

6

Strengthening multi-level governance and investment capacity to enhance local development in Poland

To enhance local development, Poland needs to consolidate the strategic role of subnational governments in local development. To move in this direction, this chapter assesses how regions and local self-government units (LSGUs) can have the appropriate means to deliver on their responsibilities and maximise public investment returns on regional and local development. The chapter provides key insights for Poland to strengthen its multi-level governance system and promote a functional and territorial approach to regional and local development. The chapter focuses on how to develop a more strategic approach to public investment and ensure strong and fluid partnerships across the national, regional and local levels.

Introduction

Since 1989, with the restoration of independence and democracy, the Polish multi-level governance system has strongly evolved. After 40 years of centralisation, Poland has pursued political and fiscal decentralisation reforms and the scope and role of subnational governments in policy delivery have increased significantly in the last years. Today, Polish voivodeships and local self-government units (LSGUs) play a crucial role in the definition of their own development as key competencies on regional and local development have been transferred to them. Still, while the role of subnational governments has been progressively strengthened with the decentralisation of new tasks, it is still limited when compared with other OECD regions.

Ensuring a sound multi-level governance system is crucial to make sure voivodeships, counties and municipalities are capable of efficiently promoting regional and local development and continue bridging the investment gap. As recognised by the OECD Recommendation on Effective Public Investment Across Levels of Government (2019^[1]), a multi-level governance approach to investment allows countries to maximise their returns on regional development. Poland has already embarked on improving multi-level relationships focused on strengthening the institutional environment as recognised in the “Strategy for Responsible Development for the period up to 2020 with a perspective up to 2030” (SRD). To move further in this direction, Poland needs to further strengthen the functional and territorial approach to development (see Chapter 1). For this to happen, Poland needs to take better advantage of several existing horizontal co-operation means and embed them with a more comprehensive and function approach. Urban-rural, urban-urban, and rural-rural linkages also need to be reinforced by stronger and more fluid partnerships across levels of government in which top-down processes are combined with bottom-up initiatives. It is also crucial to ensure that voivodeships and LSGUs have the appropriate means to deliver on their responsibilities and reduce the risk of under-funded mandates.

Furthermore, regions and LSGUs play an important role in managing the impact of the COVID-19 crisis, which has led to the first economic recession in Poland since the end of the communist era (see Chapter 1). Indeed, regional and local authorities are responsible for delivering critical short-term measures to this crisis, for example by introducing local tax exemptions, intensifying local procurement for infrastructural projects, reorganising public service delivery, providing sanitary equipment and reorganising education and kindergartens activities, among others. Being responsible for regional and local development, voivodeships and LSGUs will also play a key role in the medium- and long-term recovery, i.e. building more resilient territories that are better able to cope with future crises, whatever their nature. In this context, finetuning the multi-level governance becomes all the more important.

This chapter is based on the findings of the OECD questionnaire developed for this study and responses from national, regional and local actors, as well as evidence collected during four fact-finding missions conducted in different regional and local contexts. The first part of the chapter focuses on the fiscal relation across levels of government as the key framework conditions for an effective multi-level governance system. This first part provides a snapshot of subnational public investment in Poland as the main lever to enhance regional and local development. It also analyses how to ensure a more strategic approach to local public investment. Then, the chapter focuses on the main trends of subnational finance and the ways forward to better align responsibilities with financial means. In other words, it explores how to create the appropriate conditions for subnational governments to deliver on their tasks and ensure their financial capacity to invest. The third part provides some ways forward to facilitate joint actions across LSGUs and promote economies of scale and ways of embedding different LSGU partnerships in a functional and strategic manner. It also focuses on how to improve vertical co-ordination for effective co-operation between different levels of government and how to embed vertical relations with a more bottom-up approach in which LSGUs can take the initiative for investment projects that better respond to local needs.

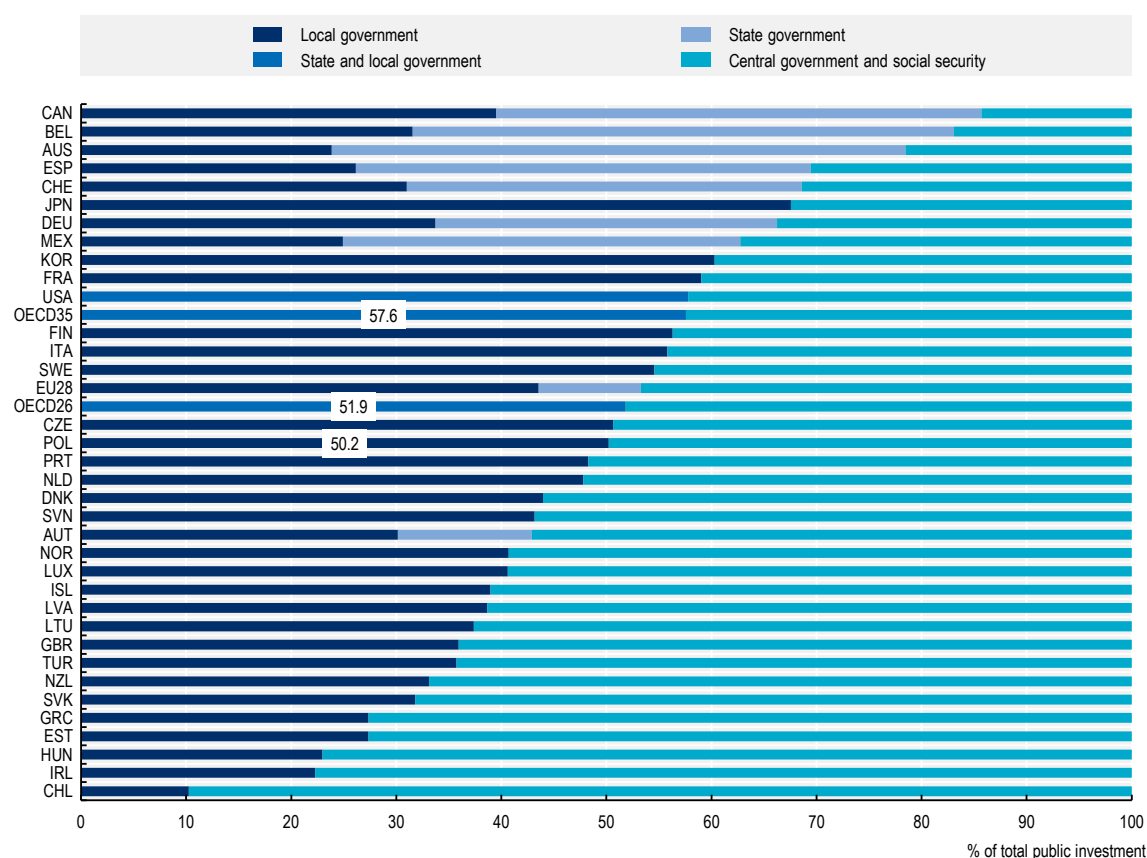
Strengthening subnational public investment to enhance local development

In OECD countries, regional and local governments play a pivotal role in investing in areas that are critical for growth and well-being. Regions and cities play an increasingly important role in key policy areas linked to infrastructure, sustainable development and citizens' well-being (e.g. transport, energy, broadband, education, health, housing, water and sanitation). In recent decades, the responsibilities of subnational governments in these fields have increased in a majority of OECD countries. This is also the case in Poland, where voivodeships and LSGUs have been granted increasing responsibilities in regional development investments. Still, as will be detailed in this section, the level of public investment by subnational governments is below the OECD average. Recovering the upward trend of subnational public investment in Poland – especially of infrastructure investments – should be a key priority to enhance regional and local development.

Recovering the upward trend of subnational public investment

Polish subnational governments are key investors but subnational public investment remains below the OECD average. In 2016, subnational public investment represented 1.2% of gross domestic product (GDP) (1.7%) and 35.7% of total public investment (50.8%), both below the OECD average for unitary countries (OECD, 2020^[2]). The 2009 financial crisis put at stake subnational investment. Between 2008 and 2016, subnational investment fell by 5% per year in real terms (OECD/UCLG, 2019^[3]). Among subnational governments, municipalities are the main investors, carrying out 44% in 2016, while those with county status represent 32% of subnational investment. Counties and regions have an equivalent weight (12% and 13% respectively) (OECD/UCLG, 2019^[3]).

Figure 6.1. Public investment by level of government, 2018



Source: OECD (forthcoming^[4]), *Subnational Governments in OECD Countries: Key Data*, OECD, Paris.

Some signs show a recent recovery of subnational public investment, especially on infrastructure. Since 2016, subnational public investment, as a share of total public investment, has been recovering from less than 40% to slightly over 50% in 2018, an upward trend driven by municipalities. This is in accordance with the European Investment Bank (EIB) study of subnational infrastructure investment, which shows that over the last 5 years, almost 60% of municipalities in Poland report an increase in investment activities in their jurisdictions and only 9% report a decrease (EIB, 2017^[5]). Over the past decade, Poland has significantly improved its infrastructure network, showing particularly a significant upgrade of its transport and energy infrastructure (Goujard, 2016^[6]). Although there are discussions about the efficiency of certain projects (aqua parks and airports are the most hotly debated), overall improvement in infrastructure (local roads, sewers, public spaces) during the last years has been significant (Łaszek and Trzeciakowski, 2018^[7]).

The improvement of infrastructure investment responds to an important effort by the national level to boost local infrastructure, especially for road investments. Poland stands out among Central European countries with the highest share of own resources (national or subnational) in funding infrastructure investments (EIB, 2017^[5]). In Central European countries, the share of EU funds accounts for 25% of total infrastructure funding for municipalities, while this share only reaches 16% in Poland (EIB, 2017^[5]). In this effort, the national Local Roads Fund introduced in 2019, for example, which is co-financed by the national and voivodeship levels, has been advantageous for municipalities, allowing them to raise the quality of life of local communities and the attractiveness and accessibility of potential investment. The main objective of this fund is to co-finance the construction, reconstruction and renovation of local roads, which is more important for lower-income municipalities (Box 6.1). Beyond national funding, Poland has also made

infrastructure investment a key priority for the 2014-20 European Union (EU) programming period, putting special emphasis on the need to improve transport infrastructure and develop public transport.

Box 6.1. The Polish Local Roads Fund

In 2019, the Council of Ministers adopted the law creating the Local Roads Fund (FDS) venture, consisting of PLN 6 billion (EUR 1.4 billion) earmarked for the construction of local roads. Funds accumulated in the FDS come, among others, from the National Fund for Environmental Protection and Water Management, the state budgets of the national defence and transport departments, as well as the State Forests National Forest Holding. This fund has replaced the national programme for the development of municipal and county road infrastructure for 2016-19.

The main task of the FDS is to co-finance the construction, reconstruction and renovation of local roads of civil, as well as military importance. The support also concerns the construction of new bridges as a part of the provincial, county and municipal roads. It is estimated that the fund, in 2019, enabled the renovation of 6 000 kilometres of local roads in Poland.

The amount of co-financing from the fund will depend on the income of the LSGU – the lower the income, the higher the co-financing will be, up to 80% of the total cost of one county or municipal tasks.

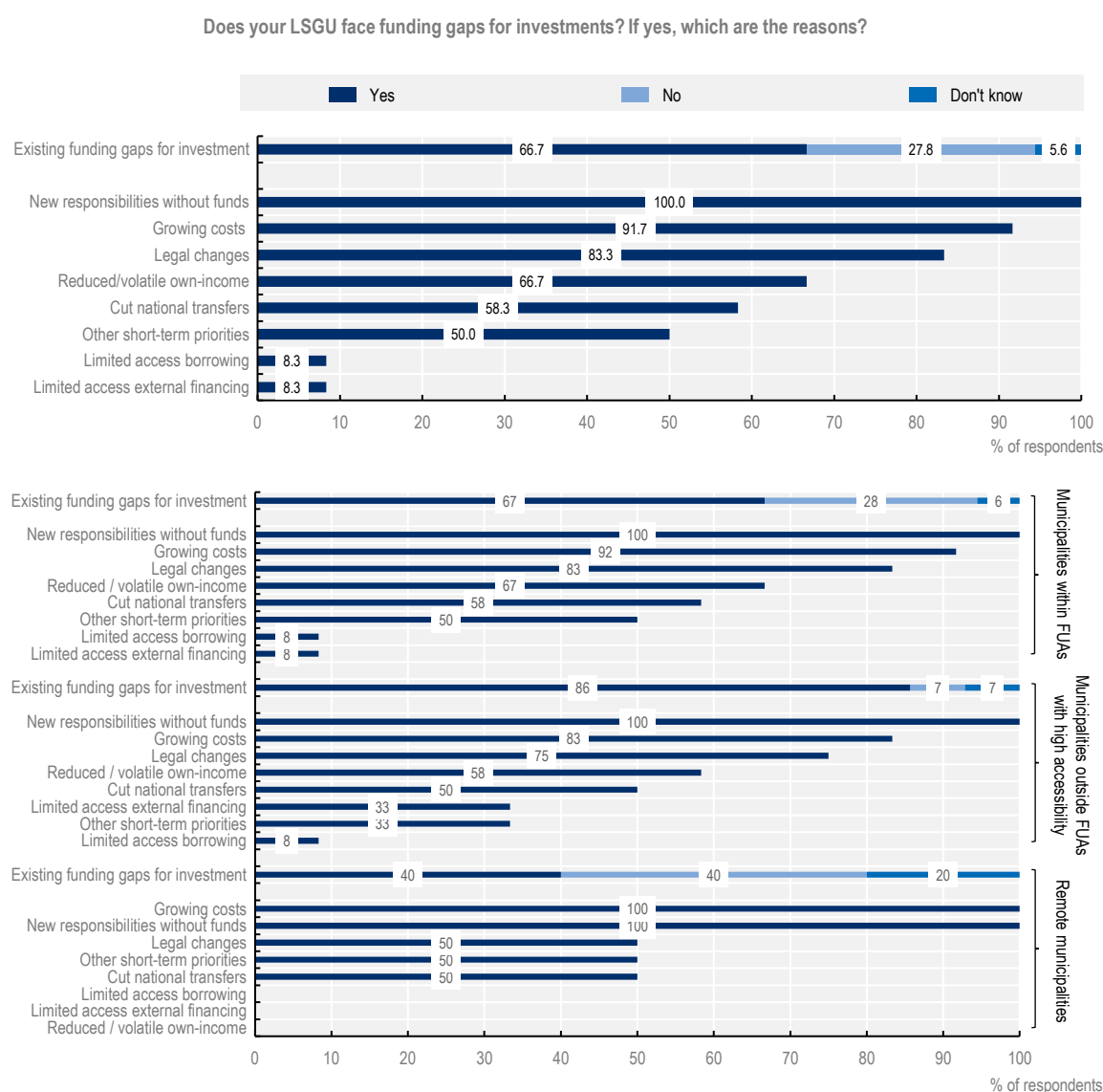
In 2020, the government announced the plan to transfer a total of PLN 36 billion (EUR 8.5 billion) to LSGUs in the form of FDS grants over the next 10 years. Importantly, multi-year projects will be eligible for FDS support, which could encourage local authorities to undertake larger investments that they have been putting off.

