membership of the European Union.

In order to achieve the above mentioned prioritized objectives, reform of the central economic institutions is necessary. Such institutions must be organized in a way subordinated to the main stream of the government activities. Included in the institutional reforms are establishing the Ministry Treasury and the Ministry of Economy.

The key programs are the integral part of "Strategy for Poland." (See Table 2.1-2.)

Table 2.1-2 KEY PROGRAMS OF STRATEGY FOR POLAND

1. Partnership labor relations and mechanisms for regulation of wages and salaries based on negotiations
2. Reform of the social security system
3. Unemployment prevention
4. <u>Development of rural areas</u>
5. Investment in human resources
6. Management of state-owned property and processes of ownership transformation (privatization)
7. Medium-term financial strategy
8. Development and reform of the financial sector
9. Security of economic operations and absorption of the "gray zone"
10. International competitive position of Polish economy
11. <u>Regional policy</u>
12. Environmental protection and ecodevelopment
13. Housing policy
14. From OECD to the European Union

Source: Grzeborz W. Kolodko, "Poland 2000 – The New Economic Strategy."

(3) Package 2000 (March, 1996)

"Package 2000" developed "Strategy for Poland" in light of new conditions based on the recent economic improvement of Poland. The aim of "Package 2000" is not to set out detailed economic tasks but to set up fundamental

objectives. "Package 2000" is a proposal for solution of the three basic problems of Polish economy:

- 1) To face the challenge of integration with the EU in about year 2000,
- 2) To secure a strong growth trend from the years 1993-1995, and
- 3) To combat the threat of economy destabilization as a result of an increasing pressure of group claims.

"Package 2000" can be summarized as follows: By using (a) macroeconomic policy and (b) fiscal policy, predictability of the economy should be increased for all participants, and innovations and inflows of foreign capital, which are necessary for economic development, should be encouraged. In this sense, "Package 2000" does not mean pushing away structural reforms which are the core of "Strategy for Poland."

The macroeconomic part of "Package 2000" defined two primary social objectives: one is to reduce the level of unemployment and the other is to maintain a socially perceptible real consumption growth. To meet the objectives, the following have to be achieved:

- 1) Maintaining a high rate of capital investments which will insure an increase in new jobs;
- 2) Absorption of the "gray zone" and legalizing the employment in the "gray zone," much of which is registered as unemployed; and
- 3) Actualization of a higher productivity increase than the real salary increase in order to strengthen international competitiveness of Polish production.

In order to conduct the policy of economic growth, it is necessary to follow four rules:

- 1) gradual reduction of inflation;
- 2) gradual reduction of the level of budget deficit;
- 3) gradual reduction of the level of public debt; and
- 4) gradual reduction of redistribution function of the state budget.

The fiscal policy in "Package 2000" focuses on changes in the tax system. The fiscal policy aims at changes in the tax system and reduction of tax burdens. The changes in the tax system have to take into account conditions

and requirements of Poland's membership in the WTO, OECD and the European Union. The introduction of such fiscal policy is closely connected with the implementation of the key structural reforms proposed in "Strategy for Poland".

The tax code is to be changed so as to reduce the scope of interpretation in imposing taxes and granting allowances, and this will improve tax collection. Through the introduction of a new system of real estate taxation, a stable and effective source of revenues for budgets of municipalities (gminas) will be created. Such a new tax will strengthen local autonomy.

In terms of indirect taxes, the import tax is to be abolished from 1997. A gradual abolition of import tax is an important factor for reducing inflation and increasing competitiveness of Polish producers. Tariffs should also be reduced gradually and abolished by the year 2000. The rates of VAT are to be changed. The change includes the cancellation of zero tax rate at the sale of goods and services. Also, VAT is to be refunded for the goods bought and exported (taken out of the country) by foreign tourists.

With regard to direct taxes, the rate of income taxes will be reduced gradually for legal persons. The rates of income taxes for natural persons will be reduced to 19, 30 and 40% with the preservation of the rule of indexation of the cost of earnings.

(4) Socio-economic projection of the central planning office (January 1996)

In January 1996, the former Central Planning Office (CPO) prepared a projection of socio-economic processes between 1996-2000, which has been accepted by the cabinet. Three scenarios of macroeconomic development were indicated instead of a standard projection. In December 1996, the projection was revised in response to the economic results in that year, and the three scenarios, dynamic, basic and warning, were reorganized into two scenarios, namely "basic" and "warning" scenarios. The updated "basic scenario" combines the former "basic" and "dynamic" scenarios. The projection presents an analysis of internal and external

factors which might influence the realization of goals of socio-economic policy in the next few years.

There are three basic assumptions for working out a "basic scenario."

- 1) Policies in "Strategy for Poland" and other governmental programs are to be realized. In this sense, CPO's projection is not only an up-dated economic projection but also one in line with the next generation of those policies.
- 2) The country's development will advance in the context of the world's improved economic situation
- 3) Activities of the numerous international organizations such as WTO will provide favorable conditions for development of the international trade.

In the "warning scenario", less favorable conditions were assumed:

- a) Slow realization of governmental programs;
- b) Occurrence of social and political tensions;
- c) Slow down of privatization processes;
- d) Deterioration of the state of public finance;
- e) Instability of taxation policy;
- f) Increased inflation;
- g) Deterioration of the economic situation in the world within the last two years (1994-1995).

2.1.2 Regional Development Policy

(1) Regional development in the policy documents

Those policy documents mentioned above have played a certain role in designing and implementing the transformation of the Polish transitional economy. However, one of the remaining issues is the inter-regional economic disparities. Regional economic problems in Poland are caused not only by Poland's own process of economic transformation to a market-oriented system but also by the influence of incidents which took place beyond Poland's borders. It includes the reunification of East and West Germany, the collapse of the former Soviet Union followed by division of the Union in independent states.

Those documents do not mention much about specific policy on regional development, as their primary purpose was to present the more important aspects of a framework and give the general direction of regional development in Poland. "Strategy for Poland" gives a concept, that is "regional growth through self-determination and a certain financial autonomy of local administration." "Package 2000" points out that "inevitability of each region bring about remarkable changes, by a cause-effect relation, in economic and regional structure and also in the hierarchy of provinces in the country. It depends on attractiveness for investors and inhabitants". It sets as a goal of regional policy "to use regional resources, development opportunities and predisposition in order to accelerate the transformation and the economic development, moderating shock that may happen(s) in the course of such transformations of economic structures".

(2) Current regional policy of the country and the direction of its development (Ministry of Economy: July, 1997)

This document consists of 12 pages, in an English version, and was prepared by Economic Strategy Department, Ministry of Economy on 24th July, 1997. Since the paper was made during some confusion over the reform of the central government, it does not go so far as to consider the system for implementation that will be established from now on.

Key subjects of the paper are abstracted as follows.

1) Legal and institutional preparation

a) Regional Development Committee of the Council of Ministers

Activities of drafting programs and acts and analyzing reports concerning policy and physical planning of the country

b) Government Center of Strategic Studies (RCSS)

Preparation of concept and programs of physical administration as well as regional policy programs. Analysis of short- and medium-term programs with strategic long-term point of view.

Central Planning Office Preparation of short- and medium-term economic and social-economic programs concerning a regional character.

2) The goals of regional development policy

- a) Restructuring of declining industrialized regions (Katowice, Lodz, Walbrzych)
- b) Assistance for agricultural regions dominated by the previous state owned farms
- c) Assistance for less industrialized regions or regions where huge enterprises dominate local economy and labor market
- d) Activation of the so-called "Eastern Wall" from view points of resources, natural environmental features as well as regions on the border
- e) Promotion of European-type towns having a structure of economic, scientific and cultural links

3) Conclusion in the policy

- a) It is necessary to create a concept of regional development of the country as well as priorities of region's qualification to obtain aid means.
- b) The Government is to take initiatives in preparation of structural aid programs for future use of the Structural Fund of EU.
- c) Rules to govern development funds applicable to regional development are similar to both EU Phare and the Structural Fund of EU. The key principles will be as follows:
 - Analyses of a region's development
 - Program and strategy of activities or sub-programs
 - Financial plan
 - Administration and conditions of realization

(3) Priority regions

The Study team has not obtained any written paper that officially mentions priority regions to be assisted by the government. However, According to the paper provided by Ministry of Economy, mentioned above, and

interview surveys, the following guideline can be derived. This guideline is used to choose such regions that are to be designated as "Economic Special Zones" under the Polish law as well as applied to the EU Phare fund provided for regional development. Therefore, the guideline basically matches that of EU's guidelines. It is not a sector approach which promote specific economic sector, e.g. agriculture, textile, etc., but an objective approach.

1) Declining industrial areas that are facing profound restructuring

Katowice, Lodz and Walbrzych are designated as special economic zones in this category. They also may include towns and sub-regions dominated by big inefficient factories, mainly in the south-eastern part of the country

2) Areas having a high unemployment rate

These it may include rural areas encountering threats of structural and chronic recession and social degradation, which were previously dominated by ineffective state-owned farms.

3) Low-income regions

Rural areas that do not have any specific industry will fall in this category.

4) Border areas

It includes a) eastern border areas on the basis of characteristic resources and environmental features and capable of making use of advantages of near-border locations; b) towns and micro-regions located at the border which are able to make use of their location and to develop cross-border cooperation.

2.1.3 Administrative Systems for Regional Development Planning

Poland's administrative system has of three levels: (1) the central government at the national level, (2) provinces with a provincial office (voivodship) and a local self-government council at the provincial level, and (3) municipalities (gminas) at the local level. All three administrative organs are concerned with regional development according to their administrative capacity and

jurisdiction. Among them, provincial offices that are organs of the central government have limited autonomy; major rights of decision making are in the hands of the central government, and most of their funding comes directly to regions from the state budget. They do not have the power to raise revenue from sources under their own control. Gminas, run by elected officials, exercise independent competence in local matters that are left to their jurisdiction.

(1) Regional development planning function in the state level

The regional planning issues at the state level had been handled by the Central Planning Office until December 1996. Administrative reform in the late 1996 dismantled the Central Planning Office and the newly-established Government Center for Strategic Studies (RCSS) and Ministry of Economy (MOE) have been empowered to handle the issues. Although details of demarcation of RCSS and MOE in regional development will gradually become clear, it basically consists of terms of projects and programs or the RCSS takes care of long-term programs, having more than a 10-years span and the MOE does the rest. The sectoral issues at the state level are to be handled by each ministry of the central government as they were before the administrative reform in late 1996.

The RCSS has recently drafted a policy document "Policy Concept of Land Use of the Country - Poland 2000 Plus" which taken up the future direction of physical development at the state level and is a document of an indicative nature for the provincial and local authorities to take into consideration when they prepare their regional and local plans of their own jurisdiction. The document was drafted in August, 1997 and now awaits the approval of the Board of Ministers and the Congress (Sejm).

(2) Regional development planning function at the provincial level

Current functions given to the provincial level are limited in regard to regional development partly because the province office is just a representative of the central government and not an autonomous body, though needs to empower the regional development planning functions at the province level are being widely discussed. The present institutional arrangement lacks medium-size institutions for regional development as a

bridge between the biggest unit, at the state level, and the smallest units, at the gmina level. Presently, some provincial offices are preparing development strategy documents and/or physical development studies of their own province at their own initiatives and using their own resources or by means of technical and financial assistance from international aid agencies.

Discussion on the table at the same time is whether the current size of provinces is appropriate for regional development or not. In this regard, an integrated attempt began in nine provinces in the south-east, "Malo Polska". This is by means of a voluntary cooperation of Regional Development Agencies (RDAs) of each of nine provinces in preparing a wider-region sectoral development plan, in which the planning of each particular sector is assigned to each RDA according to its expertise.

(3) Local development function in gmina level

Although each gmina is requested to prepare the Medium-term Spatial Development Plan according to the Spatial Planning Act (1994) and all gminas in Konin Province have prepared the plans, gminas were not provided sufficient guidelines to prepare the plans from the higher strata of government administration. In addition, those physical plans are not supported by economic and financial plans. Gminas are not equipped with sufficient human and financial resources as well as technical expertise for preparing those plans. In many cases, they also lack the planning coordination with neighboring gminas, which is indispensable to such planning process.