Source: Poland In (2018^[6]), “Polish govt to spend billions on local roads”, <https://polandin.com/39070710/polish-govt-to-spend-billions-on-local-roads>; Construction Market Experts (2019^[9]), “Local Roads Fund money allocated among regions – applications to open in days”, <https://constructionmarketexperts.com/en/data-and-analysis/local-roads-fund-money-allocated-among-regions-applications-to-open-in-days/>; <https://archiwum.premier.gov.pl/en/news/news/we-are-developing-the-local-government-roads-fund-in-2021-the-government-is-planning.html>

Still, infrastructure investment remains one of the greater challenges for LSGUs

Even if infrastructure investment has been upgraded, evidence shows that a gap between local needs and public investment remains. The EIB study cited above highlights that over the past years, 38% of Polish municipalities believe investment activities in their jurisdiction have been below their needs (2017^[5]). This perceived gap stands out in urban transport for which 43% of municipalities report an investment gap (compared to 35% at the EU level), as well as in social housing and environment (EIB, 2017^[5]). The OECD questionnaire conducted for this report also shows this gap between needs and actual public investment at the local level – 70% of respondents declared having a funding gap for investment, mainly due to the assignment of responsibilities without the corresponding funds (see section above) and the growing costs of existing services. This investment gap has been reported to be more pronounced in LSGUs inside functional urban areas (FUAs) than in remote ones (Figure 6.2). This is also the case at the national level where, for example, the perceived quality of overall transport infrastructure and electricity supply remains lower than in most OECD countries (Goujard, 2016^[6]).

Figure 6.2. Funding gaps for public investments at the local level



Note: Based on 37 municipality responses to the OECD questionnaire. 18 responses from municipalities (gminas) within FUAs; 14 responses from municipalities outside FUAs with high accessibility; 5 responses from remote municipalities.

Source: Author's own elaboration based on municipalities' responses to the OECD questionnaire (2020).

Accessibility and the quality of roads is still a key priority for all types of LSGU across Poland. The quality of roads varies across the country: municipal roads exhibit the greatest share of unpaved roads (54.8% in 2017), in comparison with the county (8% of soil roads) and regional roads (0.1%) (see Chapter 1). Moreover, 26 out of the 73 TL3 regions¹ (including counties) have more than 50% of their road network unsurfaced (see Chapter 1). During the OECD missions to different LSGUs, all of them mentioned the need to put greater efforts into road infrastructure to improve their citizens' well-being as well as connectivity with the different economic centres within and outside the country. In Ziębice, for example, stakeholders reported having poor road infrastructure and street lighting, making the municipality less attractive for large investors. This is particularly relevant for local self-governments as all LSGUs across Poland are encouraged to attract businesses and offer better conditions for investment.

The current COVID-19 pandemic puts at stake infrastructure investments for all levels of government. All countries face the risk of using public investment as an adjustment variable, as was the case after 2010 to counterbalance fiscal consolidation plans that had created a strong drop in public investment, as observed in EU and OECD countries until recently (Box 6.2) (OECD, 2020^[10]). In order to reduce these risks, the Polish national government has been very reactive in mitigating the negative impact of the crisis. Since March 2020, it has put in place a recovery package of EUR 48 billion, i.e. almost 10% of the Polish GDP. The package has 5 thematic pillars including one dedicated to boosting public investment by EUR 6.6 billion. The government will establish a special fund to finance public investment in the construction of local roads, digitalisation, modernisation of schools, energy transformation, environmental protection and reconstruction of public infrastructure (OECD, 2020^[10]).

In order to ensure the level of public investment and make it a key tool for crisis exit and recovery, it will be crucial that public investment contributes to resilience and a low carbon economy. For this, all levels of government need to integrate social and climate objectives into recovery plans. To make the most of public investment in this context, as developed in the next sections, strengthening the multi-level governance system will be crucial.

Box 6.2. Public investment and crisis recovery: Lessons and ways forward

Many national and subnational governments have reacted quickly to address the economic and fiscal consequences of the crisis and countries are spending significantly more than in 2008-09. A number of countries have already announced recovery strategies with a focus on public investment to support economic recovery in the short and medium terms.

The level of public and private investment in OECD countries prior to the COVID-19 crisis was still below the 2008 pre-crisis levels. A main risk in the current context is a further decline of subnational public investment, which would act as a procyclical effect impeding the recovery. In several countries, the risk is high, given the contraction of self-financing capacities and increasing deficits. It is also important to avoid large investment stimulus followed by very strong fiscal consolidation, a sequence seen in 2008-10 that undermined public investment for almost a decade.

Experience from the 2008 financial crisis indicates that investment recovery strategies need to be well-targeted to a few priority areas and that the way public investment strategies are managed largely determines their outcomes, as highlighted by the OECD Recommendation on Effective Public Investment Across Levels of Government. During the implementation of investment recovery packages in 2008-09, for example, a major challenge came from the fact that investment was fragmented by the municipality, thus limiting the potential for large projects with an impact on territorial development.

Recovery investment strategies need to be aligned with ambitious policies to tackle climate change and environmental damage. Technologically advanced, sustainable and resilient infrastructure can pave the way for an inclusive post-COVID economic recovery (World Economic Forum, 2020^[11]). It is also essential to look beyond physical infrastructure investment and consider investment needs in skills development, innovation and research and development (R&D). It is particularly important to ensure that investments from stimulus packages do not impose large stranded asset costs on the economy in coming decades.

Some key recommendations developed by the OECD to ensure that public investment can contribute to the crisis exit and recovery are:

- Minimise fragmentation in the allocation of funds and ensure allocation criteria are guided by strategic regional priorities.

- Consider temporarily relaxing fiscal rules to create sufficient fiscal space for public investment.
- Consider introducing green and resilience-building criteria for the allocation of public investment funding for all levels of government.
- Help target public investment strategies to green and inclusive priorities by introducing conditionalities.
- Encourage regional and local authorities to invest in digital infrastructure with an eye on full territorial coverage and ensure adequate weight is given to regional digital inclusion in support of public investment choices.

Source: OECD (2020^[10]), "The territorial impact of COVID-19: Managing the crisis across levels of government", https://read.oecd-ilibrary.org/view/?ref=128_128287-5agkkojaaa&title=The-territorial-impact-of-covid-19-managing-the-crisis-across-levels-of-government.

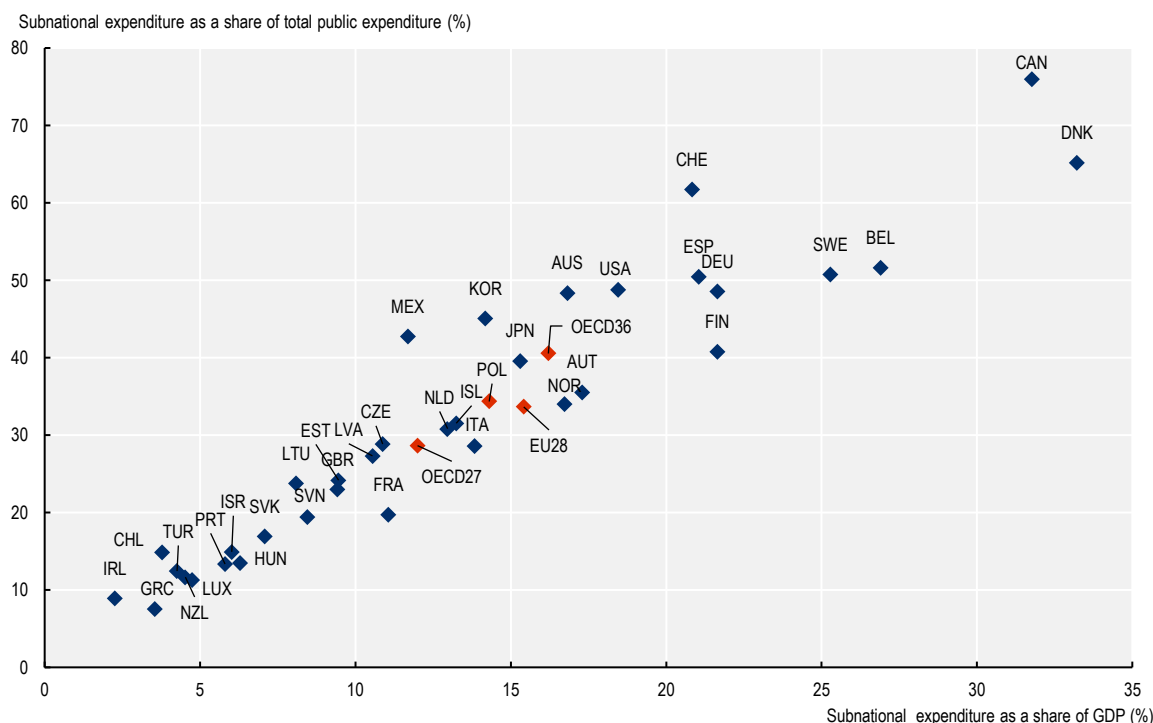
Fiscal challenges across levels of government in Poland

In Poland, as in most OECD countries, the alignment of responsibilities and revenues remains an area of concern for LSGUs. As will be discussed in details in this section, the mismatch between revenue-generating means and the responsibilities that have been recently assigned to LSGUs affects their capacity to effectively deliver on their mandates. To ensure that LSGUs are capable of promoting local development and financing investments, it is crucial to make sure they have adequate funding. In this respect, reducing the mismatch between expenditure and revenue generation means LSGUs should be a priority for Poland.

Municipalities have led the increase of subnational expenditures

Polish subnational governments, especially LSGUs, are key economic and social actors. The share of subnational governments² expenditure in total public expenditure substantially increased with decentralisation reforms (see introduction), going from 23% in 1995 to 34.4% in 2018 (OECD/UCLG, 2019^[3]; OECD, forthcoming^[4]). Regional and municipal expenditures as a share of public expenditure (34.4%) and GDP (14.3%) (Figure 6.3) in 2018 were above the OECD average for unitary countries (28.6% and 12% respectively) and similar to the EU average (33.7% and 15.4% respectively), even if they remain below the average for all OECD countries (40.5% and 16.2% respectively). Polish municipalities have also increased their municipal spending autonomy during the last years. A recent study by the OECD shows that, between 2011 and 2017, municipal spending autonomy³ in Poland has increased by more than 5% in contrast with other countries such as the Czech Republic, Estonia or Spain where spending autonomy has decreased (Moisio, forthcoming^[12]).

Figure 6.3. Subnational government expenditure in OECD countries as a percentage of GDP and total public expenditure, 2018



Note: OECD27 refers to the average of OECD unitary countries. EU28 identifies the average for EU countries. OECD 36 refers to the average for all OECD countries.

Source: OECD (forthcoming^[4]), *Subnational Governments in OECD Countries: Key Data*, OECD, Paris.

While municipal expenditure has been increasing, the role of regions is still limited. Indeed, while looking at subnational expenditure, municipalities are by far the ones that expend the most. In 2016, municipalities were responsible for more than 80% of subnational expenditure (48% for municipalities and 35% for the cities with county status) (OECD/UCLG, 2019^[3]) and county expenditure represented 11%. Regions were only responsible for 5.3% of subnational expenditure, contrasting with 25% on average in OECD unitary countries (OECD, 2020^[13]). For regions, the most important share of expenditure is dedicated to economic affairs (52%) while only 5% and 7% of their expenditure goes to education and health respectively (OECD, 2020^[13]).

The primary spending area of Polish counties and municipalities is education. In 2016, subnational expenditure in education (considering voivodeships, counties and municipalities) accounted for 48% of total public expenditure (OECD/UCLG, 2019^[3]). Subnational governments are responsible for both capital and current expenditure, including remuneration of teachers and staff, which represent one of the most important subnational expenditure items not only in Poland but also for a large part of OECD countries. Thus, it is not surprising that the last reforms on transferring more responsibilities to municipalities regarding education have put strong pressure on municipal budgets. One key issue regarding the recent changes to the education law is that LSGUs have a limited capacity to adapt the school network and infrastructure to the sometimes-decreasing number of students. As the amount of the educational subsidy is calculated on the basis of the number of students, without a change in the network of educational institutions, LSGUs, to a large extent, have to finance the education task from other funds.