Table 2.1-1 KEY ECONOMIC FACTORS OF THE PAST AND THE FUTURE

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	1996/2000
GDP growth rate (%)												
Actual	-11.6	-7.0	2.6	3.8	5.2	7.0	6.0*					
Strategy for Poland Package 2000				4.0	4.5	5.0	5.2	5.5	5.3	5.1	5.1	5.4
CPO's Basic Scenario						7.0	5.5-6.0	5.5	5.7	5.7	5.8	5.7
CPO's Warning Scenario						7.0	5.5-6.0	4.1	2.7	2.5	1.9	3.4
Unemployment (%)												
Actual				16.4	16.0	14.9	13.2	11.2*				
Strategy for Poland Package 2000				15.7	17.2	16.7	15.6	14.0				
CPO's Basic Scenario						14.9	13.6	13.1-13.4	12.0-12.4	10.7-11.3	9.4-10.2	
CPO's Warning Scenario						14.9	13.4	12.8	12.3	11.7	11.0	
						14.9	13.4	13.3	13.4	13.9	14.3	
Public Debt (%)												
Actual				86.1	69.5	57.6						
Strategy for Poland Package 2000				85.6	77.7	76.9	74.1	72.4	45.3	43.7	42.0	
							55.1	48.5				
Inflation (%)												
Actual	249.3	60.4	44.3	37.6	29.5	27.8	19.8	15.6**				
Strategy for Poland (CPI) Package 2000				37.6	23.6	16.1	12.0	8.7				
CPO's Basic Scenario						21.6	17.0	12.0	8.0-10.0	6.0-8.0	5.0-7.0	
CPO's Warning Scenario						27.8	19.8	15.6	13.3	11.5	10.0	
						27.8	19.8	15.6	17.0	18.5	19.5	
Budget Deficit (% of GDP)												
CPO's Basic Scenario						-2.6	-2.8	-2.9	-2.7	-2.3	-2.0	
CPO's Warning Scenario						-2.6	-2.8	-2.9	-4.0	-4.5	-5.0	

Note: *) Actual unemployment rate as of July, 1997.

***) Estimate

Source: Ministry of Economy, GUS, Rocznik Statystyczny. GUS, and Grzeborz W. Kolodko, Poland 2000 - The New Economic Strategy.



2.2 EU Membership and Regional Development in Poland

2.2.1 Outline of Conditions for EU Membership

Poland presented its application for membership of the European Union on April 5, 1994. The Polish application for membership is being examined with applications from nine other associated countries. Membership requires:

- 1) The candidate country has achieved stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;
- 2) The existence of a functioning market economy, as well as the capacity to cope with competitive pressure and market forces within the Union; and
- 3) The ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union.

These are the political and economic criteria for examining the accession requests of the associated countries of Central and Eastern Europe. The Commission has analyzed the current situation in each candidate country and prepared a document "Agenda 2000 - Commission Opinion on Poland's Application for Membership of the European Union" (July 15, 1997), looking forward to the medium term prospects, and taking into account progress accomplished and reforms already under way. The Table 2.2 - 1 summarizes the Commission's opinion on the above groups of criteria.

The Commission has judged Poland's capacity of administrative and legal systems to put into effect the principles of democracy and the market economy and to apply and enforce the obligations of membership in practice. It favorably concluded that:

- 1) Poland presents the characteristics of a democracy, with stable institutions guaranteeing the rule of law, human rights and respect for the protection of minorities;
- 2) Poland can be regarded as a functioning market economy, and should be able to cope with competitive pressure and market forces within the Union in the medium term; and

3) If Poland continues its efforts on transposition of the obligations of membership relating particularly to the single market, and intensifies work on its implementation, Poland should become able to participate fully in the single market in the medium term. Particular effort and investment will be needed to meet the obligations of membership in sectors such as agriculture, environment and transport. Further administrative reform will be indispensable if Poland is to have the structures to apply and enforce the obligations of membership effectively.

2.2.2 EU's Principles for Regional Development

The principles of EU's regional policy developed in the late 1980s with the speeding up of integration processes. The increasing inter-regional disparities that followed the gradual enlargement of the Community and the threat of their further deepening as a result of the establishment of a single market have contributed to the importance of preparing the regional policy. The reform of Structural Funds was made in 1988. The reform consisted not only in the decision to double the size of the Funds within six years, but in the official sanctioning of regional policy. The Structural Funds were clearly defined as instruments of regional policy and were entrusted with correcting the main regional disparities within the Community by supporting structural adjustments in less developed regions and converting the regions seriously affected by industrial decline.

During the years of 1989-93, the largest beneficiaries of Community regional policy, i.e., Portugal, Ireland and Spain, recorded economic growth higher than the Community average. The important aspect of the regional policy is that the development of structurally weaker regions creates new markets and contributes to the strengthening of the whole EU economy (Ms. Monica Wulf-Mathies, the Commissioner for regional policy).

As a consequence of the entry into the Community of three new members (Austria, Finland and Sweden) in 1995, cohesion policy is presently concentrated on following four regional and two functional objectives.

- Objective 1:** promoting the development and structural adjustment of regions whose development is lagging behind;
- Objective 2:** converting the regions or parts of regions seriously affected by industrial decline;
- Objective 3:** combating long-term unemployment, unemployment of people below 25, and facilitating the integration into working life of persons excluded from the labor market;
- Objective 4:** facilitating the adoption of workers to industrial changes and to changes in production systems;
- Objective 5:** promoting rural development, divided into two particular objectives;
 - Objective 5a:** adjustment of agricultural structures within the framework of the reform of Common Agricultural Policy and modernization and structural adjustment of the fisheries sector;
 - Objective 5b:** the development and structural adjustment of rural areas;
- Objective 6:** promoting the development of northern regions in Scandinavian countries with low population density and extremely harsh climate.

The total expenditure of Structural Funds in the years 1994-99 will be about 140 billion ECU, which indicates the large magnitude of effort by the EU towards regional development.

Table 2.2-1 EU'S OPINIONS ON POLAND'S EU MEMBERSHIP APPLICATION

Criteria	Judgement
Political Criteria	<ul style="list-style-type: none"> - No major problems over respect for fundamental rights.
	<ul style="list-style-type: none"> - Certain limitations to freedom of press.
	<ul style="list-style-type: none"> - Needs to complete procedures for compensating those whose property was seized by the Nazis or Communists.
Economic Criteria	<ul style="list-style-type: none"> - A market economy is functioning, the economy successfully stabilized.
	<ul style="list-style-type: none"> - Prices and Trade liberalized to a large extent.
	<ul style="list-style-type: none"> - Pension and social security systems need to be reformed.
	<ul style="list-style-type: none"> - Underdeveloped financial services; banking sector needs further reform.
	<ul style="list-style-type: none"> - Well able to cope with competitive pressure and market forces within the Union in the medium term, provided that it maintains the pace of restructuring and keeps the economy open.
	<ul style="list-style-type: none"> - Management failure in the large state-owned companies in the face of foreign competition.
	<ul style="list-style-type: none"> - Agriculture needs to be modernized.
Capacity to Take on the Obligations of Membership	<ul style="list-style-type: none"> - Already implemented significant elements of the provisions of the Europe Agreement.
1. Provisions to the Single Market	<ul style="list-style-type: none"> - Substantial progress on intellectual property, company law, taxation, accounting, and financial services.
	<ul style="list-style-type: none"> - Further work needed on public procurement, data protection, competition and liberalization of capital movements.
	<ul style="list-style-type: none"> - Legislation needs to be accompanied by concrete measures of implementation as well as establishment of effective administration.
	<ul style="list-style-type: none"> - Slow legislative adaptation in technical rules and standards.
	<ul style="list-style-type: none"> - Substantial efforts needed in telecommunications, fisheries and consumer protections.
2. Industry	<ul style="list-style-type: none"> - A dynamic new private sector be competitive in the single market in the medium term.
	<ul style="list-style-type: none"> - State-owned large sectors need restructuring.
3. Environment	<ul style="list-style-type: none"> - Substantial efforts needed for strengthening of law enforcement.
	<ul style="list-style-type: none"> - Require increased levels of public expenditure.
4. Transport	<ul style="list-style-type: none"> - Considerable efforts needed in the road transport.
	<ul style="list-style-type: none"> - Investment needed to extend the European transport network.

Criteria	Judgement
5. Employment and Social Affairs	- Needs to adapt legislation on health and safety at work.
6. Regional Policy and Cohesion	- Substantial improvements needed in the field of financial control. - Use the Union's regional and structural funds for its development.
7. Agriculture	- Efforts needed to establish a coherent structural and rural development policy. - Needs to implement veterinary and phytosanitary requirements. - Needs to strengthen the administrative structures necessary to apply the common agricultural policy. - A solution to Poland's structural problems requires a long-term approach.
8. Energy	- No difficulty in complying with the Euratom provisions, since Poland has no nuclear power. - Require works on issues of energy pricing, import barriers for oil products and state intervention in the coal sector.
9. Border Controls	- To implement measures necessary for removal of border controls with EU member countries.
10. Economic and Monetary Union	- No problem in the medium term in coordination of economic policy and complete liberalization of capital movements. - Premature to judge on the Poland's participation in the Euro area, depending on how far the success of its structural transformation.
11. Justice and Home Affairs	- Faces significant challenges concerning drugs, border management and transnational crime.
12. Common Foreign and Security Policy	- No problem. - No territorial disputes with any member state or neighboring candidate countries.
Administrative and Legal Capacity	- Continue its comprehensive reform efforts for the administrative structures and its juridical system.

Source: EU Secretariat,

"Agenda 2000 - Summary and Conclusions of the Opinions of Commission concerning the Applications for Membership to the European Union Presented by the Candidates Countries", July 1997.



2.3 Regional Development Programs with Foreign Assistance

2.3.1 EU Phare Programs

The Phare Program of European Union has been the biggest source of the financial and technical assistance to Poland. This program supports the activities of the Polish government in transforming economic and social systems as well as in integrating its economy into the EU. Between 1990 and 1997, the EU provided Poland with 1,031 million ECU to realize over sixty programs. From 1995 to 1997, Poland will receive over one billion ECU in total the EU Phare Program.

In Poland the Phare program is focused on the following three objectives in accordance with the "Strategy for Poland".

- 1) Creation of adequate basis for the market economy
 - Social partnership
 - Technical infrastructure development
 - Agricultural development
 - Environmental protection
- 2) Improvement of social safeguards
 - Social safeguard system
 - Improvement of public administration
- 3) Increase in the international competitiveness of industry
 - Regional development
 - Industrial restructuring and privatization
 - Promotion of exports and foreign direct investment
 - SMEs promotion
 - Educational development
 - Promotion of science and research
 - Integration with Europe and participation in the EU programs
 - Cross-border cooperation.

Regional development is explicitly included in the third objective of the program, but the first also includes several issues of regional development such as technical infrastructure development, agricultural development and environmental protection.

Among the various sub-programs under the Phare, the following four sub-programs are particularly focused on the regional development issues, and providing financial assistance to the local communities or enterprises.

(1) The phare partnership program

Spheres : Regional development, including SMEs promotion, environmental protection, tourism development, foreign investment promotion, unemployment alleviation

Period : Renewed every year

Budget : 10 million ECU in 1996

Form of assistance: Grants

Contact : EU

Description:

This program supports the economic and socio-economic development at the local level, with the following focuses.

1) Local and Regional Development:

- Improvement of the regional services
- Improvement of urban and regional planning,
- Development of rural areas
- Development of tourism, eco-tourism in particular
- Development of environmental and cultural values of the region

2) Development of Business and Enterprises

- Development of advisory services for the local business
- Cooperation of economic activities
- Trade development
- Investment promotion
- Training for management and marketing
- Promotion of transfer of technology

3) Manpower development for adults

- Professional training
- Training of the unemployed

(2) STRUDER II

Spheres : Regional development

Period : Until the end of 1997

Budget : 13.5 million ECU

Form of assistance: Grants, advisory, training

Contact : Polska Agencja Rozwoju Regionalnego

Description:

The program is a continuation of the STRUDER program, which was concluded in 1996. The main objective of this program is to support the development of the regions which were severely affected by the economic restructuring. Six provinces have been covered by this program, they are Lodz, Katowice, Walbrzych, Rzeszow, Suwalki, and Olsztyn. Four new provinces would be included in the program from 1998. The names of these four new provinces are not yet disclosed. Major projects included in this program are the following.

1) Promotion of SMEs by means of subsidies

The newly established SMEs in these regions can receive subsidies for their investment amounting to up to 100,000 ECU. Over 20% of the total investment cost should be prepared by the SMEs themselves.

2) Small infrastructure development

In order to improve local small infrastructure, the gmina in these regions can obtain subsidies up to 100,000 ECU. Over 50% of the cost should be borne by the gmina concerned.

3) Credit guarantee

In cooperation with the Polish Development Bank, credit guarantees shall be provided to the enterprises in the regions. This scheme has just started. Up to 50% of the amount of loan is covered. The commission paid by the enterprises amounts to 3% of the total loan.

(3) RAPID (Rural Areas Program for Infrastructure and Development)

Spheres : Regional development

Period : 1 September 1996 to 31 December 1998

Budget : 20 million ECU

Form of assistance: Grants

Contact : Polska Agencja Rozwoju Regionalnego

Description:

This program intends to improve rural infrastructure in the relatively poor regions. The program is being realized in the six provinces under the STRUDER program and in four other provinces (Krosno, Nowy Sacz, Piotrkow Trybunalski, and Sieradz).

(4) Cross-border cooperation

Spheres : Infrastructure development at the border regions with the EU.

Period : From 1994 to 1999

Budget : 54 million ECU in 1997

Form of assistance: Grants

Contact : Wladza Wdrazajaca Wspolpracy Przygranicznej

Descriptions:

With a particular focus on the border regions with the EU, grants are provided to develop the regional infrastructure such as roads, sewage treatment, telecommunication and so on. The border regions with Germany, Czech as well as the regions facing the Baltic Sea are included in this program.

2.3.2 Multinational Programs

Among the multinational institutions, the World Bank has programs to provide financial assistance to achieve objectives of regional development. Other institutions such as the UNDP also have several programs to promote regional development, but their programs are focused on technical assistance only.

The World Bank used to have one specific financial assistance program for the regional development in Poland, which is the Rural Infrastructure Development Program. This program, however, finished in 1996. Since 1997 the budget of this program has been obtained from the national budget. The World Bank has another financial assistance program, called EFSAL, which could promote the restructuring of the state enterprises. This program also can benefit the development of regional economies which have been highly dependent on the specific state enterprises. This program, however, is expected to be concluded in the middle of 1998, and the World Bank is not planning to extend it after 1998. The characteristics of this program are as follows.

EFSAL

Spheres : Restructuring of state enterprises (including the commercialized enterprises solely owned by the State Treasury)

Period : From 1994 to 1998

Budget : \$225 million

Form of assistance: Loans

Contact : Agencja Rozwoju Przemyslu

Description:

The objective of this program is to promote the restructuring of the state enterprises, including those commercialized enterprises which are solely owned by the State Treasury. Sixty enterprises have already received loans. The largest amount of loan was 32 million PLN and the smallest one was 1 million PLN. The first loan program was already concluded, and the loans from the second program are now available. There is no plan for a third program. The interest rate of the loan is the same as those of WIBOR (Warsaw Interbank offered rates).

2.3.3 Bilateral Programs

A variety of bilateral programs have been implemented in Poland. Regional development is one of the popular objectives of these programs. Most programs, however, provide only technical assistance such as training or consulting services, and only a limited number of the programs offer any kinds of financial assistance to the communities or enterprises. Among these financial assistance programs, the major ones are as follows.

(1) Polish and German cooperation foundation

Spheres : Rural infrastructure development

Period : From 1975

Budget : 565 million PLN from 1992 to 1996

Form of assistance: Grants

Contact : Fundacja Wspolpracy Polsko-Niemieckiej

Description:

This program provides grants to the rural infrastructure development projects. The improvement of sewage system, telecommunication, the protection of environment are main objectives of the program.

(2) Polish - Swiss regional program

Spheres : SMEs promotion

Period : From November 1991

Budget : 9.5 million ECU

Form of assistance: Grants, Credits

Contact : Polska Agencja Rozwoju Regionalnego

Description:

This program offers credits to small and medium size enterprises in the selected regions.

(3) The US humanitarian aid to Poland

Spheres : Promotion of food processing industry

Period : From 1989, no time limitation

Budget : \$9.5 million (1989-92) and additional \$ 5.1 million

Form of assistance: Grants, Credits

Contact : US Humanitarian Aid, Poland

Description:

This program provides credits to agricultural and food processing enterprises, as well as grants to the local administration. The financial sources come from the sales of surplus food of the US in Poland.

2.4 Domestic Financing Source for Regional Development

2.4.1 Official Budget

(1) Flow of official budget

There are three main routes through which official money flows into Konin Province as budget allocations. First the Central Government directly subsidizes expenditure of municipalities; second, the Government subsidizes Konin Province through the Office of Governor, and third, there are direct income flows to municipalities in form of local taxes and duties. Figure 2.4-1 gives a schematic diagram of the flow of budget funds using amounts in 1997. In the figure, the amount of direct subsidies from the Government to municipalities is just an estimation balancing the inflow to municipalities.

As shown in the figure, Office of Konin Province received 282.0 million PLN or 1.16 % of a total national budget allocated to all the 49 provincial offices in the country. Of the amount of 282.0 million PLN, a sum of 47.2 million PLN or 16.7% was appropriated to municipalities in Konin Province as subsidies. On the other hand, a total of 48 provinces in the province had direct income of 189.4 million PLN as local taxes and duties in 1997. An amount of 140.7 million PLN that comes directly from the Government to municipalities in Figure 2.4-1 is deemed to be a balance between the total income of the municipalities and the income confirmed, local taxes and duties and subsidies through Office of Konin Governor.

(2) Public investment

The expenditures of the budgets are classified and published in a regular form or a matrix for both the Government and the Office of Governor; economic sector in a row and uses in a line. Uses of expenditures are classified into six items as shown below:

- a) Subsidies and subventions
- b) Benefits for natural persons
- c) Current expenditures of budgetary units
- d) Property expenditures
- e) Settlements of accounts with banks
- f) Public debt service

For Office of Governors, a) is mainly directed to municipalities (gmina) for their budgeting purpose, 16.8 % in 1997 for Konin Province, b) social welfare mainly for health care, 10.5 %, c) operating cost of the Office, 60.1%, d) includes investments from Office of Governors, and e) and f) are items only for the state budget. On the other hand, budget expenditures of municipalities are treated as either operating expenses or investment.

Table 2.4-1 PUBLIC INVESTMENT IN KONIN PROVINCE, 1997

(Unit: Million PLN)

	Total budget	Investment	
Office of Konin Governnor	282.0	35.6	12.6%
Municipalities(Total of 48)	392.0	97.2	24.8%
Total	674.0	132.8	19.7%

A total of 132.8 million PLN was invested in Konin Province from public sectors in 1997, on the basis of assumption that the budget was executed in accordance with the original plan. It should be noticed that 1) the investment may include purchase of durable consumer goods for office use such as furniture and fixture to some extent and 2) it does not include direct investment of the Government such undertakings as A-2 highway construction.

2.4.2 Private Financing

2.4.2.1 Financial requirements of SMEs

According to the questionnaire survey of 310 SMEs in the manufacturing sector of Konin Province, they gave opinions concerning financing as summarized below:

(1) Demand for capital

At present, 45.6% of SMEs (around 130 enterprises) in Konin Province requires additional capital for the total amount of 7.94 million PLN. Uses of the capital are firstly for purchasing machinery and equipment, for a share of 45.3%, and secondly for working capital, 20.3%. Sources of funds SMEs

usually use are 31.9% from state banks, 24.5% from institutional credit lines and 13.5% from commercial banks in order of frequency of answers excluding 17.8% for "others".

(2) Problems in fund raising

14.3 % of SMEs that answered the question pointed out "difficulties in borrowing loans or getting financing" when choosing from among 10 various major problems of company operation. This is the second most serious problem for them was "unstable purchasing order of customers," at 21.5%. Problems in borrowing loans are, first, "bank complicated procedures and delay in processing" (30.4%) and second, "lack of collateral" (26.0%) followed by "bank's passive attitude for SMEs financing," (16.2%).

2.4.2.2 FINANCING OF BANKS

(1) Banks in Konin Province

There are about 40 branch offices including Polish National Bank (NBP), state banks and commercial banks in Konin Province, but there is no head office of any banks in this area. The NBP is a saving bank as well as a funding bank to commercial banks. Table 2.4-2 shows a deposits and credits statement of 36 branch offices including NBP in Konin Province at the end of December, 1997. Commercial banks in Poland are largely specialized by economic field such as agriculture banks, industrial banks, investment banks, etc. The interest rates in the Table 2.4-2 shows saving interest rates for deposits and inter-bank rates for credits.

Total deposit contains less than 10% that are foreign currency deposits. Deposits of individuals occupy 73% of zloty deposits and the rest is from corporate entities and, contrarily, 80% of credits was made to entities. Deposits and credits are soundly balanced within the area of Konin Province though funds flow as not limited only to the area as a closed system. Bankers interviewed by the Team said that deposits in PNB are the main source of funds of the commercial banks.

(2) Overview of banking business in Konin Province

The Team interviewed a state bank and five commercial banks and obtained information stated in Table 2.4-3. Banks in this region are lending 50 to 100 million PLN per year per bank on average with a loan size of 100,000 PLN to 150,000 PLN per loan to entities. Entities having less than 50 employees account for about 80% of the number of borrowers. Regarding the term of loan, it accounts for 65% to 80% by medium term loans with a repayment period between one to five years, followed by short-term loans.

Major loan conditions applied to end borrowers are as follows: Interest rates have increased in 1997 to the level of 30% or more after a declining trend was seen prior to 1997. Banks requires mortgage evaluating land at 5% to 10% of current value in general areas and 60% to 70% in special areas, and building and machinery at more or less 70%. As a result, borrowers must have assets for mortgage, in average, worth around 200% of the loan amount in current value basis.

Each bank in Konin has its own guideline of a maximum loan amount per client or loan. The following is such information as of 1996.