Social protection and healthcare, being the second and third most important subnational expenditure items, put Polish subnational governments at special risk in the current COVID-19 crisis. Social protection

expenditure has substantially increased in recent years, becoming the second most important subnational budget item in 2016 (21% vs. 13% in 2013) (OECD/UCLG, 2019^[3]). In the context of the COVID-19 crisis, subnational governments are confronted with a number of complex and costly tasks. They must first manage the full or partial closure of certain services and facilities, and then the reopening to ensure the continuity of essential public services. They also need to adjust the services either physically (public transport, collection of waste, cleaning of public spaces) or virtually (telehealth consultations, remote education arrangement, local tax payments, access to government information, etc.) (OECD, 2020^[10]).

Reducing the mismatch between expenditure and revenue-generating means

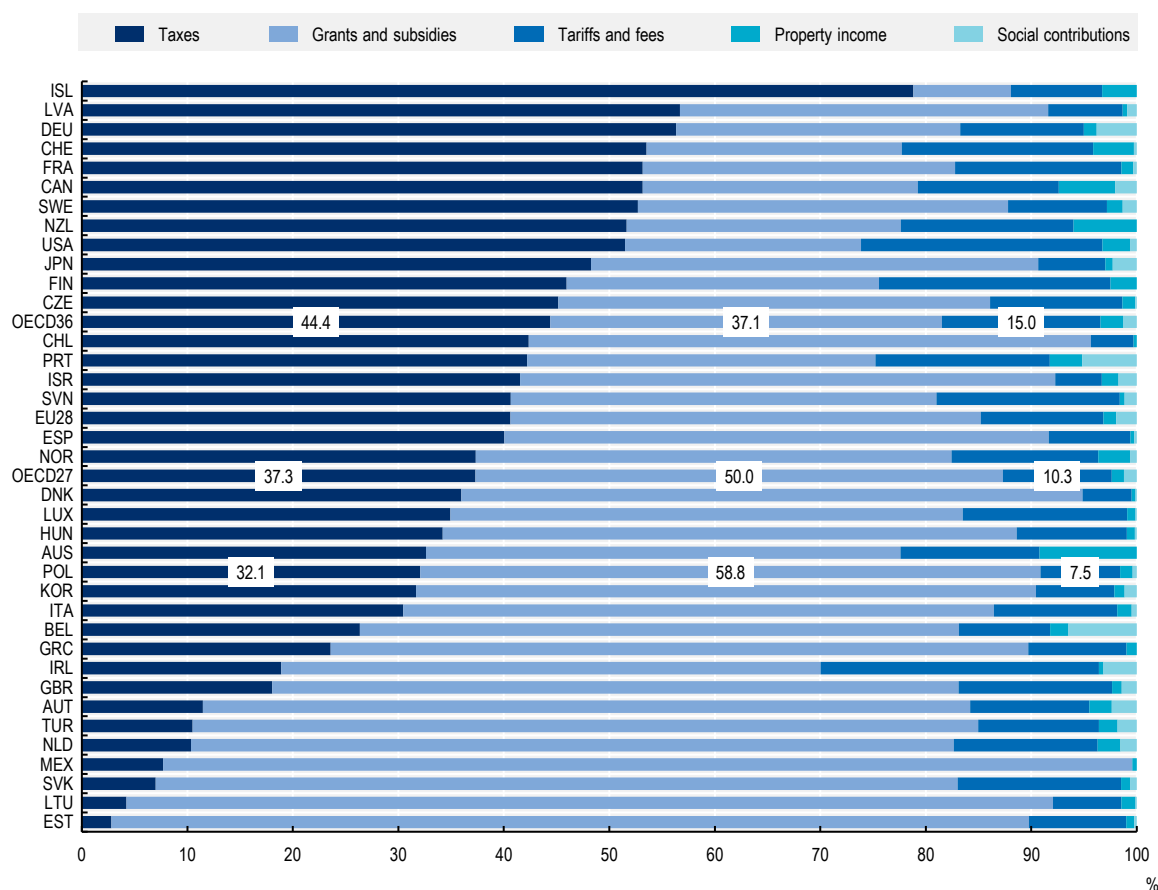
Subnational governments rely particularly on national government transfers

Subnational governments – voivodeships, counties and municipalities – in Poland are highly dependent on national government grants and subsidies, which represent almost 60% of subnational revenues, above the OECD average of 37% and the OECD average for unitary countries of 50% (Figure 6.4). In 2016, grants and subsidies represented 65% of county revenues, 56% of municipal revenues and 47% of regional revenues. In contrast, municipalities with county status have a more diversified structure of revenue, with grants and subsidies representing only 38% of their revenues (OECD/UCLG, 2019^[3]). Revenue autonomy (own revenue relative to total resources available) at the local level is lower than the EU average (41% vs. 53% in 2018), which indicates a higher-than-EU-average dependency on national government transfers (59% vs. 48% in 2018) (CoR, n.d.^[14]). Mirroring the expenditure side, the grant to cover educational expenses, including teachers' salaries, is by far the largest (78% of the general grant) accounting for 17% of subnational governments' revenues in 2016 (OECD/UCLG, 2019^[3]).

Voivodeships and counties highly rely on national government's transfers or EU funding. Regional revenues represent a very small share of total subnational revenues (5.5%) and tax margins for regions are also low (1.5% of the income tax of physical entities, 0.5% of corporate tax) (OECD, 2020^[13]). The majority of regional funds comes from mostly pre-allocated national state endowments, while most regional expenditure is quasi-obligatory (health and education) (OECD, 2020^[15]). Voivodeships receive a portion of shared tax revenue, according to a fixed percentage, being the ones that receive the largest share of corporate income tax. Counties also receive a share of national income taxes but do not have any other form of tax revenue, which limits their investment capacity. Moreover, for some LSGUs that heavily rely on national or EU funding, the strategic planning process could be particularly challenging: with funding being assigned on a project basis, some LSGUs may tend to prioritise projects based on availability rather than other higher strategic priorities (OECD, 2018^[16]).

Municipalities are the only subnational tier (of all three levels) that hold the power to tax – though this power is limited. LSGUs in Poland collect less revenue from autonomous taxes and more from tax-sharing schemes than in the rest of OECD countries. The LSGU tax autonomy indicator by the European Committee of the Regions (CoR) shows that LSGUs in Poland have very low autonomy in setting rates related to their tax revenues: the biggest share relates to shared taxes (59%), while 30.1% of the total is tax revenues over which LSGUs have little to no autonomy (CoR, n.d.^[14]). The majority of local taxes are set by national laws or regulations and local authorities can only introduce some tax exemptions and reliefs. The only exception is the tax rate of property tax. Indeed, for municipalities, property tax is the most important local tax levied on buildings and plots of land. The amount of local taxes and fees is determined by each municipality but must comply with frameworks and upper tax limits determined by national legislation. Property tax revenue accounted for 28% of total budget revenues for predominantly rural subregions, 25% for intermediate subregions and 17% for predominantly urban ones in 2014 (OECD, 2018^[16]). These figures have changed little since 2010 (OECD, 2018^[16]). In contrast, counties do not have any lever to determine any local tax variable.

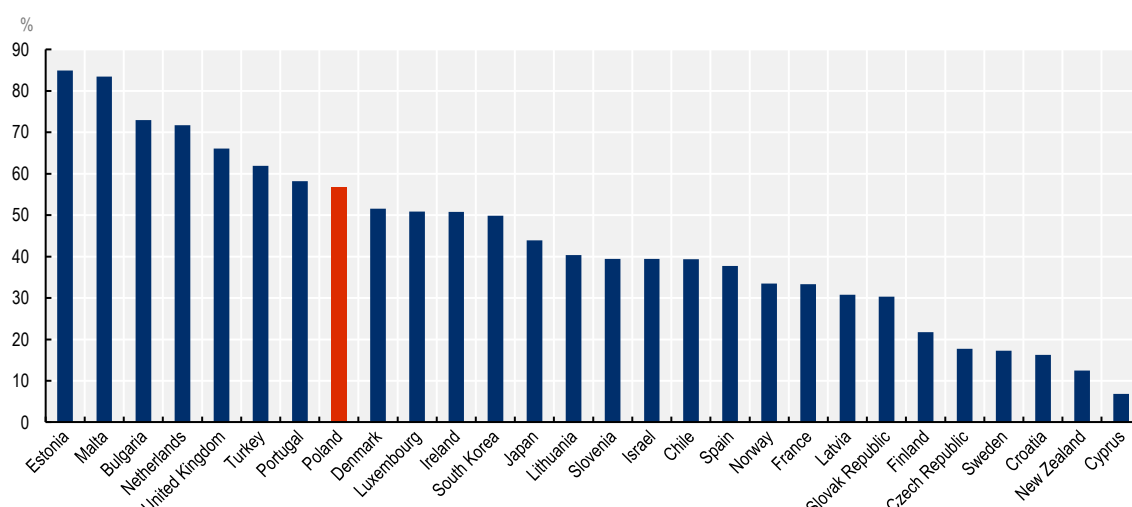
Figure 6.4. Structure of subnational governments revenue, 2018



Source: OECD (forthcoming^[41]), *Subnational Governments in OECD Countries: Key Data*, OECD, Paris.

Poland is thus among the countries with a higher vertical fiscal gap⁴ at the municipal level (Figure 6.5). In contrast with countries such as Estonia or Malta where over 80% of municipal sector spending is financed with national government transfers, in Poland, this rate reaches 57%. Still, the vertical fiscal gap in Poland is more important than in other OECD countries such as Chile or Estonia, the last being one of the most centralised countries in the OECD.

Figure 6.5. Vertical fiscal gap, 2017



Note: Primary results with a sample of 26 countries out of 32. There is no available municipal fiscal data before 2013 in Croatia, Greece, Hungary, Italy, Norway and Romania. Data is 2012 instead of 2011 for Spain and 2016 instead of 2017 for France, Israel and Japan.
Source: Moisis, A. (forthcoming^[12]), "Uncovering the unknown: Spending indicators on municipal decision-making authority", CFE/RDPC(2019)19, OECD, Paris.

Municipalities receive the largest share of the personal income tax transfer and as such, are encouraged to attract people to live in their territory (Box 6.3). Still, Polish localities have a very limited ability to incentivise their citizens to pay the personal income taxes in order to increase their tax sharing revenue. The same happens with general grants, notably the education grant, which is calculated based on the number of pupils and teachers in a county. To prevent a reduction of education grants, some counties strive to hold on to their populations. Jarocin, for example, a town in central Poland, attempts to do this by collaborating with the national government to provide subsidised housing (Łaszek and Trzeciakowski, 2018^[7]). The recent improvement of the road infrastructure network (see Chapter 1) has had a two-sided effect on tax collection in this regard. On the one hand, it has improved the accessibility of medium and small cities to FUA centres, with the positive implications on economic growth that this generates (see Chapter 1). On the other hand, it has indirectly encouraged people to move to less densely populated areas and smaller towns. In turn, this has benefitted some cities that now collect more local taxes but others with a declining population need to resort to more innovative ways of funding to counteract the decline of local tax collection.

The fiscal capacity of municipalities varies significantly across Poland depending on their size and income sources. To address these disparities, Poland has adopted a number of vertical and horizontal equalisation systems. The general subsidy for municipalities from the state budget consists of three parts: i) an educational subsidy calculated on the basis of the number of students in schools and educational institutions under the competency of the municipality; ii) a "compensation" or equalising part in which municipalities with fiscal revenues of less than 90% of the national average receive additional funds; and iii) the "balancing" part from a horizontal equalisation mechanism where municipalities obtaining the highest tax income per inhabitant make contributions to the mechanism and the funds are redistributed on the basis of an algorithm including different criteria (see Box 6.3).

The limited fiscal flexibility of Polish subnational governments might be a risk factor to face the current COVID-19 crisis. The crisis has resulted in increased expenditure and reduced revenue for subnational governments and, while its impact on subnational finance will not be uniform across the country, it is expected to be long-lasting. Polish subnational governments, depending strongly on national grants, might

in the short term be less exposed to revenue impacts than other subnational governments in OECD countries such as Canada or Sweden. Still, it is expected that, in the medium term, the decrease in revenues, combined with a continuous increase in expenditure (due to social spending and investment), could result in a scissor effect and therefore in subnational government deficit, as was the case in 2007-08 (OECD, 2020^[10]).

Given the high fixed expenditures that municipalities, counties and voivodeships have, they have limited ability to absorb exceptional stress and restricted capacity to adjust their expenditure and revenues to urgent needs. Preliminary estimates show that some LSGUs might experience a negative gross operating surplus (difference between current income and current expenditure); for other LSGUs, the surplus might be less than 2% (Cieślak-Wróblewska, 2020^[17]). Both situations imply an important adjustment for LSGUs, both in current expenses as well as in local investments and maintenance. LSGUs across Poland are already making efforts to reduce expenses or increase revenue sources. Drawsko, for example, has made cuts in investment expenditure by nearly PLN 11 million; the city council of Grudziądz has adopted resolutions to increase the price of public transport tickets and real estate tax, as well as expand the paid parking zone (Cieślak-Wróblewska, 2020^[17]).