- WBK S.A. : unlimited
- PBI S.A. (Polish Investment Bank) :
700,000 PLN on non-liquid security, No limit on liquid security
- PeKaO S.A.: High risk- 100,000 USD, Low risk- 500,000 USD
- PKO B.P. : 1,000,000 PLN per client
- BGZ S.A. : Up to 2,000,000PLN
- BS (Cooperative Bank): 334,890 PLN per unit, 502,330 PLN per borrower

Table 2.4-2 DEPOSITS AND CREDITS IN KONIN PROVINCE
as of December 31st, 1997

Particulars	Amount (1000 PLN)	Interest rate (Average %)
I. Zloty deposits	810,064	
1. Economic entities	218,419	
- At sight	132,235	7.94
- 3 months	15,561	18.62
- 6 months	6,952	19.06
- 9 months	0	-
- 1 year	1,456	19.63
2. Individuals	591,645	
- At sight	124,753	12.13
- 3 months	177,616	18.70
- 6 months	122,889	19.24
- 9 months	22,290	19.86
- 1 year	112,765	19.70
II. Foreign currency deposits	78,280	
1. Economic entities	4,314	
2. Individuals	73,966	
III. Debt on given zloty credits	607,757	
1. Economic entities	485,573	25.79
2. Individuals	121,698	25.65

(Note) Data concerning 36 branches of commercial banks and also NBP in Konin / individuals' deposits in NBP/

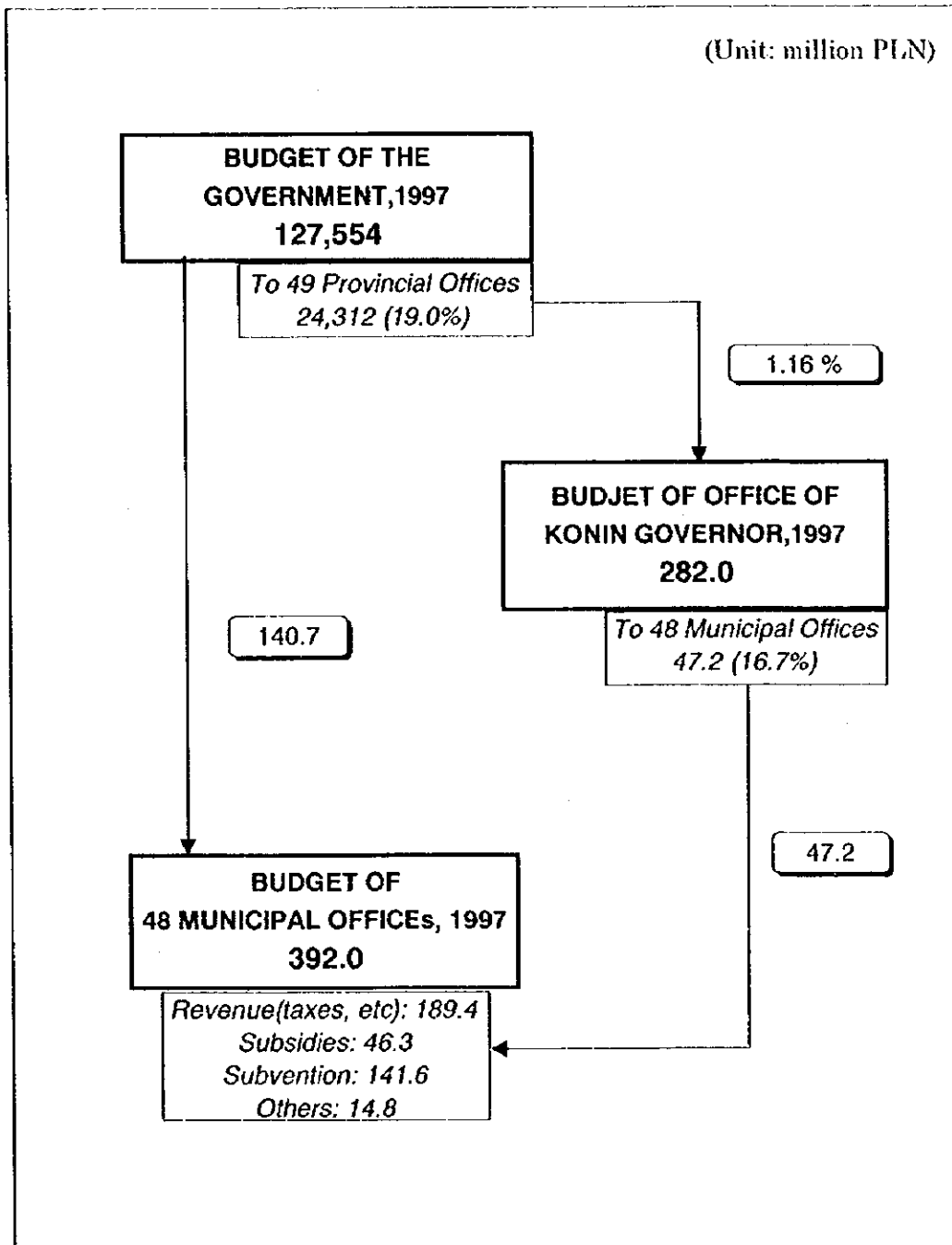
(Source) NBP

Table 2.4-3 PERFORMANCE OF SOME BRANCH OFFICES IN KONIN PROVINCE

	PKO B.P.	BGZ S.A.	PKO S.A.	WBK S.A.	BP S.A.	BHW S.A.
I. Total loan balance (Million PLN)	50	100	50	50	10	50+
II. Average loan balance (PLN)	103,000	small	150,000	140,000	70,000	100,000
III. Size of borrowers						
Employees: 1 to 5	20%	20%	10%	n.a.	>	n.a.
Employees: 6 to 50	60%	60%	60%	n.a.	> 80%	n.a.
Employees: 51 to 250	10%	15%	20%	n.a.		n.a.
Employees: 251 or more	10%	5%	10%	n.a.		n.a.
IV. Term of loans						
Short: less than 1 year			18%	17%	50%	15%
Medium: 1 to 5 years	80%	80%	67%	80%	40%	70%
Long: More than 5 years			15%	3%	10%	15%
V. Overdue ratio	less than 5%	3%	a few	a few	a few	a few
VI. Mortgage coverage ratio	100-300%	140-300%	150-200%	100-200%	150-300%	100%+
VII. Mortgage assessment						
Land	5%	60%	10%	70%	n.a.	n.a.
Building	70%	60%	20%	70-80%	n.a.	n.a.
Machinery	100%	65%	60%	80%	n.a.	n.a.
Car	n.a.	n.a.	n.a.	50-60%	n.a.	n.a.
VIII. Lending interest rate	36-42%	more than 30%	27-30%	n.a.	n.a.	

(Note) BKO BP: National Saving Bank, BGZ SA: Agriculture Bank PKO SA: Polish Guardian Bank,
 WBK SA: Credit Bank of Wielkopolska, BP SA: Industrial Bank, BHW SA Commercial Bank in Warsaw
 (Source) JICA Team's interviews.

Figure 2.4-1 FLOW DIAGRAM OF OFFICIAL BUDGETS TO KONIN PROVINCE, 1997





2.5 Conclusion of the Chapter

2.5.1 Regional Development System

Based on the observations of the current situation of regional planning systems in Poland, the following issues can be pointed out:

- (1) There is a lack of regional planning organs at the intermediate level between the biggest central government and smallest gminas. The provincial office is currently not satisfactorily empowered to cope with regional planning issues. In many cases, it requires an operating plan to cover several neighboring provinces.
- (2) The regional planning function at the province level would be strengthened to formulate a comprehensive regional development plan not only for mapping spatial development plans submitted by gminas but also placing priority on projects on the basis of economic and financial analyses.
- (3) Land use planning sections in the provinces and gminas lack expertise for preparing the above-mentioned spatial-economic-financial development plans. It is necessary to strengthen capabilities by learning planning principles and procedures to comply with the market economy system by close cooperation with future partner countries in European Union.

2.5.2 EU Membership and Regional Development

In view of Poland's future membership in the EU and benefits and magnitude of Structural Funds, it will be appropriate and necessary to prepare for the integration from now in order to meet the requirements which the Commission sets for the prospective beneficiaries of Structural Funds. The practice of EU regional policy suggests that Polish regional development policy focus on the following issues:

- (1) It is necessary to take an integrated approach to the problems of adjustment to EU membership which are indicated in Table 2.2 - 1;

(2) It is necessary to prepare a regional policy of Poland at the national level, which should be complementary to principles of EU's regional policy.

The latter seems to be especially important in view of growing economic disparities within the country which might endanger the socio-economic cohesion in the country and could delay the socio-economic transformation into a sound market system.

2.5.3 Development Funds Available for Konin Province

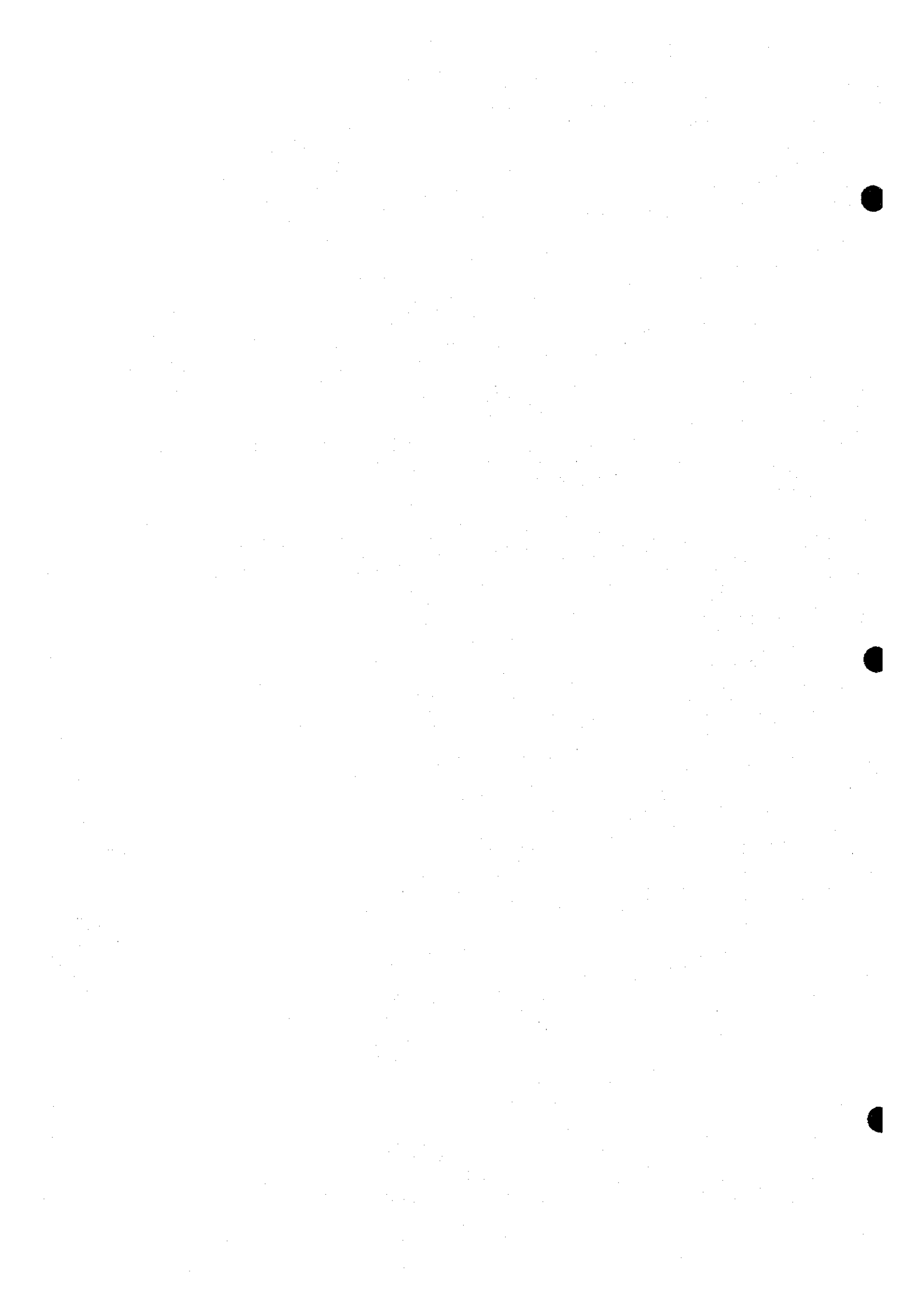
Konin Province requires capital funds for investment in the weak technical infrastructure as well as diversification of the economy, in anticipation of the future exhaustion of brown coal resources. Domestic funds including the budgets of the central government and local autonomies are neither sufficient nor available to invest in the provincial development projects.

As for EU Phare programs, unfortunately, the Polish Government never gave priority to Konin Province for the reason that the province ranks in the middle of all 49 provinces of the country by almost all criteria. Multi- and bi-lateral foreign funds or credits are changing so as to focus on cooperation through technical assistance programs, and recently they are becoming lesser in importance in Poland as the nation has almost succeeded in transformation to a market economy. In addition, the Polish Government is reluctant to introduce credits from outside of the country.