Box 6.3. The fiscal capacity of subnational governments in Poland

Subnational government revenues in Poland come mainly from four sources:

1. Own-source tax revenues levied through limited taxation powers in accordance with nationally determined maximum rates.
2. Shares in personal and corporate income taxes.
3. Grants, including general-purpose grants and conditional (or earmarked) grants. The latter may include resources from EU budgets (Structural and Cohesion Funds).
4. Non-tax own-source revenues (user tariffs and fees; revenue from property, leasing and sales, including revenues from municipal companies and public utilities).

Property tax is the most important tax for municipalities, which are the only ones that hold the power to tax. The amount of the local taxes and fees is determined by each municipality but must comply with frameworks (and upper tax limits) determined by national legislation. Property tax rates are differentiated depending on the purpose of the property, including the basic division that applies to residential and commercial properties. For example, in the case of land, property tax is based on the area of the land (to a maximum of PLN 0.89/m² of land); in the case of buildings, it is based on their floor area (to a maximum of PLN 23.03/m² of the usable surface of a building) (Ernst & Young, 2014^[18]). This information is determined through the national registry and assessment takes place on an annual basis. Only one element of property tax is based on assessed value: certain construction structures (other than buildings) that are being used in economic activity are taxed based on the market value at a fixed rate (usually 2% of market value). Agricultural and forestry lands are subject to taxes, which are separate from property taxes. Other taxes that are far more marginal to the municipal budget include taxes on agricultural lands (paid by hectare with soil quality taken into account), forests, large vehicles and a number of other minor duties.

Shared tax revenue comes from the share of personal income tax (48% of subnational tax revenue) and company income tax (9% of subnational tax revenue). Shares of national income taxes are redistributed to all three levels of subnational government according to a fixed percentage of the total proceeds collected within the territory of the jurisdiction with municipalities receiving the largest share of the personal income tax transfer and voivodeships receiving the largest share of corporate income

tax. As such, there is a fiscal incentive for municipalities to increase their populations and for voivodeships to foster business growth. There is no horizontal equalisation mechanism.

The **general-purpose grant** consists of four main shares: education, equalisation, balancing and regional. Despite these delineations, subnational governments can spend general grants at their own discretion – they are not tied to a particular purpose (with the exception of the part of the educational subsidy allocated to expenditure on educating children with special educational needs).

1. The **education share** accounts for over 20% of subnational government revenues. It covers educational expenses, including teacher's salaries.
2. The **equalisation share** (5% of subnational revenue) is allocated to all subnational governments with below-average tax capacities. Municipalities whose per capita revenue-raising capacity from local and shared revenues are below that of a national threshold amount qualify for a basic grant determined on the basis of both population and tax capacity. The structure of the equalisation grant favours small municipalities with low population density (Sauer, 2013^[19]).
3. The **balancing share** (only for municipalities and counties) distributes funds based on social expenditure; it takes into account such issues as GDP per capita, the surface area of public roads per capita and the unemployment rate in an area.
4. The **regional share** is a general grant calculated for each region based on the unemployment rate, GDP per capita, area of public roads per capita and regional railways expenditure.

In addition to the above, some municipalities may also receive “**compensation**” grants, which are used to compensate municipalities for lost property tax revenues due to special economic zones (special zones that can be established which provide businesses with income tax rebates, hence limiting tax intake for the municipality).

The final group of **conditional or earmarked grants** are related to the responsibilities that have been delegated to LSGUs, the most important of these being provisions for social assistance. The vast majority of intergovernmental transfers in Poland are lump sums as opposed to matching grants. Grants from the EU are included under conditional or earmarked grants in most cases. The value of LSGU revenue to GDP ratio in Poland has been significantly higher than the average of EU countries (Uryszek, 2013^[20]).

The 2015 Revitalisation Act expands municipal fiscal instruments on two points: i) it enables LSGUs to calculate and collect an adjacency levy (at a rate higher than that set by general rules), which can be used to capture the increase in value of real estate as a result of the construction of municipal infrastructure in the regeneration zone; ii) it introduces the possibility of increasing the real estate tax rate (up to PLN 3/m² of land per year) in the designated revitalisation zone for new developments.

Source: OECD (2018^[16]), *OECD Rural Policy Reviews: Poland 2018*, <https://dx.doi.org/10.1787/9789264289925-en>; OECD (2016^[21]), *Governance of Land Use in Poland: The Case of Lodz*, <https://dx.doi.org/10.1787/9789264260597-en>; Uryszek, T. (2013^[20]), “Financial management of local governments in Poland-selected problems”, <http://dx.doi.org/10.7763/JOEBM.2013.V1.55>; Ernst & Young (2014^[18]), *The Polish Real Estate Guide: Edition 2014 - The Real State of Real Estate*, [http://www.ey.com/Publication/vwLUAssets/EY_Real_Estate_Guide_Book_2014/\\$FILE/EY_Real_Estate_Guide_Book_2014.pdf](http://www.ey.com/Publication/vwLUAssets/EY_Real_Estate_Guide_Book_2014/$FILE/EY_Real_Estate_Guide_Book_2014.pdf); Sauer (2013^[19]), “The System of the Local SelfGovernments in Poland”, Research paper 6/2013, Association for International Affairs, <https://www.amo.cz/wp-content/uploads/2015/11/amocz-RP-2013-6.pdf>.

Strengthening revenue-generating means, aligning LSGU responsibilities and revenues

One of the most important challenges for Polish municipalities relies on the existence of underfunded or unfunded LSGU responsibilities, as in many OECD countries. As mentioned above, with decentralisation

reforms, municipalities have been granted more responsibilities over the last years and the access to EU funds has increased their competencies. While municipalities are in a better position in terms of own-source revenue than counties and voivodeships, it is often remarked that they have seen more responsibilities devolved to them and yet very little in the way of increased fiscal decentralisation to match it. Successive OECD reviews have made this point (OECD, 2009^[22]; 2013^[23]; 2018^[16]). The alignment of responsibilities and revenues remains an area of concern in most OECD countries as subnational expenditure far exceeds subnational tax revenues. This vertical fiscal gap is often filled by other sources of revenue, e.g. non-tax revenues and transfers (OECD, 2019^[24]).

The recent educational reform seems to put strong pressure on some municipalities' financing and their ability to predict funding. The 2017 national educational reforms to the primary and secondary education system of primary and secondary schools place significant costs linked to infrastructure and teachers' salaries on municipalities, in particular the smaller and remote ones. For example, LSGUs reported that they sometimes need to use their own budgets to cover the costs of retrofitting classrooms or severance payable to exempted teachers (Wojniak and Majorek, 2018^[25]). Since September 2017, students attend eight years of primary school and four years of secondary school (or five years of vocational school); middle school enrolments will be phased out and municipalities are obliged to provide pre-primary education for each child. For this to be possible, LSGUs have to bear the costs of new infrastructure but without adequate funding. This particularly affects rural and remote municipalities.

The assignment of responsibilities without the corresponding funds seems to be one of the major reasons behind investment funding gaps at the local level. During the OECD visit to different LSGUs across Poland all relevant actors identified the lack of financing of new responsibilities on education as a key challenge for the efficient management of expenditure and investments. The OECD questionnaire also reveals that all municipalities facing a funding gap for investment identify the existence of unfunded mandates as the main reason explaining this gap, and this is the case for all types of municipalities, whether inside FUAs, outside, or remote (Figure 6.2). The lack of funding and resources is also identified as the top challenge for all types of municipality to fulfil the responsibilities that are assigned by law. In addition, as seen in the recent OECD field visits to different municipalities and as pointed by previous OECD studies (2018^[16]), municipalities report facing unpredictable funding due to changes related to the structure of significant factors in education subventions. A particular concern for rural municipalities is the timeframe for determining educational subventions on a year-to-year basis. More upfront communications on these changes will help communities better plan (OECD, 2018^[16]).

The mismatch between responsibilities and revenues makes Polish voivodeships and municipalities very dependent on European funding, in particular for public investment. EU funds have greatly contributed to accelerating the development of Poland. They have allowed, for example, LSGUs to undertake infrastructure investments that have shaped the local reality and that would have not been possible without access to this source of funding. While subnational governments should continue to make the most of EU funding opportunities, they also need to diversify their sources of financing for public investment in a proactive way and not to rely too much on external funds as the only source of funding. At the same time, European co-financing may favour voivodeships and municipalities that have higher administrative and institutional capacities in preparing projects to be funded by European funds. To reduce these inequalities, voivodeships play a critical role in supporting LSGUs to strengthen their capacities to develop projects able to be financed by EU funds. The role of voivodeships in encouraging joint projects, through integrated territorial investments (ITIs) to implement EU projects across several jurisdictions for example, is also crucial.

A better balance between revenue-generating means and expenditure needs might help Poland in creating better accountability and responsiveness. Further decentralising revenues, by granting larger tax autonomy to LSGUs in Poland, may ensure more efficient functioning of the decentralisation system. Poland has space to expand the autonomous tax revenue. Indeed, evidence shows that subnational governments work best when local residents self-finance local services through local taxes and charges.

This enhances the efficiency and accountability of local service provision by encouraging local residents to evaluate the costs and benefits of local service provision (OECD, 2019^[24]).

Strengthening co-ordination and collaboration among and across all levels of government

To maximise public investment returns on regional development, it is important to strengthen the Polish multi-level governance system. For this, moving towards a functional approach to the different partnerships between LSGUs is crucial. At the same time, Poland needs to embed vertical relations between the national, regional and local self-governments with a more bottom-up approach in which LSGUs can take the initiative for investment projects that better respond to local needs.

This is particularly relevant in the current COVID-19 crisis, as Poland needs to develop the right means to implement efficiently the COVID-19 crisis recovery package. At the same time, in order to protect public investment and make it a key tool for crisis exit and recovery, it will be crucial that public investment contributes to resilience and a low-carbon economy. For this, all levels of government should integrate social and climate objectives into recovery plans. In order to make the most of public investment in this context, as developed in detail in this section, strengthening the multi-level governance system is crucial.

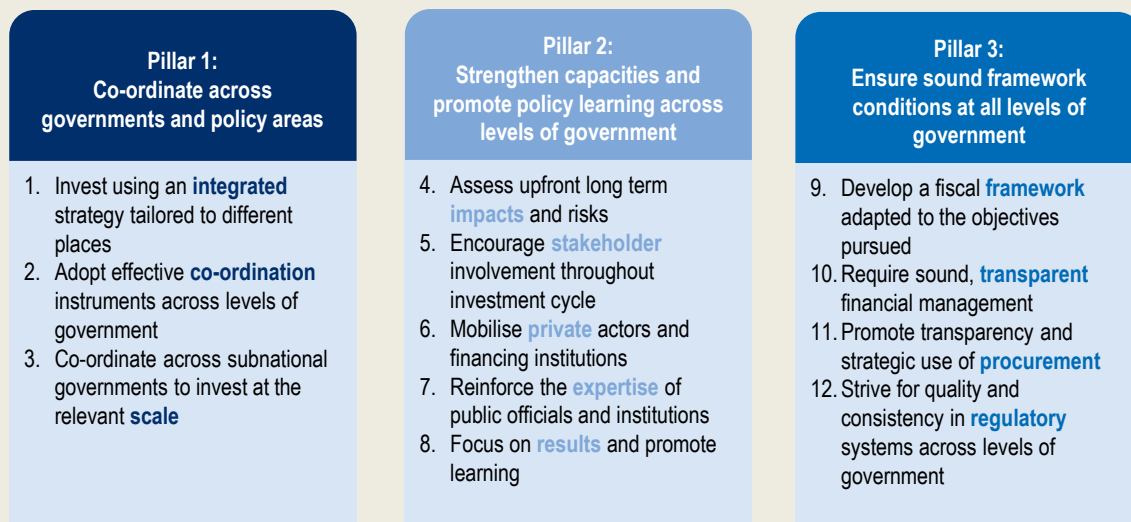
As recognised by the OECD Recommendation on Effective Public Investment Across Levels of Government (Box 6.4), a multi-level governance approach to investment allows countries to maximise their returns on regional development. National governments can help ensure a balanced approach to infrastructure development and regional and local actors are well placed to prioritise needs and identify complementarities at the local level. Better aligning investment with spatial and land use planning, as well as ensuring a functional approach to investments are key ways forward for Poland. For this, it is crucial to move towards an approach through which the different partnerships between LSGUs are developed in a functional and strategic fashion to optimise investment. At the same time, Poland needs to embed vertical relations among the national, regional and local governments with a more bottom-up approach in which LSGUs can take the initiative for investment projects that better respond to local needs.

Box 6.4. The OECD Recommendation on Effective Public Investment Across Levels of Government

In 2014, the OECD Recommendation on Effective Public Investment Across Levels of Government was endorsed by the OECD Regional Development Policy Committee (RDPC) and adopted by the OECD Council. The recommendation aims to help countries assess the strengths and weaknesses of their public investment governance capacity for regional development across all levels of government. It serves as a guide to setting priorities for improving the co-ordination mechanisms and capacities of subnational governments in the management of public investment.

The recommendation sets out 12 principles grouped into 3 pillars of policy recommendations that represent 3 systematic challenges to efficiently managing public investment at both the national and subnational levels. These 12 principles cannot be seen in isolation. The principles offer a whole-of-government approach that addresses the roles of different levels of government in the design and implementation of a critical and shared responsibility. All the principles are complementary and there is no hierarchy among them. They are also intended to be used in conjunction with other OECD policy guidance and tools.

Figure 6.6. The 12 Principles of the OECD recommendation



Source: OECD (2019^[11]), *Effective Public Investment across Levels of Government: Implementing the OECD Principles*, https://www.oecd.org/effective-public-investment-toolkit/OECD_Public_Investment_Implementation_Brochure_2019.pdf.

Poland has already embarked on improving multi-level relationships focused on strengthening the institutional environment. The SRD (see Chapter 3) recognises the need to strengthen the institutional environment in Poland. The strategy identifies a variety of institutional challenges such as weak social capital in some voivodeships that inhibits the collective action needed for locally based development activity. The SRD also points to the need for reducing the rigid control exercised by the national level over the actions of subsidiary governments, thereby preventing innovative activities as well as the need to reduce excessive reliance on EU funds and EU programmes to define public policies.

The SRD also shows an increased awareness of the need to strengthen multi-level governance by reaffirming the commitment to decentralisation. The strategy explicitly highlights the need to reinforce co-ordination mechanisms between levels of government. Several efforts support this, including territorial contracts, Regional Social Dialogue Councils and a Joint of National Government and Local Self-Government (Joint Committee). This committee has established a forum to determine a common national government and LSGU position on state policy towards self-governments, as well as issues concerning LSGUs within the scope of action of EU and international organisations (OECD, 2018^[16]). The forum has shown the commitment to a multi-level approach to policy design by developing joint opinions on legislation, programme documents and policies that have the potential to impact LSGUs, including their finances. The Social Dialogue Council, which provides a dialogue forum between the national government and the 16 regional councils, is another example of this commitment.

Moving towards a comprehensive and functional approach to inter-municipality co-operation

Co-ordination and collaboration among municipalities are particularly relevant in the Polish dispersed settlement structure. Poland has a large number of small- and medium-sized cities that are broadly distributed across its territory that provide essential services to non-metropolitan regions. Essentially, urban and rural areas are engaged in a symbiotic relationship where collaboration can benefit both places

(OECD, 2018^[16]). But conversely, competition between adjacent urban and rural places also tends to weaken both. This makes strong horizontal co-operation among LSGUs crucial. Partnerships among municipalities allow managing fragmentation by sharing infrastructure and co-delivering services between large cities and surrounding communities, which can help enhance quality of life across the country.

Many OECD countries have recently enacted regulations to encourage this type of collaboration, which varies in the degree of co-operation, from the lightest (e.g. single or multi-purpose co-operative agreements) to the strongest form of integration (e.g. supra-municipal authorities with delegated functions and even taxation powers) (OECD, 2017^[26]). While the purposes of the associations can vary, inter-municipal co-operation arrangements allow internalising externalities in the management of services and benefitting from economies of scale for utility services (water, waste, energy, etc.), transport infrastructure and telecommunications. Inter-municipal co-operation can result in investments that would not be pursued if subnational governments were not collaborating and in services provided more efficiently, as underlined by the first pillar of the OECD Recommendation on Effective Public Investment Across Levels of Government.

It is important for LSGUs to make greater use of the different forms and mechanisms for inter-municipal co-ordination. More flexibility, less red tape, as well as a stronger role in developing incentives for such co-ordination from the voivodeship and national levels, are needed to ensure that municipalities have the right mechanisms in place and the knowledge to act.

Polish law foresees different forms of inter-municipal co-operation

Inter-municipal co-operation has been at the core of the Polish multi-level governance system since the first wave of decentralisation reforms. Regional self-governments and LSGUs have made active use of the right to associate provided in the constitution (Article 172.1). Currently, there are six active associations of local and regional authorities with national coverage,⁵ which play an active role in the representation, defence and advancement of local interests, conducting regular negotiations with the national government. The Municipal Self-Government Act of 1990 also lists in details all the constitutionally guaranteed possibilities to deliver public tasks. The act states that municipalities can co-operate in the form of unions of municipalities as single or multi-purpose public law entities (inter-municipal registered associations), inter-municipal public law agreements and associations of LSGUs as private law entities. Municipalities can also set up and act together in public law companies (Table 6.1) (Kołsut, 2016^[27]; Potkanski, 2016^[28]).

Table 6.1. Types of inter-municipal co-operation in Poland

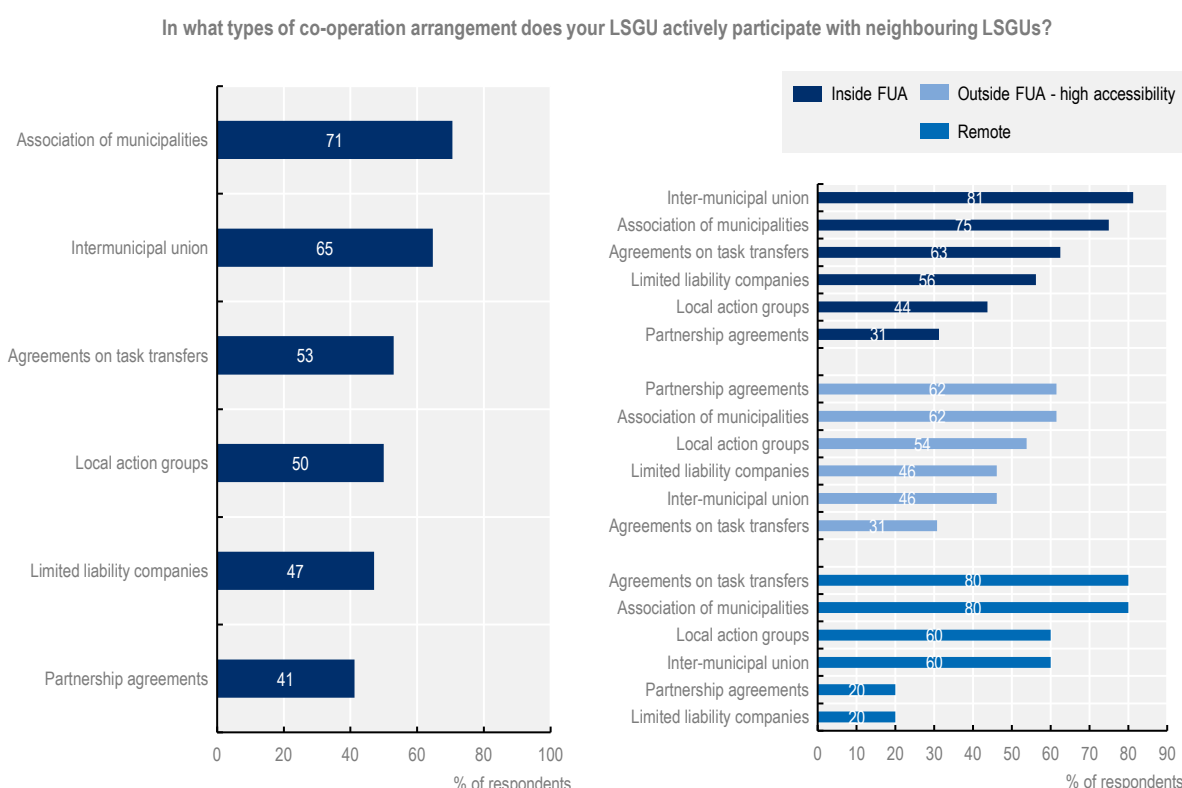
Type of inter-municipal co-operation form	Description	Type of service delivered
Inter-municipal unions	Corporations of public law created by LSGUs. The main objective is the delivery of specific services on behalf of member municipalities.	Water, sewage, garbage collection and management, local passenger transport, stray dogs, etc.
Association of municipalities	Entities of private law. Their main objective is to co-ordinate activities of member municipalities and/or provide new services.	Preparing joint development strategies, tourist promotion, regional tourism management, promotion of specific local industry, etc.
Inter-municipal agreements	These do not represent a separate legal entity. The main objective is to transfer certain tasks to other municipalities, typically the delivery of specific services, in the form of a signed agreement based on the delegation of the Municipal Self-Government Act.	Passenger transport, school service provision, kindergartens, social assistance services, stray dogs

Type of inter-municipal co-operation form	Description	Type of service delivered
Limited liability companies	Legal company (under private law). Their main objective is to deliver specific services on behalf of member municipalities.	Water, sewerage, garbage collection and management, local passenger transport
Partnership agreements – based on the civil code	Loose agreements on co-operation. They aim to co-ordinate activities of independent municipalities and can involve partners from the social or private sector.	Most often implementation of joint development projects
Public-private partnerships	Entities of private law. Their main objective is to deliver new services for citizens or businesses where the municipality has no capital to invest. They involve the private sector.	Car parks, new multi-purpose buildings for public use, energy efficiency
Local action groups	Associations bringing together actors from different sectors. Their main objective is to develop the local economy through co-operation agreements for the use of EU funds. They involve entities from public, private and social sectors (EU LEADER programme).	Operators of EU micro-grants to local businesses and non-governmental organisations (NGOs), building local social integration

Source: Adapted from Potkanski, T. (2016^[28]), “Forms and experience of inter-municipal cooperation in Poland”, <https://rm.coe.int/16806fa10d> (accessed on 30 July 2020).

Polish LSGUs are increasingly recognising the benefits of inter-municipal co-operation. The two most used forms of co-operation are inter-municipal unions and inter-municipal agreements. Among the municipalities responding to the OECD questionnaire for this report, 71% declare participating in an association of municipalities, 65% in an inter-municipal union and 53% in an agreement on task transfers (Figure 6.7). Municipalities inside FUAs are the ones that make the greater use of inter-municipal unions and agreements, followed by municipalities outside FUAs with high accessibility. In turn, remote municipalities⁶ are the ones that make greater use of agreements to transfer tasks to other municipalities. With these responses, it seems that municipalities are increasingly recognising the need to co-operate when they are part of the same FUA. At the same time, remote municipalities have fewer capacities to deliver certain services and thus make greater use of the possibility of transferring certain tasks to other municipalities, although this finding is based on a limited sample of remote municipalities.

Figure 6.7. Types of co-operation agreements among local self-governments in Poland



Note: Based on 34 municipality responses to the OECD questionnaire (n=34). 16 responses from municipalities within FUAs; 13 responses from municipalities outside FUAs with high accessibility; 5 responses from remote municipalities.

Source: Author's own elaboration based on municipalities' responses to the OECD questionnaire (2020).

The access of Poland to the EU has also had a strong influence on strengthening co-operation arrangements for regional and local development, as it is a core element of EU Cohesion Policy. By forming unions, municipalities have been able to apply for pre-accession funds that were too large for municipalities to receive individually. This is the case, for example, of the Union of the Upper Raba Communities and Kraków that was created to deal with water degradation in the Raba River basin (Council of Europe, 2010^[29]). Inter-municipal co-operation for waste management is also a clear example of the benefits brought by the EU membership. The term “waste revolution” is commonly used in Poland to describe institutional changes resulting from the adjustment of domestic law to EU requirements (Kolsut, 2016^[27]). The increasing tendency of co-operation for waste management between Polish municipalities has been also reinforced by a large stream of EU funds earmarked for waste management projects (Kolsut, 2016^[27]). In addition, Poland has had a successful experience with integrated territorial investments (ITIs), which have strengthened, among others, rural-urban partnerships by tackling joint projects across functionally connected municipalities. A key issue in the implementation of ITIs is the degree of formalisation of partnerships that can influence the quality of strategic programming. In Poland, the co-operation of municipalities in the development and governance of FUAs seems to be the most important element for efficient ITI functioning. ITIs in Poland have effectively promoted co-operation between different administrative units at the functional urban level. They have served, so far, as a laboratory of inter-municipal co-operation. Looking forward, the maintenance of flexibility of activities, without imposing artificial boundaries of the area of intervention, seems to be of key importance in the scope of governance of ITI implementation in the future.

Box 6.5. Integrated territorial investments in Poland

For the 2014-20 EU Cohesion Policy, ITIs allows EU member states to bundle funding from several Priority Axes of one or more operational programmes (EU programmes) to ensure the implementation of an integrated strategy for a specific territory. This tool responds to the necessity to strengthen the integrated approach to development programming combining policies, sectors and funds.

In Poland, ITIs are in place since 2012 – they are compulsory for the FUAs of voivodeship capitals. They are also optional in nine selected FUAs of regional centres and FUAs of subregional centres. The conditions to implement an ITI include:

The establishment of an ITI union can take the form of an arrangement of self-governments, an association or an inter-municipal union.

The ITI union overtakes the tasks related to the implementation of the national or regional operational programme that have been so far the responsibility of regional authorities, which means that regions cease to be the only entities and partners for the government's regional policy.

In the majority of cases, the establishment of ITI unions was based on two models: i) an “interim” model, usually taking the form of an arrangement, in which LSGUs established an ITI union for the purpose of expending allocations from a Regional Operational Programme (ROP); and ii) the “co-operation” model, where the ITI union is a natural continuation of previously commenced co-operation.

The preparation of an ITI strategy that specifies: the diagnosis of the area of implementation of an ITI together with the analysis of developmental challenges; the objectives to be implemented in the scope of an ITI; expected results and indicators related to the implementation of the ROP; proposals of project selection criteria in the course of an open call for proposals; a preliminary list of projects selected in the restricted call for proposals; and the sources of financing.

The establishment of an arrangement or agreement concerning ITI implementation between an ITI union and the relevant governing institution of the ROP.

Source: Kociuba, D. (2018_[30]), “Implementation of integrated territorial investments in Poland – Rationale, results, and recommendations”, <http://dx.doi.org/10.2478/quageo-2018-0038>.