Thus, foreign direct investment must be considered one of the most possible financial sources available for regional development of Konin Province . It is easily imagined that domestic enterprises cannot afford to make big investments other than in their own restructuring projects for a while.

Chapter 3

SUMMARY OF SECTOR REPORT



Chapter 3 SUMMARY OF SECTOR REPORT

This chapter summarizes the conclusive part of the Sector Report, sector by sector. That refer to report describes and analyzes each sector in detail.

Definition of Development Potentials and Constraints

In this chapter as well as Sector Report, the words "potentials" and "constraints" are used as basis for determining sectorial concept and strategies. These terms have the following connotations.

The potentials signify the thrust of regional development in Konin Province and, on the other hand the constraints do obstacles of it. If Konin Province is on the superior side on the conditions mentioned below, they are to be potentials and if the inferior side, they are constraints. This rule is applicable to (1), (2) and (3) below. Most of the conditions stated in (4) will be the same throughout the country and are not specific to Konin Province.

(1) Physical conditions of the region

- Natural conditions including weather and climate, geographical and topographical conditions, deposits of natural resources, natural environment, etc.

(2) Socioeconomic conditions of the region

- Economic geography, infrastructure, human resources, availability of land area, traditional temperament, customs and culture, legacies, etc.

(3) Demands for development

- Superiority: existence of big market demands in the region
- Inferiority: small market demands in the region

(4) Articles beyond the scope of the master plan

- National policies including EU accession, laws and regulations, central and local administrative systems, issues that require a long time of period

for their solving with and huge investment to be resolved, availability of public development funds, etc.

3.1 Agriculture

3.1.1 Conclusion and Key Issues

(1) Basic agricultural conditions in Konin Province

There are two disadvantages of natural conditions in Konin Province compared with national average. One is low quality of soil and the other is non controllable water supply conditions caused both by draught and floods. Looking at arable land quality, the share of soil which is appropriate for cultivation (class I to IV) is 50.6 percent in Konin Province, whereas national average is 67.7 percent. Although annual precipitation is between 500 to 600 mm, which is almost as same as national average, planting conditions such as temperature and precipitation in May and June are not as good as other production areas.

Konin is a typical agriculture province in terms of land size per farm. The share of farms with less than 5 ha is 55 percent, which is almost the same as national average. According to the farm survey, 5 ha is found out to be difficult size for producers to operate financially sustainable without incomes from nonagriculture sector. However, farms in general are reluctant to sell the land because of deep respects for ancestors and life insurance. Therefore, the speed of intensification of land (enlargement of land size) is still low.

Thus, low quality of land, water shortage and existence of small scale farms, all of which are difficult to be solved, become basic constrains for further development of agriculture.

(2) Distribution and marketing problems after the transition to the market economy

The economic and social reform towards the market economy has begun in 1989 at the onset of price liberalization of agricultural produce and come into force with the implementation of Balcerowicz plan in 1990. The shift from socialist to the market economy exerted a great influence on the

agriculture sector within the economic reforms, which aimed at reducing national budgets allocated for the agriculture sector. Four major reforms have been conducted in the sector: price liberalization; reduction of subsidies; liberalization of foreign trade; and privatization of public sectors including state and collective farms. Distribution and marketing systems of agriculture produce was substantially changed by the series of reforms.

During the socialist period, an agricultural cooperative (GS) existed in each Gmina which procured agricultural produce from producers and sold raw materials to state enterprises and cooperatives. It made producers have no choice but to sell to cooperatives in order to secure the purchase of inputs. About 85 percent of total production of private farms were procured by the government procurement systems.

After the transition to the market economy, producers basically have to find buyers by themselves. Presently, private buyers such as food processing companies, traders and distributors are increasing their shares in procurement of agricultural produce directly from producers. These are typically observed in vegetables and fruit markets, which are completely liberalized.

These situations have driven small-scale producers into a corner. Problems are as follows.

- 1) Production amount is not attractive enough to make buyers come to farmstead.
- 2) Reliance on traders for selling reduces producers' receivable
- 3) Since buyers started to have negotiation power over producers, producers have to concentrate on "quality" rather than "quantity".

(3) Improvement of agriculture structure and agriculture technology

As previously stated, low soil quality, lack of water and large shares of small scale producers are basic constraints for agriculture development in Konin Province. Taking these constraints into consideration, it is necessary for Konin Province to develop agriculture production pattern suitable for Konin in order to survive in the long run. Since different institutions have engaged in development of agriculture technology, there

are rooms for integrating these efforts and make comprehensive development plans.

Following issues will need to be considered when Konin's comprehensive agriculture development plan is designed.

- 1) Appropriate operation size for cereals, vegetables and fruit, and livestock producers.
- 2) Cropping patterns suitable for Konin's soil conditions
- 3) Introduction of new variety
- 4) Methodology to improve production technology of producers.

(4) Development of agriculture infrastructure

Development of agriculture infrastructure is a prerequisite for supporting Konin type agriculture development. In Konin, water shortage is more serious than the other provinces and is ranked lowest 5th in water condition rankings conducted by Research Institute of Soil-Cultivation, Fertilising and Pedology. Notwithstanding, only 0.8 percent (1,980 ha) of total cultivated areas (263,018 ha) is irrigated by watering facilities in 1996 and most producers are using rainfed irrigation methods. Thus, water resource development is given the first priority.

Presently, construction of main irrigation facilities such as dams and water reservoirs is planned and implemented by the public sector whereas the installation of on-farm irrigation facilities is done by each individual farm without any public financial support. These systems are considered to be appropriate, however, are not functioning well. "A Water Resource Development Program" and "Small Retention Program" were formulated for expanding irrigated areas in Konin Province. However, due to a lack of financial resources, implementation of these public development programs are delayed. On the other hand, while some individual farms are using underground water or water from lakes and rivers by installing water pumps, majority cannot afford to install such watering facilities by themselves, due to inadequate financial resources.

In addition, facilitating drainage systems is also important as Konin Province has been suffering from floods several times including the one in 1997. Without coping with flood disasters, fund which can be used for irrigation system development will not increase in the future. Land reclamation and development of storage facilities to improve post harvest practices are also needed for further development of the agriculture in Konin Province.

(5) Support for small scale farms

To support small scale farms is one of the important issues for the whole country, and so as Konin Province where 55 % of farms hold less than 5 ha of land, which is not economically sustainable for farming operation.

Basic problems small scale farms are now facing in Konin Province are summarized as follows.

- 1) Small scale farming operation is not financially feasible.
- 2) Small scale farms hardly meet with buyers' request in terms of types, quantity and quality of produce.
- 3) Small scale farms do not have adequate financial resources, nor access to credit, which prevents further investment.
- 4) Small scale farms are not well mechanized, which results in high production losses during cultivation and harvest seasons than in mechanized large scale farmland.
- 5) Small scale farms have inadequate access to information needed to cut costs without decreasing production.

In order to reduce numbers of small scale farms, either intensification of land plots or afforestation are considered. In fact, Konin Province has "Afforestation program", which is planned to be implemented mainly on low quality land such as swamps and class VI soil. On the other hand, farmers in general are inclined to stick to their own land and are reluctant to sell to others, which can be observed in all over the world as farmers' nature. Therefore, it is necessary to take actions to support these small scale farms now.

3.1.2 Sectorial Development Framework

Development potential

- 1) **There are some farmers who have a clear vision** and will become leaders in modernization of farm management in the region.
- 2) **There is high potential to increase yield** of agricultural production by improving the current farming technologies.
- 3) **Institutions related to agriculture**, accessible in Koscielce, can provide technical guidance to farmers.
- 4) **The area is well located for distribution** of agricultural commodities and goods.

Development constraints

- 1) **Most farmers cultivate a small area.**
- 2) **The fertility of arable land of the province is less** than the national average.
- 3) **Policy and the institutional system** for agriculture tend to work as constraints because they are often unstable and inappropriate.

Development concept and strategies

Improvement of profitability of farms in Konin Province

Strategy 1: Quality and productivity improvement

Strategy 2: Modernization of farm management

Strategy 3: Development of an effective marketing system

Strategy 4: Diversification of agriculture

3.2 Three Key Industries

The three key industries are lignite mine, power generation, and aluminum smelting.

3.2.1 Conclusion and Key Issues

3.2.1.1 New Energy Law and Three Key Industries

According to the new Energy Law, brown coal price will be subject to regulatory control because of its non-market character. However, the price will be determined on the basis of international market price of hard coal. The controlled price of electricity will be deregulated, and electricity consumers will be able to negotiate with the suppliers including power companies and distributors to determine the conditions based on the free market mechanism. In such circumstances, the brown coal mines in Konin Province have the close-at-hand problems of exhaustion of the working deposits. Here, the future trends of the three key industries in Konin Province are examined, taking the above mentioned-issues into consideration.

In addition, certain resistance against the enforcement of the new Energy Law can be foreseen from coal mines, the power companies and distributors where several thousand workers are employed. The issue may become a serious political issue. Therefore, simple irresponsible prediction should be avoided. It is reported that the brown coal mines in Konin Province have new confirmed deposits enough to meet demand for some decades. It should be noted that the issues will result in the feasibility of development of the new deposits and not simply in the physical depletion of the mines. There will be several counter plans to cope with them.

Consideration hereunder is merely presenting one of the various possibilities in the above-mentioned situations.

3.2.1.2 Mutual Relations and Socioeconomic Status of 3 Key Industries

(1) Interdependence structure

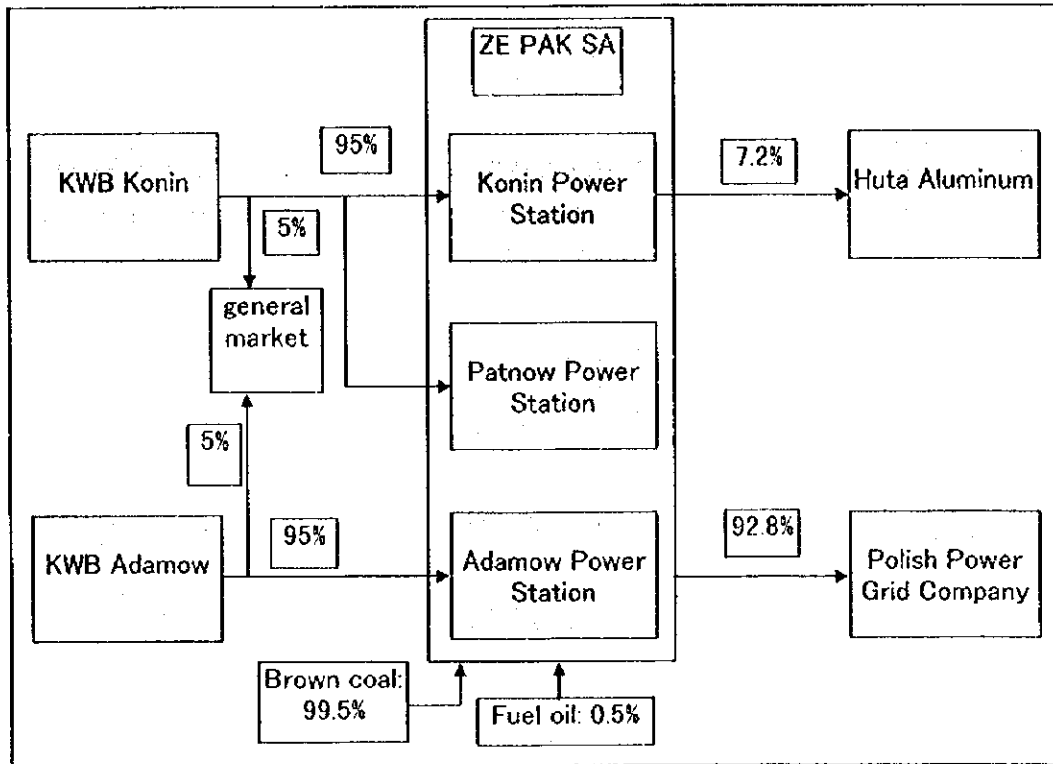
The Study takes up the following companies as the three key industries in Konin Province:

- The brown coal mines consist of two companies: KWB Konin and KWB Adamow
- The power stations: ZE PAK S.A. (Patnow, Adamow and Konin Power Stations Group)
- The aluminum industry: Huta Aluminum Konin

Fuel-energy industries started in 1945, when KWB Konin started mining. Then, in 1958, the Konin Power Station started firing brown coal. Following those plants, the KWB Adamow, Patnow and Adamow Power Stations were constructed one after another, and Huta Aluminum Konin, which smelts aluminum consuming electricity from ZE PAK, was constructed in 1966 in line with Polish governmental policies.

Presently total brown coal production at the mines amounts to 18 million tons (28.6% of Polish brown coal production), 95% of which is supplied to ZE PAK. ZE PAK generated a net 13,200 GWh of electricity firing brown coal (99.5% of its fuel consumption). Huta Aluminum produced 52 thousand tons of aluminum in 1996, consuming 955GWh of electricity from ZE PAK, which corresponds to 7.2% of total net electricity generated by ZE PAK. The schematic relation is shown in Figure 3.2-1.

Figure 3.2-1 SCHEME OF THREE KEY INDUSTRIES' RELATIONSHIP



(2) Socioeconomic status

The socioeconomic status of the three key industries in Konin Province is as follows:

- Direct employment: 7.8%
- Sales: 45.7%

The GDP of Konin Province in 1996 was estimated from the figure for 1995, multiplied by 1.06 of real growth rate and 1.198 of inflation rate. Including the affiliate companies and supporting companies, it is roughly seen that the three key industries dominate the economy in Konin Province by around 50% or more.

On the other hand, it is reported that most of the reserves in working open pits will be exhausted within about 15 years. These issues are crucial for the future of Konin Province. The future of three key industries is discussed in the following Section.

3.2.1.3 Exploitation Plan and the Countermeasures for Exhaustion

(1) Exploitation plan and estimated exhaustion

According to the production plans made by the KWB Konin and Adamow, transition of the reserves in the two mines is shown in Table 3.2-1. The plans mention that production will be kept at the same level as the present production (Konin: 13 million tons/year, Adamow: 5 million tons/year) by 2020 and then gradually decrease after 2020. In order to match the plans, KWB Konin must develop four new deposits by 2012 (one deposit is now under development) and more three deposits by 2040. KWB Adamow does not have a decisive plan to exploit any new deposit.

Table 3.2-1 REMAINING RESERVES INCLUDING NEW DEVELOPMENT OF DEPOSITS

Items	(Unit: million tons)						
	1997	2000	2005	2010	2015	2020	2040
<u>KWB Konin</u>	<u>140.6</u>	<u>101.6</u>	<u>134.8</u>	<u>183.7</u>	<u>164.9</u>	<u>126.0</u>	<u>70.6</u>
- working	140.6	101.6	36.6				
- new development			98.2	183.7	164.9	126.0	70.6
<u>KWB Adamow</u>	<u>104.5</u>	<u>89.5</u>	<u>64.5</u>	<u>39.5</u>	<u>14.5</u>	<u>0</u>	<u>0</u>
- working	104.5	89.5	64.5	39.5	14.5	0	0
- new development	none	none	none	none	none	none	none
<u>Total reserves</u>	<u>245.1</u>	<u>191.1</u>	<u>199.3</u>	<u>223.2</u>	<u>179.4</u>	<u>126.0</u>	<u>70.6</u>
Accumulated production		54.0	144.0	234.0	324.0	403.5	603.5

(Source: KWB Konin and Adamow)

The plan in Table 3.2-1 is based on the case that funds for the development of new deposits are successfully financed and no serious obstacles would crop up.

There is another scenario to keep production at the level of 8 to 9 million tons/year and to develop new open pits with the possibility to finance them. In this case, development of four deposits will suffice until 2040.

(2) Cost competitiveness

1) Present price and cost

The price and production costs of the brown coal extracted in KWB Konin and Adamow are estimated on USD basis and for the comparison, the ones for hard coal are referred as follows:

- Brown coal:

Estimated price for ZE PAK; 1.18 USD/GJ in 1995

Estimated production costs of KWB Konin and Adamow; 1.13 USD/GJ in 1995

- Hard coal:

Estimated market price of coal for power plants; 1.31 USD/GJ (32 USD/t) in 1995.

Estimated production cost of Polish coal mines; 1.52 USD/GJ (37.3 USD/t) in 1995 (Hard Coal Mining Policy of the State and Sector for 1996-2000).

The price of brown coal per GJ for power plant use is fairly lower than international market price of hard coal for power plants. The Polish hard coal mines have been selling coals at lower prices than their costs.

2) Cost estimation of brown coal from new deposits

Working open pits will be exhausted within 15 years and new open pits shall be developed as mentioned earlier. It requires a large sum of investment amounting to PLN 2088 million or USD 586 million that is preliminarily estimated by KWB Konin at 1997 prices.

The investment cost was estimated for development of new three deposits or 212 million tons of reserves for production. Since annual production volume was deemed to be 13 million tons, the mining last about 16.3 years.

The following are assumptions for production cost estimation of new deposit:

- Capital related cost: 20% of the total investment cost per year including depreciation, interest payment and some profit.

(Note) Interest rates of commercial banks are now higher than 30% p.a..

The investment for new deposits might not be feasible if such rates should be applied.

- Man power and other costs: It is assumed that 30% of the current costs would be reduced by restructuring and modernization.

Estimated production cost is as follows in 1997 prices:

Capital costs = USD1.01/GJ

Other costs = USD0.76/GJ

USD1.77/GJ

(Refer to Sector Report in details)

3) Average production cost estimation in future

Average production costs of brown coal in 2005 and 2010 produced in Konin Province is estimated on present value basis as follows:

Table 3.2-2 AVERAGE PRODUCTION COST IN FUTURE OF BROWN COAL

Year	2005		2010	
	Production	Unit cost	Production	Unit cost
Unit	mil.tons/year	US\$/GJ	mil.tons/year	US\$/GJ
Production in existing mines	11.5	1.13	5.0	1.13
Production in new deposits	6.5	1.77	13.0	1.77
Average cost		1.36		1.59

As mentioned in Section 2.7.2 (2), present production cost for Polish hard coal is estimated to be more than 1.52 USD/GJ and cost escalation for future will be almost same as the one of brown coal. Therefore, brown coal produced in Konin will keep competitiveness against Polish hard coal for fairly long period., taking additional transportation and storage costs for hard coal handling, etc. into consideration.

Table 3.2-3 PRICE ESCALATION OF THE PRIMARY ENERGY CARRIERS

		(at 1995 prices)		
Items	Source	1995 US\$/GJ	2000 US\$/GJ	2010 US\$/GJ
Crude oil, imports from Russia	IPPT PAN	3.07	3.64	4.53
	IEA	3.04	4.11	5.00
Natural gas, import from Russia	IPPT PAN	3.07	3.59	4.23
	IEA	2.82	3.79	4.58
Hard coal, import from Europe	IPPT PAN	1.56	1.63	1.83
	IEA	1.93	2.05	2.18

(Source: Energy Information Center)

Table 3.2-4 COST COMPARISON IN 2010 (at 1995 prices)

		(Unit: USD/GJ)
KWB Konin brown coal*	:	1.59 ~ 1.77
Crude oil imported from Russia	:	4.53 ~ 5.00
Natural gas imported from Russia	:	4.23 ~ 4.58
Hard coal, imported from Europe	:	1.88 ~ 2.18

(Note) * at 1997 prices

The prices of the primary energy carriers on the world market anticipated by IPPT PAN and IEA are shown in Table 2.7-3. According to the estimation, prices of carriers other than hard coal will increase rapidly, and coal and brown coal will be competitive as far as price is concerned.

3.2.1.4 Reliance of the Power Stations on Brown Coal Fuel

(1) ZE PAK S.A.'s course for modernization

From the beginning of 1980s', ZE PAK has been modernizing its facilities. Major targets were introducing advanced technologies and improving environmental protection. Furthermore, the company is presently proceeding to modernize the Patnow and Konin Power Stations, investing 1 billion USD on a brown coal-firing basis, and will complete this by 2007. In line with the plans, ZE PAK concluded a long term supply-purchase contract with KWB Konin in 1996 so that both companies can acquire a great integrity from their investment programs.

On the other hand, the brown coal mines will be obliged to develop new deposits in order to meet the power stations' needs. The price of the brown coal from the new open pits must be hiked significantly. Under such circumstances, it is meaningful to verify whether or not the power stations can be operated profitably on a brown coal-firing basis.

(1) Possibility of conversion to other fuels

In the 1970s two oil-fired boilers was constructed, but they have been stopped due to the oil price hike and will be replaced by fluidized bed boilers in the modernization program. The action shows ZE PAK's judgment on the subject. As described in Table 3.2-3 of Section 3.2.1.3, much larger price hikes are anticipated in oil and natural gas, and therefore brown coal will be more competitive on a GJ price basis in future. Conversion of fuels from brown coal to gas or oil in the existing facilities will not have any advantage as far as operating cost is concerned. It is likely that ZE PAK may adopt a gas turbine cogeneration system only in case of a new revamp of the facilities

However, concerning the issues of environmental protection, the situations are more fluid. ZE PAK is modernizing boiler systems and applying fluidized bed boilers and desulfurization facilities. The fraction of CO₂ emission will be alleviated by the heat efficiency increase. If the emission is restricted in future, it may be necessary to investigate the conversion, but the facilities will be completely rebuilt on the site or at another new site.

In consideration of the above mentioned, it will be evident that the power stations all row in the same boat with the brown coal mines in Konin Province.

(3) Cost competitiveness of the power stations

1) Present selling price and costs

The price and the costs of electricity generated by ZE PAK are estimated on USD basis as follows:

- Estimated average selling price; 22.0 USD/MWh in 1996
- Estimated total cost of electricity generation; 20.9 USD/MWh in 1996

2) Cost estimation for future

a) Cost increase due to modernization investment

As mentioned the above, ZE PAK has been modernizing the facilities and major investment will be completed by 2007. Supposing the modernization investment occurs and completed in 1996, calculation of trial balance is made. The capital costs are calculated on the assumption as follows:

- 30% of total investment; own resources—no interest
- Loan from National and Provincial Environmental Protection and Water Economy Fund; 8.4% of total investment—at 16% interest
- Other credits and loans; 61.6% of total investment—at about 30% interest
- Total investment; 1 billion USD
- Refund; 15 years, straight line 21.3% of total investment per year
- Then, the capital cost is 16.85 USD/MWh

b) Cost increase due to price hike of brown coal

Furthermore, in the case a price increase of brown coal is taken into account, the total electricity generation cost will increase by 11 USD/MWh.

c) Total cost estimation

ZE PAK is now proceeding with restructuring as well as modernization of facilities. Total cost is estimated on such assumptions as follows:

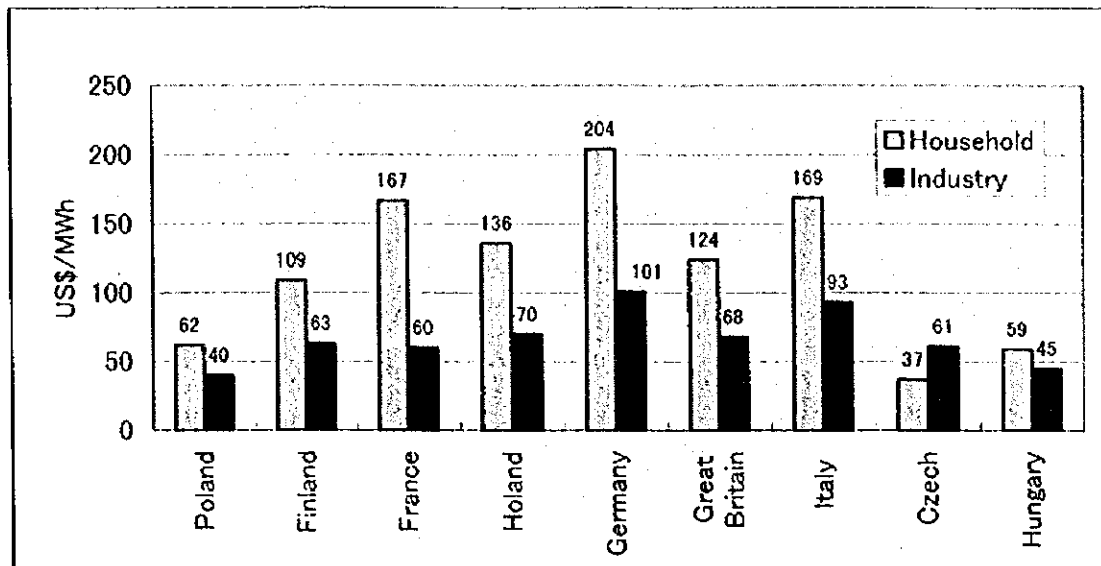
- 30 % reduction of manpower related costs
- Improvement in generation efficiency from 30 % to 35 %
- Other cost reduction by 30 %
- Then, total cost will be 41 USD/MWh

Even if 30 % reduction of manpower related costs and improvement in generation efficiency, etc. are taken into account, the total cost will be doubled from the present cost.