The voluntary nature of ITIs leads to collaboration on projects that are mutually beneficial (OECD, 2018_[16]). The Partnership City Initiative is an experience inspired by European examples that also reflects efforts carried out at the national level to strengthen networks of municipalities and that could be further developed (Box 6.6).

Box 6.6. The Polish Partnership City Initiative

The aim of the Partnership City Initiative (PCI) is to improve development conditions and support the integrated and sustainable development of Polish cities. It is an element of the SRD. For this, the Ministry of Development Funds and Regional Policy (MDFRP) provides organisational (e.g. organising meetings) and expert support for the networks. So far, 3 networks have been launched – air quality, urban mobility and revitalisation – with 34 cities involved. The representatives of individual LSGUs, responsible for the given topic, as well as external experts, participate in the works of each network.

All cities, in addition to exchanging experiences, work on the so-called Urban Action Initiatives, which are documents containing specific solutions for previously identified challenges and/or local problems. The final result of the work of each network will be the Improvement Plan, which is a document containing a set of recommendations for conducting national policies related to the thematic area of a given network.

Source: Ministry of Investment and Economic Development (2019^[31]), *Sustainable Urban Development in Poland*, https://www.funduszeuropejskie.gov.pl/media/72570/raport_en_final.pdf (accessed on 11 September 2020).

Inter-municipal co-operation schemes have been used in Poland for several purposes, most of them linked to investments in local roads or public transport, the delivery of public services such as waste management or the joint management of sewerage systems. Inter-municipal unions have also been adopted to promote investment in such areas as the agri-food sector or the development of tourism, sport and leisure (OECD, 2018^[16]). For example, diverse groups of municipalities have set up public transport unions. Some of them date from the early stages of decentralisation reforms, such as the Municipal Transport Association of the Upper Silesian Industrial Basin created in 1991 in the Katowice metropolitan area – which is the largest and most densely urbanised region in Poland. There are also more recent unions established such as the Sub-Radom Automotive Transport Union of Municipalities dating from 2010 (World Bank, 2016^[32]). During the OECD field research, different municipalities also declared co-operating with their neighbours for specific projects or services. The municipality of Łubianka, for example, collaborates with other municipalities for waste treatment, environmental protection and health protection. Kutno also collaborates with its neighbours in the provision of kindergartens by supporting their infrastructure in other smaller municipalities. Some co-operation between neighbouring municipalities also occurs informally, such as the case of Międzyrzec Podlaski where the urban and rural municipalities conduct regular meetings in order to align priorities without having a formal agreement or co-operation framework.

Still, the take-up of the different forms of inter-municipal co-operation remains slow

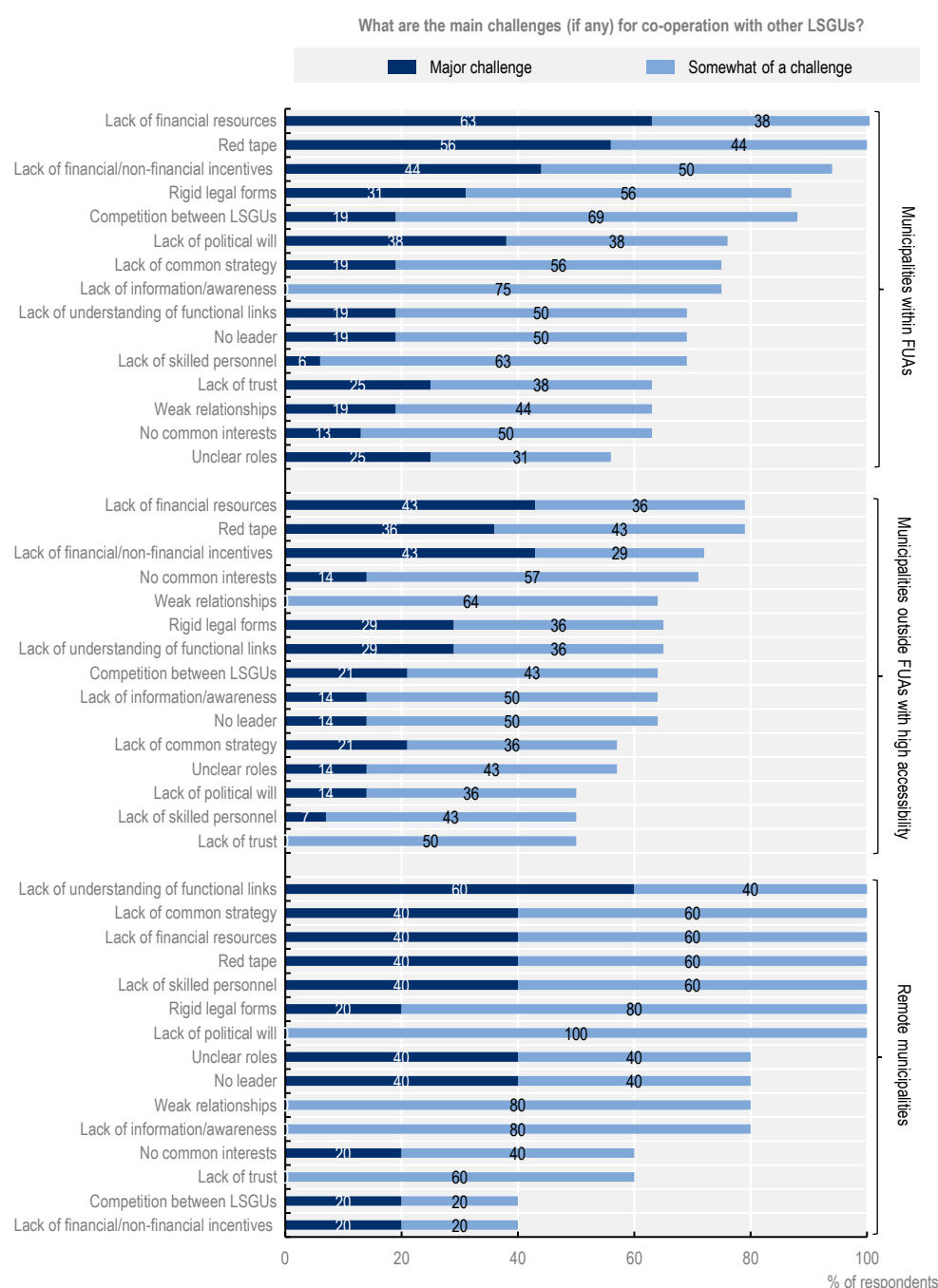
While increasing, the take-up of the different forms of inter-municipal co-operation remains slow and differs across the country. The EIB study that focuses on infrastructure investment shows that only 23% of Polish municipalities co-ordinate their investment projects with other neighbouring municipalities (compared with 37% on average in the EU) and only 17% do so with a network of municipalities, the smallest share of all EU countries represented in the study (EIB, 2017^[5]). While inter-municipal co-operation is increasingly popular in areas such as water and waste management or broadband and road infrastructure, it remains limited in sectors such as education and housing (OECD, 2018^[16]). Moreover, a study focusing on co-operation in waste management shows that the spatial distribution of inter-municipal bodies is uneven and clearly differs by voivodeship, co-operation in northern and western Poland being more important than in the south and east (Kolsut, 2016^[27]). The author calls this a “voivodeship factor” as the regions play a significant role in initiating and stimulating co-operative behaviour among municipalities (Kolsut, 2016^[27]).

Currently, co-operation between municipalities is mainly done on a project basis, lacking a comprehensive functional approach to co-operation. In general, co-operation takes place for particular investment projects or the delivery of certain services for which municipalities see an advantage in acting together. This is the case of road building, waste management services or public transport agreements. When it comes to strategic planning, municipalities only consult their own local development or spatial strategies with other neighbouring municipalities but do not necessarily plan together with the functional area in mind (see Chapter 3). An important change in this respect has been introduced by amendment to the Principles of Development Policy Act as of July 2020, which introduced the possibility of developing supra-local strategies by LSGUs pertaining to the same functional area (see Chapter 3). This represents an important step forward towards a functional approach to strategic planning, one that considers the whole territory and not only the administrative boundaries. The development of specific instruments to implement such strategies, with their corresponding incentives, would allow municipalities to have a comprehensive and territorial approach to development. The county, voivodeship and national levels play a crucial role in encouraging such an approach.

A key challenge for establishing co-operative arrangements in Poland is the lack of financial resources and incentives whereby municipalities could access higher or other funding sources if they plan together to conduct joint projects or share services. In the OECD questionnaire for this study, the lack of financial resources to form a co-operation arrangement and the lack of incentives appear as two major challenges for the majority of municipalities of all types. Interestingly, for remote municipalities, the lack of understanding of functional links with their neighbours is the primary challenge when it comes to horizontal co-ordination, in contrast with other municipalities (in FUAs or outside FUAs with high accessibility) for which this challenge appears only in the eighth or ninth place (Figure 6.8). Several stakeholders from the voivodeship and LSGU levels during the OECD field research also highlighted that co-operation was facilitated when they were able to access more funding. The lack of resources for municipal associations' or unions' joint projects may indeed explain the failure of some that were created in the early stages of decentralisation reforms. Due to a lack of incentives from co-operative arrangements between different municipalities, their creation depends largely on the political will and personal contacts of local authorities.

Excessive and complicated administrative procedures also hamper co-operative arrangements in Poland (Figure 6.8). A clear example is the burden caused by administrative procedures when municipalities want to integrate their public transport offer. When municipalities collaborate for public transport, they meet a number of legal obstacles making such integration difficult and expensive; rules are extremely detailed and suggest that agreeing on integrated fares across operators within a FUA is also unduly complex (World Bank, 2016^[32]). Moreover, it is common to observe that while some co-operative agreements are set up, they stop functioning due mainly to administrative procedures that impede their efficient functioning. This is the case, for example, of the energy cluster started by Ziębice with other municipalities that did not receive the appropriate certification to prosper. The slow uptake of such agreements may be also in part due to a lack of adequate knowledge about how they work and the risks involved (OECD, 2018^[16]). The lack of concrete incentives coupled with bureaucratic procedures results in weak co-operation between municipalities.

Figure 6.8. Main challenges for co-operation between municipalities



Note: Based on 35 municipality responses to the OECD questionnaire (n=35). 16 responses from municipalities (gminas) within FUAs; 14 responses from municipalities outside FUAs with high accessibility; and 5 responses from remote municipalities.

Source: Author's own elaboration based on municipalities' responses to the OECD questionnaire (2020).

Encouraging municipalities to form inter-municipal co-operation schemes

Further developing financial incentives for co-operative arrangements between municipalities is crucial for their greater success. Through financial incentives, Poland can encourage joint planning and the delivery of joint services, which is particularly relevant to face common local challenges, such as the ageing

population (see Chapter 1) and attenuate increasing costs of services. Many OECD countries have recently passed regulations to encourage inter-municipal co-operation on a voluntary basis. For instance, France offers special grants and a special tax regime in some cases and other countries, like Estonia and Norway, provide additional funds for joint public investments. Slovenia introduced a financial incentive in 2005 to encourage inter-municipal co-operation by reimbursing 50% of staff costs of joint management bodies – leading to a notable rise in the number of such entities. In Galicia, Spain, investment projects that involve several municipalities get priority for regional funds (Mizell and Allain-Dupré, 2013^[33]; OECD, 2019^[11]). Inspired by these examples, Poland can envisage assigning a share of existing funds for local development and investments exclusively to joint projects. Alternatively, Poland can further develop the territorial contracts for projects between the national or regional self-governments and municipal unions or associations. The county level can also play an active role in encouraging co-operation through financial incentives since the planning phase. For this, examples such as the one of Lubelskie, which provides additional funding for municipalities of the functional area that prepare a joint strategic plan, could be further expanded.

Peer learning and the creation of capacities are also crucial processes to further encourage municipalities to co-ordinate planning, investments and service delivery. Given the spatial compactness and closeness of co-operative arrangements in Poland for some areas such as waste management, diffusion and imitation seem to be key elements for their success (Kolsut, 2016^[27]). Some OECD countries have opted to encourage collaboration by providing consulting and technical assistance, promoting information sharing or providing specific guidelines on how to manage such collaboration. Arrangements to solve capacity issues have been popular in particular among the Nordic countries (Denmark, Finland, Norway and Sweden) but they have also been practiced in Chile, France, Italy and Spain for example (OECD, 2017^[26]; 2019^[34]).

Box 6.7. Financial incentives for cross-jurisdictional co-operation

Most of the time, inter-municipal co-operation is promoted on a voluntary basis. Incentives are created to enhance inter-municipal dialogue and networking, information sharing and sometimes to help in the creation of these entities. These incentives can be financial or can also have a more practical nature (consulting and technical assistance, production of guidelines, measures promoting information sharing such as in Canada, Norway and the United States). Several countries have also implemented new types of contracts and partnership agreements to encourage inter-municipal co-operation.

France has more than 36 000 *communes*, the basic unit of local governance. Although many are too small to be efficient, France has long resisted mergers. Instead, the national government has encouraged municipal co-operation. There are about 2 145 inter-municipal structures with own-source tax revenues aimed at facilitating horizontal co-operation; 99.8% of *communes* are involved in them. Each grouping of *communes* constitutes a “public establishment for inter-municipal co-operation” (EPCI). EPCIs assume limited, specialised and exclusive powers transferred to them by member *communes*. They are governed by delegates of municipal councils and must be approved by the state to exist legally. To encourage municipalities to form an EPCI, the national government provides a basic grant plus an “inter-municipality grant” to preclude competition on tax rates among participating municipalities. EPCIs draw on budgetary contributions from member *communes* and/or their own tax revenues.

In **Slovenia**, inter-municipal co-operation has risen in recent years, in particular with projects that require a large number of users. In 2005, amendments to the Financing of Municipalities Act provided financial incentives for joint municipal administration by offering national co-financing arrangements:

50% of the joint management bodies' staff costs are reimbursed by the national government to the municipality during the next fiscal period. The result has been an increase in municipal participation in such entities from 9 joint management bodies in 2005 to 42 today, exploding to 177 municipalities. The most frequently performed tasks are inspection (waste management, roads, space, etc.), municipal warden service, physical planning and internal audit.

At the sub-regional level in **Italy**, there is a long tradition of horizontal co-operation among municipalities, which takes the form of *Unione di Comuni*, intermediary institutions grouping adjoining municipalities to reach critical mass, reduce expenditure and improve the provision of public services. A law from April 2014 established new financial incentives for municipal mergers and unions of municipalities. Functions to be carried out in co-operation include all the basic functions of municipalities. All municipalities up to 5 000 inhabitants are obliged to participate in the associated exercise of fundamental functions.

The Autonomous Community of Galicia in **Spain** has many small municipalities. Many have limited institutional capacity and are spread out geographically, which increases the cost of providing public services. The regional government has taken steps to encourage economies of scale. First, it has improved the flexibility of and provided financial incentives for voluntary ("soft") inter-municipal co-ordination arrangements. Investment projects that involve several municipalities get priority for regional funds. "Soft" inter-municipal agreements tend to be popular in the water sector. Local co-operation is also being encouraged in the urban mobility plan for public transport, involving the seven largest cities in the region. The regional government also imposed a "hard" co-ordination arrangement. Specifically, it created the Metropolitan Area of Vigo, an association of 14 municipalities. Although the metropolitan area was defined by the regional government, it was based on a history of "light co-operation" among 12 municipalities (out of 14). Voluntary municipal mergers may be encouraged in the future.

Source: OECD (2020^[35]), *Regional Policy for Greece Post-2020*, OECD Territorial Reviews, OECD Publishing, Paris, <https://doi.org/10.1787/cedf09a5-en>; OECD (n.d.^[36]), *Effective Public Investment across Levels of Government Toolkit*, www.oecd.org/effective-public-investment-toolkit; OECD (2017^[37]), *Gaps and Governance Standards of Public Infrastructure in Chile: Infrastructure Governance Review*, <https://dx.doi.org/10.1787/9789264278875-en>.

In Chile for example, where the culture of collaboration between municipalities is weak, municipal associations have had a positive impact on investments and capacity building. Municipalities that are part of an association in Chile have proven to develop better investment projects able to get financing, to positively affect capacities of smaller municipalities, and to have more bargaining power than municipalities on their own to get financing from regional and national levels (OECD, 2017^[38]). Based on these OECD experiences, Polish municipalities with successful stories can share their experience and encourage other municipalities to enter into such arrangements by showing that, through partnerships, municipalities can achieve more efficient and better results. Voivodeships and counties could lead this capacity building and peer learning process, in particular regarding weaker and rural municipalities. They are the ones that can organise peer learning, offer technical support and act as political facilitators. The elaboration of a clear toolbox or guidelines on how to deal with the administrative procedures when establishing co-operative arrangements should accompany this process.

Box 6.8. Local government associations in Chile: Capacity building and peer learning processes

Association of municipalities of Chile (*Asociación Chilena de Municipalidades*)

The Association of Municipalities in Chile's objective is to represent all Chilean municipalities, defend their interests and promote bottom-up policies. Its mission is "To be a democratic institution, representative and leader of all Chilean municipalities fulfilling a role of promotion of innovation and excellence, through education, training as well as technical and political support with the aim to deepen the decentralisation of the state". The association also acts as an expertise centre and think tank. It has already published a number of studies, surveys and publications that cover different topics such as municipal health, public education, citizen security, child protection, e-commerce, staff management, electoral participation, migration, transport and good municipal practices, among others. In 2017, the Association of municipalities of Chile comprises 61 municipality members.

Association of Chilean Municipalities (*Asociación de Municipalidades de Chile*)

The Association of Chilean Municipalities is a national-level body bringing together 342 of Chile's 345 local authorities (membership is voluntary). One of its objectives is to strengthen municipal capacity among both elected officials (mayors, municipal council members) and municipal civil servants who participate in a variety of seminars, training courses, workshops and fora. The association develops information products and training on legislative and regulatory updates. It also comprises technical commissions made up of mayors and municipal council members that explore specific areas in municipal management, such as housing, health, education, finance, staff management and the environment. The association also promotes the execution of joint development strategies among municipalities.

Source: OECD (2017^[38]), *Making Decentralisation Work in Chile: Towards Stronger Municipalities*, <http://dx.doi.org/10.1787/9789264279049-en>.

More flexible co-operative arrangements may also be needed to spark municipal co-operation, in particular to face uncertainty and address the current crisis challenges. The existence of rigid legal forms of co-operation in Poland is among the top five challenges highlighted by all type of municipalities in the OECD questionnaire, being more prominent for municipalities inside FUAs. Indeed, the flexibility of co-operative arrangements is particularly relevant for municipalities pertaining to different functional areas that face specific and distinct challenges. France's "reciprocity contacts" are a good example of how a country can structure dialogue between municipalities but does not rigidly fix the responsibilities of each party. The purpose of this approach is to develop a framework for mutual exchange that can support the accompanying project (OECD, 2018^[16]) (Box 6.9). The flexibility of co-operative arrangements is also crucial to allow municipalities to react more efficiently and quickly to the challenges which have arisen due to an unexpected crisis such as the current pandemic, which differ markedly across a country's territory. Facilitating inter-municipal co-operation can support recovery strategies by ensuring coherent safety/mitigation guidelines, pooling resources and strengthening investment opportunities through joint procurement or joint borrowing. The importance of such co-operation has been seen in Denmark, for example, where municipalities have joined forces to purchase protective equipment for their personnel. In Sweden, the four largest municipalities have joined forces with a guarantee for a credit of half a billion for the purchase of protective equipment for all Swedish municipalities (OECD, 2020^[10]).

Box 6.9. France's reciprocity contracts

Well-aware of the complementarity potential of its different urban and rural territories, France has developed a new experimental tool to promote inter-municipal collaboration: city-countryside reciprocity contracts (*contrats de réciprocité ville-campagne*).

These agreements are adaptable to different territorial realities; their jurisdictions are not predefined, which allows them to cover different areas depending on the issue at hand. The process is primarily led at the inter-municipal level, with the state, regions and departments being asked to support local initiatives.

France's reciprocity contracts acknowledge the diversity of rural areas and seek to strengthen and valorise urban-rural linkages. This is driven by an understanding that urban-rural interactions should address not just proximity issues (e.g. commuting patterns) but also consider reciprocal exchanges in order to build meaningful partnerships. Potential areas for co-operation include:

- Environmental and energy transition (e.g. waste management, food security, the preservation of agricultural land and natural areas, and bioenergy development).
- Economic development (e.g. the joint promotion of the territory and the development of joint territorial strategies, land use policies, support for businesses and the development of teleworking to help maintain remote towns centres).
- The quality of services (e.g. promoting tourist sites, access to sports facilities, leisure, heritage and access to health services).
- Administrative organisation (e.g. mobilisation of staff with specific skills to support key projects or needs).

Source: OECD (2018^[16]), *OECD Rural Policy Reviews: Poland 2018*, <https://dx.doi.org/10.1787/9789264289925-en>.

Moving forward with the governance of metropolitan areas

Co-ordination across municipalities is particularly relevant in metropolitan areas. Suitable governance arrangements in urban areas can promote productivity (Ahrend et al., 2014^[39]). Enhancing the co-operation and co-ordination of the provision of public infrastructure and services on a metropolitan scale can also improve the quality of life and international competitiveness of large cities.

In accordance with OECD countries trends, in 2016, Poland established for the first time the possibility for municipalities to create a metropolitan association. Until the enactment of the Metropolitan Act in 2016, Polish law did not provide much scope for special metropolitan arrangements, as there was no specific regulation governing metropolitan areas, nor legal documents clarifying the delimitation of a metropolitan area. However, even before the Metropolitan Act, several metropolitan areas have launched bottom-up initiatives within the legal framework that existed, including the Wrocław voivodeship (1999), Warsaw (2000), Gdańsk (2003), Katowice and Poznań (2009), among others (Łaszek and Trzeciakowski, 2018^[7]). However, many of them were unstable and most underwent a constant transformation. Only 1 city-region (Katowice/"Silesia") decided on the most formalised option of a joint committee of 14 cities (Łaszek and Trzeciakowski, 2018^[7]). Until today, there is thus little tradition of metropolitan co-operation or development of relationships across jurisdictional boundaries in metropolitan areas in the country.

The Silesian Voivodeship is the only one across Poland to have benefitted from recent legislation by establishing the Metropolitan Association of Upper Silesia and Zagłębie (Górnośląsko-Zagłębiowska Metropolia (GZM Metropolis)) in 2017. The initiatives to establish a formal supra-local or metropolitan body

have been undertaken since the early 1990s in the Slaskie Voivodeship. The willingness to co-operate is explained by several reasons. First, the spatial structure of the central part of the region consists of several cities of similar features (in terms of size, level of urbanisation, etc.) with a common history of industrial cities. Second, these cities are internally connected in terms of infrastructure and transport and have almost no visible borders among particular municipalities, sharing development challenges and needs. In this context, the municipalities of the voivodeship have undertaken several initiatives to co-operate: the Communal Transport Union (gathering approximately 30 municipalities) was set up in 1991; the Union for Sustainable Development of the Cities of Katowice Agglomeration (consisting of 13 municipalities) operated in 1995-2000 to implement the Sustainable Cities Programme; and, finally, the Upper Silesian Metropolitan Association (so-called Silesia Metropolis) was established in 2006-17 as a voluntary initiative of 14 municipalities with county status (see Box 6.10).

Today, Metropolis GZM, which is an expansion of a previous collective union on transportation, is composed of 41 municipalities within the central part of the Silesian Voivodeship and has a metropolitan council which convenes in Katowice, the largest city of the region. The main purpose of the metropolitan association is to maintain a strong urban and industrially developed area, competitive at the national and international levels. As specified in the Metropolitan Association Act, Metropolis GZM should integrate the potential of all member municipalities and take initiatives towards a more dynamic social and economic development, enhancing spatial and functional coherence. Interestingly, the Act establishing Metropolis GZM unprecedentedly defined provisions regarding the financing of this type of institution in Poland. The sources of income are primarily 5% tax revenues from individuals who live in the metropolis and membership fees of municipalities and cities forming Metropolis GZM. The metropolis is also authorised to prepare and approve its development strategy, including a spatial-functional model, a novelty feature when compared to former legal regulations.

Box 6.10. The metropolitan association in the Silesian Voivodeship – Metropolis GZM

The creation of Metropolis GZM – the metropolitan association in the Silesian Voivodeship – is the result of more than 20 years of efforts to co-operate within the province. The creation of the Metropolitan Association of Upper Silesia in 2006 was an important step. It included the 14 largest cities of the Silesian conurbation. The association's activities laid the foundations for further work on building a strong metropolitan centre.

On 29 June 2017, the Council of Ministers issued the regulation regarding the creation of the metropolitan association under the name “Górnślasko-Zagłbiowska Metropolia” (Metropolis GZM). It has an assembly, which is the legislative and control body that consists of representatives of all member municipalities and communes. The first assembly was held on 29 August 2017, while the Metropolitan Management Board, its executive body, was elected on 12 September 2017. On 1 January 2018, the metropolis began implementing statutory tasks. As of today, 41 municipalities form the metropolitan association.

The special law dedicated to the Metropolis GZM defines the list of tasks to be implemented:

- **Public transport:** The objective is to provide sustainable urban mobility. The association's main role, as self-defined, is to provide residents with a range of communication options that will be tailored to the needs of the moment and their personal preferences.
- **Socio-economic development:** The metropolis aims to take an active part in the process of building a knowledge-based economy, co-ordinating the co-operation of entities operating in the area and boosting the development of key industries. It also looks to reinforce the business-

science-LSGU co-operation and promote joint activities with business environment institutions and universities.

- **Spatial order:** The objective is to ensure a unified and rationalised spatial development. A key focus is co-operation for the development of communication systems, including bike routes.
- **Promotion:** One of the key roles of the association is disseminating all advantages of the metropolis at home and abroad.

Pursuant to the act, municipalities pertaining to the association may delegate the implementation of their statutory tasks to the metropolis but they must guarantee their financing. The part that individual communes additionally pay to the GZM budget when they commission performing their own task is called the variable contribution. This is the case with public transport organisations. It is, formally, the communes' own task, which was transferred to the metropolis. That is why they pay a contribution to GZM's budget every year to finance the operation of public transport in their area.

Source: Metropolis GZM (n.d.^[40]), Homepage, <https://metropoliagzm.pl/en/> (Accessed on 7 May 2021).

Further encouraging co-operation across municipalities in metropolitan areas is crucial for Poland as the lack of a metropolitan body prevents a whole-of-city approach to investments and policy delivery. The urban landscape in Poland is heterogeneous and a governance model for metropolitan areas needs to take into account this heterogeneity by being as flexible as possible (and not “one-size-fits-all”). The governance model must be in tune with the structure of the different FUAs. While for certain urban areas empowering the voivodeships or the counties with metropolitan governance responsibilities might be an effective solution, for other urban areas the creation of a new and independent institution might be necessary. A supra-municipal arrangement – as the one established in Silesia – where governance structures are reshaped to fit or approximate the functional economic area of the metropolitan region can take different forms. Regardless of its form, the effectiveness of any metropolitan institution will depend heavily on its competency allocation and the structure of its financial and administrative resources provision. A key element is the degree of autonomy: it will have to manage either its own resources, a transfer from the national level, municipal contributions or a combination of all three.