Figure 3.2-2 shows the electric prices in European countries. According to the new Energy Law, the price of electricity will be liberalized and will

reach the level of European countries. Therefore, ZE PAK will still retain competitiveness among the power stations in Europe.

Figure 3.2-2 ELECTRICITY PRICE COMPARISON IN 1995



(Source: Polish Energy Information Center)

3.2.1.5 Aluminum Smelting and Electricity

(1) Electricity cost in aluminum smelting

The percentage of electricity cost in aluminum smelting is estimated to be 25 - 35% of total operation cost according to J.A.A. Since the electricity cost is a decisive factor for the aluminum smelting industry, Huta Aluminum Konin concluded a direct supply-purchase contract with ZE PAK in 1996. According to the new Energy Law, electricity prices will be increasingly affected by the competitive market. All generating companies will compete on the wholesale contract market for present and future deliveries. The competition in these markets will become the main price determining force. Considering such situations, Huta Aluminum has a free hand to determine the supplier and purchase price.

Due to lack of information it is difficult to get exact data, but Huta Aluminum consumed 955 MWh of electricity received from the Konin Power Station in 1996. Electricity purchase price is estimated to be around 30 USD/MWh. Per the Energy Information Center, electricity price for

medium voltage consumers was 120 PLN/MWh (41.7USD/MWh). Therefore, Huta's purchase price is assumed to be cheaper than that for ordinary consumers. However, even though ZE PAK's price is advantageous in Poland, it is said that average electricity purchase prices for primary aluminum production are 16-24 USD/MWh around the world. That is because major sources of electricity for aluminum smelting works are hydroelectric and very large-scale power plants firing cheap coal and furthermore the scale of purchasing amount is far bigger than that of Huta Aluminum.

(2) Anticipated increase of smelting cost

Huta Aluminum has smelting and rolling mill sections, of which the smelting section consumes most of the electricity.

1) Present market price of primary aluminum and smelting cost in HUTA Aluminum

Cost estimates are made on 1996 basis and on the assumption as follows:

- Electricity purchase price and specific consumption: 31.6 USD/MWh, 17.5MWh/t-Al
- Alumina purchase price and specific consumption: 259 USD/, 2.02t/t-Al
- Then, total operating cost for primary aluminum will be 1,545 USD/t
- Market price of primary aluminum: 1,504 USD/t

2) Cost increase due to price hike of electricity and cost reduction by rationalization

Due to the above-mentioned cost increase of electricity generated by ZE PAK, Huta Aluminum may not be able to obtain a favorable price for electricity. Cost estimates are made on 1996 basis and on the assumption as follows:

- Electricity purchase price and specific consumption: 50 USD/MWh, 15.7 MWh/t-Al (level of international average)
- Alumina purchase price and specific consumption: 220 USD/, 1.93t/t-Al (level of international average)
- 30% reduction of manpower related costs
- Then, total operating cost for primary aluminum will be 1,640 USD/t

It is estimated that the cost increase is critical, because the market price in 1996 was 1,504 USD/t-aluminum.

(3) Huta aluminum's countermeasures

Huta is endeavoring to modernize its facilities and improve electricity-specific consumption, etc. However, Huta has a plan to expand the smelting section at present but it has an option to close smelting section and operate only the rolling section when costs, especially of electricity, increase and profitability worsens. Presently, Huta is focusing on doubling the capacity of the rolling mill up to 80 thousand tons per year, importing cheap primary aluminum. It is estimated that Huta is getting a profit by the rolled products and that the smelting section is not so profitable even now.

3.2.1.6 Overall View of Three Key Industries

KWB Adamow is scheduled to close mining operation in the year of 2020 together with the Adamow Power Station which is using brown coal from KWB Adamow. Brown coal produced by KWB Konin will face difficulties in competing with imported hard coals in selling price due to increase in production cost caused by big investment necessary for development of new deposits. However, cost competitiveness will be maintained at least until 2010 if the combined average selling price for brown coals from the remaining reserves and from new deposits of KWB Konin and Adamow is compared with imported or domestic hard coal prices.

Power generation company, ZE PAK will also be able to maintain cost competitiveness using brown coal of KWB Konin. It seems to be less feasible to convert its fuel from brown coal to fuel oil or natural gas because the plants are being modernized by big investment on the basis that the power stations will continue to use brown coal as fuel. In addition, Konin Province is not necessarily good location to utilize such new fuels as fuel oil or natural gas. Therefore, it may be reasonable that the power company and the mines in Konin Province will be in the same boat as will be in Adamow.

Huta Aluminum has a plan to expand the smelting section as well as the rolling section. However, the company will carefully watch the purchasing price tendency of electricity developed under the New Energy Law for a certain period of time. When electricity purchasing price from

Law for a certain period of time. When electricity purchasing price from not only ZE PAK but also Polish power companies loses competitiveness, Huta has an option to close the smelting section and operate only the rolling section.

3.2.2 Sectorial Development framework

Development potential

- 1) The companies have **surplus or underutilized manpower, technology, auxiliary facilities and assets.**
- 2) The **resources owned or created by the companies** (lignite, power, heat, aluminum, by-products and waste products) can be used to diversify industry.
- 3) The companies have **high credibility** among the people in general, financial institutions and industrial circles.

Development constraints

- 1) New initiatives by management tend to be **restrained by labor** especially when there is to be reorganization of the work force.
- 2) **Managers have little experience** in creating new businesses due to the historical background of their companies.
- 3) **There tends to be limited labor mobility** because movement from big companies entails risks and loss of fringe benefits.
- 4) **Funds are insufficient** for investing in new businesses.

Development concept and strategies

New business development with maximum utilization of the existing resources that the companies own.

Strategy 1: Utilization of surplus human resources and materials

Strategy 2: Utilization of less-utilized assets

Strategy 3: Development of user-industries of heat in Konin

Strategy 4: Development of down-stream Aluminum industries



3.3 Industry

3.3.1 Conclusion and Key Issues

3.3.1.1 Characteristic of Manufacturing Sector of Konin Province

(1) Position of manufacturing sector

The economic position of the manufacturing sector in the whole country and in Konin Province are summarized in Table 3.3-1

Table 3.3-1 POSITION OF MANUFACTURING SECTOR IN ECONOMY, 1995

	(Unit: %)			
	Value added		Employment	
	Konin	Poland	Konin	Poland
Agriculture	11.6	7.5	41.6	27.0
Mining & electricity	21.8	9.1	8.2	4.2
Manufacturing	19.8	23.4	13.6	20.7
Others	46.8	60.0	36.6	48.1
	100.0	100.0	100.0	100.0

Looking at the share of manufacturing, Konin is lower than the national average. The agriculture sector, however, is undoubtedly high in terms of share of employment as well as the value-added energy and electricity sector.

(2) Industries other than energy based industries

The presence of three key industries in the industry sector is undoubtedly high, but 97.5% of the total economic units in the sector are small and medium-scale enterprises (SMEs). SMEs also accounted for 60% of employment and 65% of total sales in the manufacturing sector, respectively. Nearly 70% of these SMEs were established in or after 1990. This new SME group continues growing; however, they do not have enough power to hire unemployed persons who will be out of work in the process of privatization of former and large state-owned enterprises.

**Table 3.3-2 SCALE OF BUSINESS TYPE IN KONIN PROVINCE -
MANUFACTURING SECTOR -**

No. of Enterprises by Business Type		
1 Textiles & Garments	418	18.6%
2 Foods & Beverages	361	16.0%
3 Wooden Products	318	14.1%
4 Metal products	276	12.3%
Sales Income by Business Type		
1 Foods & Beverages	693mil.zl.	20.7%
2 Metal Products	394mil.zl.	11.8%
3 Non-metal Products	155mil.zl.	4.6%
4 Textiles & Garments	144mil.zl.	4.3%
No. of Employees by Business Type		
1 Textiles & Garments	5882	26.1%
2 Foods & Beverages	5710	25.3%
3 Metal Products	3253	14.4%
4 Machinery & Equipment	3206	14.2%

Looking at the above statistical data, after taking the metal products sector which consists of large-scale enterprises such as HUTA Aluminum into consideration, the largest sectors among SMEs are the following three. They account for 48.7% of the total number of enterprises in Konin Province.

- Textiles & Garments
- Foods & Beverages
- Wooden Products

Most of the manufacturing enterprises, excluding a part of food processing and non-metal products, are buying materials from outside the province (including from abroad), and selling the processed products either in Konin Province or other domestic markets. Even so, aluminum sheet and raw wood, are also shipped outside the Province without any processing. They are also producing many general consumer products such as garments, foodstuffs, etc. but there is a lack of manufacturers of mechanical parts and durable consumer goods in the province.

(3) Current status of privatization in Konin Province

In Konin Province, there were 38 state-owned enterprises in the process of ownership transformation as of December 1996. Another 15 state-owned

enterprises were already liquidated in the province before December 1996, and 21 other enterprises are still waiting to enter the privatization process in the province.

Although the number of state enterprises waiting the privatization process in Poland was not available, the growth rate of the number of state enterprises engaged in ownership transformation in 1996 was 7.4%, which was 1.8% higher than that of Konin Province, 5.6%.

Table 3.3-3 STATE-OWNED ENTERPRISES ENGAGED IN THE PROCESS OF OWNERSHIP TRANSFORMATION

(In number)			
	1995. 12. 31 As of	1996. 12. 31 As of	Growth rate
Poland	5206	5592	7.4%
Konin	36	38	5.6%

3.3.1.2 Major Problems In the Manufacturing Sector

Major problems and difficulties which exist in the manufacturing sector of Konin Province can be summarized as follows;

(1) Slow progress in privatization

The progress of the privatization process in Konin Province is dragging. One reason is the financial condition of the remaining state-owned enterprises. Naturally, the state enterprises in good financial condition were privatized through either commercialization or direct privatization. State enterprises in unhealthy financial condition have difficulty in finding investors. For such enterprises, liquidation for terminating their operations is also time-consuming because of interested parties such as employees and creditors.

On the other hand, new enterprises, originally privately incorporated, have emerged since 1989. Such enterprises with entrepreneurial spirit are vigorously conducting their businesses. In the near future, they will partly facilitate privatization by absorbing the assets and manpower of the remaining state enterprises.

(2) Weakness of internal linkage in the provincial industry

There are a small number of large-scale manufacturing enterprises in the province, so a support structure in the manufacturing industry has not emerged. They are not conscious of developing downstream industries outside of their enterprises. Most of the manufacturing enterprises including SMEs have been mainly obtaining the parts and materials from outside the province and selling outside too.

(3) Decrepitude of machinery and production plants

No matter what scale of enterprise, their production facilities are rather out of date, so they face a problem of low productivity and difficulty in selling products to export markets. There is no wide-ranging impact on preserving the environment, which also requires a large amount of capital for facilities replacement.

(4) Small number of foreign-affiliates in the province

The small number of foreign-affiliated manufacturing enterprises which are regarded as an important factor for district economic development have lost vitality for activating industry. Promotion of investment and export is partially done by them in general.

(5) Lack of management know-how

Management know-how has not taken root in business under the transitional period to a market economy. Commercialization leads to changes in work regulations and introduces new enterprise management, but commercialization itself cannot provide managerial staff experienced in the system of a market economy. Lacking the practical experience of an advanced management, it is difficult for enterprises to pinpoint their own problems.

(6) Lack of business support systems

Business support systems such as financial service, business advisory service and industrial infrastructure are insufficient for small and medium-scale enterprises (SMEs). Demand for these support systems increases in

proportion to the popularity of establishing new businesses, but the efforts of administrative organs cannot cope with the situation.

3.3.2 Sectorial Development Framework

Development potential

- 1) The **three key industries** provide the area with an industrial base including materials, utilities and stock of technology.
- 2) **Ample land good for industrial sites** is available at relatively cheap prices along the trunk roads.
- 3) There is a **big potential for improvement of efficiency** of the existing industries through technology and management changes.
- 4) **The labor force is plentiful** because of a high level of supply of new graduates and because of many companies are over-staffed.

Development constraints

- 1) **General disorder during the period of transition** to a market economy may initially hamper rapid and efficient promotion of industry.
- 2) **The scale of the economy of the province alone small** for those industries which require a concentration of demand in proximity to the points of production.
- 3) Industries in the area often face difficulties in **hiring highly educated people** mainly because of the absence of universities in the province.
- 4) Mainly because of environmental issues, **the image of Konin Province** in Poland is not necessarily favorable, discouraging investment in the area.
- 5) There are **no industrial sites or industrial parks** fully equipped with infrastructure for new industries.

Development concept and strategies

Diversification and invigoration of industry in Konin Province

Strategy 1: Investment promotion of new manufacturing industries for Konin

Strategy 2: Restructuring of enterprises in transition to privatization

Strategy 3: Invigoration of small- and medium-scale enterprises (SMEs)

Strategy 4: Establishment of an institutional supporting system

3.4 Physical Distribution and Transport

3.4.1 Conclusion and Key Issues

- (1) Position of Konin Province regarding transportation and distribution of goods

Former Soviet Union countries border Poland on the east and south, and Germany lies to the west. Konin Province is located in the approximate center of Poland and is traversed by two arterial east-west routes that link Germany with Russia and former Soviet Union countries. One is National Road No. 2 -- E30 and the other is the A2 motorway that is almost complete between Konin and Poznan.

The arterial north-south highway E-7, that links Gdansk and Katowice, passes through Torun and Lodz but does not traverse Konin Province. The north-south A1 that is now being planned will not pass through Konin Province either. Therefore, although Konin Province is in the center of the country it does not perform a hub function regarding transportation modes and flows.

- (2) Present conditions in the distributive and transport sectors

Statements made below can be applied *mutatis mutandi* to the entire nation, and certainly are of great importance for Konin Province. Subsequent to the 1989 reform, privatization of the distributive and transport sector has proceeded rapidly, and many transport companies have been established, but in an orderless environment.

Because government regulation by law of common or so-called professional carriers is not well developed, there are not adequate provisions for minimizing the occurrence and severity of accidents. Users of transport services thus have no assurance of the quality of such service and must accept a high risk of accidents caused by overloading, or by overwork of drivers.

The transport sector itself is not well organized, in terms of an association of professional carriers, the supply of information on prices for customers,

and intermodal transport and the like. This is working as a deterrent for Konin Province companies that desire to enter foreign markets.

(3) Joint activities in the distributive and transport sectors

At meetings in Poland or in Konin Province, the Team was told that the Poles traditionally were not greatly disposed toward joint undertakings. Nevertheless, in order to control costs and maximize profits in a competition-driven market economy, the companies in Konin Province should give consideration to joint activities in the distributive and transport sectors.

(4) Problems in distributive and transport sectors in Konin Province

Regarding the infrastructure in Konin Province, refer to Chapter 5.

a) Post-harvest

Agricultural produce account for the major share of goods transported in Konin Province. Regarding both the software and the hardware for distribution of such produce after harvest, however, Konin Province is deficient. Farm households suffer large losses of income because of damage and quality deterioration of produce between the farm and final sale. They also are prevented from using control of shipments as means of maintaining prices.

b) Marketing function in the industrial sector

The Team receives the impression that the ordinary view found in a market economy, that it is necessary for a company to have the attitude that it will develop the market for its own products by means of its own efforts, is missing in companies in Konin Province. It is necessary for these companies to have the fundamental belief that they are going to produce the goods that customers want. This is particularly essential in the formerly state owned companies and is less of a problem among the smaller companies that have been established during the 1990s.

c) **Market information**

It may be said for all sectors, that in addition for it being difficult to obtain market information, there is insufficient awareness of the importance of such information. Although the companies now must act in accordance with the market economy, they are not accustomed to staying alert for information, or seeking information, from the market.

d) **Measures related to movement of the population**

Changes in the structure of industry that are expected by 2010 are described in Chapter 4. What is important for the distributive and transport sectors is the movement of population from rural areas to the zones where manufacturing and services are rapidly growing. Transport modes serving those areas must be provided.

3.4.2 Sectorial Development Framework

Development potential

- 1) **The area is at an advantageous location for transportation**, with trunk roads and railways accessing big cities, and the Watra River.
- 2) **Ample land is available** at relatively low cost, which provides the potential for development of distribution and transportation in the province.
- 3) **The A-2 Highway construction project** will provide many job opportunities for construction-related industries including construction materials supply.
- 4) **The freight transport companies** in Konin Province have latent competitiveness for handling international cargoes.

Development constraints

- 1) **Traffic infrastructure** has not been sufficiently improved within the province; this is especially the case for circular roads that bypass Konin city.
- 2) **The volume of physical distribution** in the area is too small to foster competitive projects in the sector.

- 3) A more attractive center of distribution exists close enough to compete with Konin city, i.e., Poznan.
- 4) There is **no licensing system** for starting a trucking business, and hence little assurance to trucking company customers of service quality and safety.
- 5) Commodity producers are **not familiar with the market economy**, or more effective methods of commodity distribution than now used.

Development concept and strategies

Establishment of an efficient distribution system corresponding to the market economy

Strategy 1: Maximum utilization of the potential of the transport infrastructure

Strategy 2: Strengthening of the freight transport sector

Strategy 3: Promotion of trade and transactions

Strategy 4: Improvement of the commuting system

3.5 Tourist Industry

3.5.1 Conclusion and Key Issues

(1) Patterns of tourism in Konin Province

Konin Province attracts about 2 million tourists annually. Dominant patterns of tourism are; (1) relaxing at resort areas extending along lakes in the north-western and north-central parts of Konin Province from all over Wielkopolska region and nearby major cities such as Poznan and Lodz, and (2) pilgrims of 1.5 million people to Lichen Stary, although the latter cannot be counted purely as tourists.

Though tourism resources, including untapped ones, are abundant, the existing facilities for tourists are insufficient in terms of both quality and quantity and serve only for a limited period of the year. Some of those facilities, particularly those along lakes in the north-central part of the Province, are developed and owned by companies of the three key industries in the province for their employees' recreational facilities and for internal meetings and conferences.

(2) Few tourism resources which can be differentiated

It may be said that major tourism resources of Konin Province are scenic areas blessed with lakes and forests and religious establishments (churches, etc.). The natural beauty of lakes and forests are less famous than those in the Masuria district in the north-eastern part of Poland which is one of Europe's most impressive districts having lakes and marshes. Saint Mary at Lichen is also less famous than Black Madonna at Jasna Gora in Czestochowa.

However, once the current construction works of new sanctuary at nearby site of the existing one, which will have the biggest accommodation capacity in this kind of facilities in Poland, will be completed by the end of this century, it is expected that it will bring a completely new stimulus to the existing pattern of tourist flows in the Province.

(3) Negative image of the Province's tourism

Within Poland, Konin Province is generally viewed as a "brown coal and energy province" which is dependent on the production of brown coal and the generation of electricity. Because of this, even when the Province tries to attract tourists by giving publicity to its beautiful lakes and forests, the sales talk tends to be discounted by a sort of preconception of environmental pollution. Besides, the Province has few facilities which are very much appealing to potential tourists. The limited patterns of tourism in the province are another factor inviting a negative image.

(4) Insufficient tourist infrastructure

Tourist infrastructure consists of hardware and software. In Konin Province, the development of local roads and accommodations (hardware) and the training of workers in the tourist industry (software) are especially insufficient. The roads that lead to the major sightseeing places and recreational areas in the Province are all one- or two-lane roads, impeding smooth traffic of large-sized vehicles.

Besides, in the high tourist season, many cars which are not admitted into the narrow parking lots at the sightseeing places overflow to the roads, causing traffic congestions at roads leading to those places and even in nearby cities. On the other hand, the capacity and quality of accommodation are not sufficient to meet the demand of increasing number of tourists, particularly for foreign tourists including businesspersons. The services of workers in the tourist industry need to be upgraded to international standards by giving further training.

(5) Few tourists in a winter season

Since the existing tourist pattern of Konin Province is summer-oriented and few accommodations can be utilized throughout the year, the utilization of tourist facilities and human resources only during summertime is not only wasteful to the tourism industry of the province but also is difficult to establish financially sound business activities. As a matter of fact, many tourist facilities in lake and forest areas close during winter season because of the absence of visitors. In order to establish all-year-round tourism in

the province, it is required to develop new tourist patterns of meeting the current and future tourists' demands and of operating throughout the year.

(6) Needs for the integrated tourism development concept

So far the tourism activities in Konin Province such as camping and recreational activities along lakes and forests, recreational facilities for the relaxation of company employees at lakes and huge number of pilgrims to Lichen Stary have all been conducted independently and not linked each other, which is a major factor of current underdeveloped situation in tourism of the province.

In order to overcome this aspects and establish financially viable and all-year-round tourism in the province, it is required urgently to formulate an integrated tourism development policy for the province which will have the basic concept of: 1) mobilizing all development potentials of existing and untapped resources including lakes and forests, rivers and swamps, geothermal hot waters, and, among others, of utilizing potentials of the huge number of pilgrims to Lichen Stary; 2) aiming the realization of pollution-free province since the basis of Konin tourism is nature-based one and the image of "polluted province" is destructive to the promotion of tourism; 3) putting priority to promoting the Konin tourism by establishing the tourism information center at the crossroad of tourist flow and upgrading the promotion tools including posters, printed matters, TV programs and video tapes; and 4) making use of province's geographical merits which has convenient access to major markets including cities of Warsaw, Poznan and Lodz and European markets through high speed trains (160 km/hour by the beginning of 1999) and east-west motorway for sections between Swiecko and Warsaw by 2005 - 2010.

3.5.2 Sectorial Development Framework

Development potentials

- 1) Konin Province, being the center of Poland, has a geographical advantage in terms of accessibility to tourists.
- 2) Lichen Stary and the new Lichen basilica will attract more pilgrims and tourists.

- 3) **There are undeveloped tourist resources** such as a rock salt mine, lakes and rural areas for agro-tourism.

Development constraints

- 1) The tourist resources in Konin Province **do not rank as first class** in the country nor in Europe.
- 2) **The image of Konin**, an area polluted by brown coal based industries, will discourage tourists from visiting.
- 3) The local governments **lack funds and budgets** for development of their tourism resources.

Development concept and strategies

Full utilization of tourist attractions in Konin Province

Strategy 1: Strengthening of the existing tourist patterns

Strategy 2: Development of new tourist patterns

Strategy 3: Preparation of tourist infrastructure

Strategy 4: Strengthening of Konin tourism promotion