Identifying the most relevant arrangement for individual metropolitan areas remains a matter of political and social choice, conditioned by factors that vary from one country to another, and sometimes across metropolitan areas within the same country. When selecting a type of arrangement, governments are likely to make a more informed choice if they assess its overall impact in the specific national and metropolitan context – and particularly how fit they are to meet the following three challenges at hand (OECD, 2015^[41]):

- Co-ordinating policies, both horizontally between municipalities and across policy sectors, and vertically with upper levels of government and supranational institutions.
- Acting institutionally and financially, in terms of staff, budget and financing structure and power.
- Being perceived as legitimate and generating trust among citizens and NGOs, other levels of government, the private sector, etc.

Experience in OECD metropolitan areas suggests the following four broad categories of metropolitan governance bodies (from the “lightest” to the most “stringent” in institutional terms) (Table 6.2): informal/soft co-ordination; inter-municipal authorities; supra-municipal authorities; and the special status of “metropolitan cities”. One should note that the categories of the typology are not mutually exclusive. For example, a metropolitan area may adopt one arrangement for a specific public service and another for other services. Some instances may also be hybrids in practice, combining the characteristics of two or more categories (OECD, 2015^[41]).

Table 6.2. Four broad categories of metropolitan governance bodies in OECD metropolitan areas

From the lightest to the most stringent in institutional terms

a) Informal/soft co-ordination. Often found in instances of polycentric urban development, lightly institutionalised platforms for information sharing and consultation are relatively easy both to implement and to undo. They typically lack enforcement tools and their relationship with citizens and other levels of government tends to remain minimal.	
b) Inter-municipal authorities. When established for a single purpose, such authorities aim at sharing costs and responsibilities across member municipalities – sometimes with the participation of other levels of government and sectoral organisations. Multi-purpose authorities embrace a defined range of key policies for urban development such as land use, transport and infrastructure.	
c) Supra-municipal authorities. An additional layer above municipalities can be introduced either by creating a directly elected metropolitan government or with the upper governments setting down a non-elected metropolitan structure. The extent of municipal involvement and financial capacity often determine the effectiveness of a supra-municipal authority.	
d) Special status of “metropolitan cities”. Cities that exceed a legally defined population threshold can be upgraded into a special status as “metropolitan cities”, which puts them on the same footing as the next upper level of government and gives them broader competencies.	

Source: OECD (2014^[42]), *OECD Regional Outlook 2014: Regions and Cities: Where Policies and People Meet*, <https://dx.doi.org/10.1787/9789264201415-en>.

Specifically, various metropolitan models have been implemented in different countries (Box 6.11). Good examples of metropolitan governance reforms can be found in Colombia where some metropolitan areas, like Bucaramanga or Medellín, have more competencies or access to resources than in many OECD countries. In Colombia, metropolitan areas are governed by a metropolitan board consisting of the mayors and a number of member municipalities, as well as the governor of the department in which the metropolitan area is located. Metropolitan areas have access to various financing sources, including transfers from national, departmental and municipal budgets, betterment levies collected from metropolitan development projects, taxes (including an environmental surtax on property tax), user charges and fees related to public service provision, borrowing and a gasoline surtax. The United Kingdom (UK) also has an interesting model where urban areas are governed through arrangements between the national and subnational governments by allowing a degree of “tailored” devolution of responsibility to British cities. The French model of metropolitan areas introduced in 2014 foresees differentiated responsibilities for the different metropolitan areas, carried out on a voluntary basis.

Box 6.11. Different models of metropolitan governance: The case of France and the UK

The 2013 French Law on Metropolitan Areas

The 2013 French Law on Metropolitan Areas contemplated differentiated governance for Paris, Lyon and Aix-Marseille, to include governance structures with their own taxing powers and the shift of competencies from regions and *départments*. In France, efforts were already made by the national government during the 2000s to encourage co-operation at an urban level (spatial planning directive, and calls for metropolitan co-operating projects). However, apart from the creation of urban communities in 1966, they had little success. The 2010 Law on the Creation of Metropolitan Areas has led to the creation of only one metropolis (Nice Côte d’Azur), confirming once again that regulation is not sufficient to induce reform. A new step was achieved in 2013 with the first discussions on the new law on metropolitan areas. The government adopted a new approach, based on governance solutions

tailored to territorial specificities and local needs. The 2014 MAPTAM law on the modernisation of public territorial action and metropolises introduced a degree of diversification across French territories. Fourteen metropolises (more than 400 000 inhabitants) will be granted greater responsibilities than “standard” municipalities or inter-municipalities, justified by their larger size and urban nature. Among them, the three largest metropolitan areas (Paris, Lyon and Aix-Marseille-Provence [PLM], which were already granted specific status by the 1982 PLM Law, received different ad hoc governance structures – i.e. different organisation, responsibilities and resources.

The *Métropole du Grand Lyon*, operational since January 2015, has (unlike Aix-Marseille-Provence and Paris) a particular metropolitan status: it merged the responsibilities of the existing inter-municipal co-operation entity Grand Lyon and those of the *département* du Rhône, covering about 1.3 million people – the only one of its kind in France. Political representatives for the metropolis will be elected through direct suffrage from 2020 onwards. This innovative “asymmetrical” approach based on “recognising the diversity of territories within the unity of the Republic” is relatively new in France (OECD, 2013^[43]), where past policies were uniform across territories (except for overseas territories). It aims at adapting organisational structures and policies to the distinctive characteristics of territories at an appropriate scale. Another innovation is the setting up of two transitory inter-ministerial “prefiguration” task forces for Grand Paris and Aix-Marseille-Provence. These task forces, headed by the prefect and composed of national and local civil servants and experts, prepared the reforms and then helped in the transition process. They also work to gain support from citizens, local authorities, the private sector, and civil society (OECD, 2013^[44]).

Finally, the French metropolitan reform is a good illustration (at least in the cases of Grand Paris and Aix-Marseille) of resistance from local mayors and possibly from the regional level. The implementation process is as crucial as the nature of the reform itself: the adoption of a law is not sufficient as it may not, or partly, be implemented in practice.

City Deals in the UK

Since 2010, the UK has developed a comprehensive policy on devolution and local economic growth which is characterised by:

- Agreeing on place-based approaches to driving economic growth, regeneration and housing development – including pan-region models.
- Devolving and decentralising powers and functions to local areas, e.g. through City Deals, Growth Deals and Devolution Deals.
- Empowering strong and accountable local decision-making and giving a voice to the private sector, e.g. local enterprise partnerships, mayors, combined authorities.
- Creating the conditions for local growth through a competitive, deal-making approach, which offers incentives, e.g. Local Growth Fund, Enterprise Zones.

In particular, City Deals are agreements between the government and a city that give cities control to: i) take responsibility for decisions that affect their area; ii) design their own strategies to help businesses grow; iii) create economic growth; and iv) decide how public money should be spent. The City Deals are focused on institutional alignments and recentring local governments as key agents of urban planning. The deals are built following a bottom-up approach to agree on priorities and proposals with local authorities.

Currently, the responsibilities of metropolitan areas comprise transport, spatial planning, regional development, waste disposal, water provision and sanitation.

Source: Thorpe, K. (2019^[45]) (2019), “Devolution and local economic growth policy in the United Kingdom”, Unpublished; Allain-Dupré, D., I. Chatry and A. Moisis (forthcoming^[46]), *Asymmetric Decentralisation: Trends, Challenges and Policy Implications*.

Building stronger partnership and collaboration mechanisms across levels of government

In Poland, while traditionally inter-ministerial committees have been a main tool to co-ordinate policy priorities between the different levels of governments, agreement-based co-operation is gaining traction in the form of territorial contracts. Reinforcing vertical co-ordination mechanisms, particularly ones that foster a relationship based on a partnership among levels of government rather than hierarchy is becoming increasingly important as LSGUs become more empowered. Success at all levels of government depends on: clear communication of objectives and priorities, both top-down and bottom-up; agreement on development and investment priorities; and co-ordinated action, particularly in areas where interests overlap (e.g. transport infrastructure, urban development and land use, etc.).

Important progress in strengthening co-ordination across levels of government

Poland has made important progress in fostering dialogue with voivodeships and municipalities. The country supports the implementation of its development policy with the high-level Co-ordinating Committee for Development Policy (Box 6.12). This committee analyses the strategies, policies, regulations and other mechanisms associated with implementing Poland's SRD and assesses their efficiency and effectiveness. In parallel, the Joint Committee of National Government and Territorial Self-government (Joint Committee) discusses issues related to the functioning of municipalities and the state policy on local self-government, as well as those related to local self-government. Interestingly, the Joint Committee has the task of developing a common position across levels of government on matters such as municipal service management and the functioning of communal and county self-government, as well as regional development and the functioning of voivodeship government.

Consultation processes led by the national or voivodeship levels have also been gaining prominence in the country but can represent an important burden for the parties involved. The accession of Poland to the EU – through which Polish national policies and institutions have evolved to work within the structure of European funding priorities and rules – has also benefitted dialogue with subnational levels as many regulations to access EU funds require formal consultations to take place. The majority of municipalities visited during the OECD field research declared having a good dialogue with voivodeships, even if the dialogue is not always a formal or institutionalised process. The Regional Social Dialogue Councils, which gather the voivodeship marshals, representatives of trade unions, representatives of employers' organisations as well as LSGUs, are good examples of dialogue. In these councils, representatives can provide opinions on the projects of the voivodeship development strategy and other programmes, recommend solutions and proposals for legal changes, among others. In the same line, the county office of Krotoszyn, for example, conducts broad consultations via electronic forms for different projects. The municipality of Łubianka participates in several instances of informal co-ordination and consultations, as well as in local governance fora organised by the voivodeship to discuss priorities and pressing issues twice a year. Consultations and co-ordination between the municipality and the Marshal Office of Kujawsko-Pomorskie Voivodeship also often takes place for specific projects, in particular when it comes to road infrastructure. In those cases, co-ordination is mainly dedicated to securing funds from the EU or the national level. However, sometimes, formal consultations are perceived as a burden and time consuming both for the organisers as well as the participants. In some cases, consultations are superficial and serve the only purpose of complying with the regulations.

Box 6.12. Co-ordinating bodies in Poland

The Co-ordinating Committee for Development Policy

Poland's Co-ordinating Committee for Development Policy is a body of the Council of Ministers, led by the Minister of Funds and Regional Policy and the person appointed by this minister to the rank of Secretary or Undersecretary of State as a deputy. It is composed of ministerial representatives set by the formal act and invites representatives (e.g. regional self-governments and LSGUs, academia, etc.) on an ad hoc basis. The committee analyses the strategies, policies, regulations and other mechanisms associated with implementing Poland's SRD and assesses their efficiency and effectiveness. Sub-committees, on the territorial dimension or rural areas for example, can be designated. On an annual basis, the committee assesses work in progress and outcomes, including with respect to funding, and prepares recommendations for the Council of Ministers.

At least once a year the committee performs an assessment of the works' progress and the results achieved (including the regional dimension) of the SRD, its course of funding including EU co-funding, an analysis of the complementarity of support from various operational programmes, EU and national developmental programmes, and private funds. Using the assessment as a basis, it prepares recommendations for the Council of Ministers on programme, legal and institutional adjustments.

The Joint Committee of National Government and Territorial Self-government

The Joint Committee of National Government and Territorial Self-government is composed of the minister responsible for public administration and 11 representatives appointed by the prime minister (at the request of the chair), together with representatives of national organisations of LSGUs that work in 12 "problem teams" and 3 working groups. It deals with issues related to the functioning of municipalities and the state policy on local self-government, as well as with issues related to local self-government within the scope of operation of the EU and the international organisations to which Poland belongs. It develops a common position between levels of government and contributes to establishing the economic and social priorities of national and subnational self-government units on matters such as municipal service management and the functioning of communal and county government, as well as regional development and the functioning of voivodeship government. The Joint Committee develops social and economic priorities that can affect subnational development, evaluates the legal and financial circumstances for operating territorial units and gives an opinion on draft normative acts, programmes and other government documents related to regional self-governments and LSGUs.

Source: OECD (2018^[47]), *Maintaining the Momentum of Decentralisation in Ukraine*, <https://dx.doi.org/10.1787/9789264301436-en>.

Polish authorities have also understood that co-ordination is not only about the alignment of priorities or consultation formalities but also about building capacities at the local level. The revitalisation initiatives currently in place in Poland (Box 6.13) represent an interesting example of the support given by the national government and marshal offices to enhance strategic co-ordination across levels of government while creating capacities at the local level. Indeed, one of the main pillars of these initiatives is the support given from the national and regional levels to LSGUs. It has shown how a specific team from the voivodeships can assist and influence the quality of documents developed by local stakeholders. Voivodeships and municipalities involved in this programme have a generally positive evaluation of its functioning and highlight it as a good example of how voivodeships and LSGUs can work together. Still, while the revitalisation initiatives are a good example of how a policy trickles down from the national to the local level, it also has its limits: it does not foresee co-operation among LSGUs, having no space for a horizontal

co-operative approach. Other sectors such as energy efficiency, sewerage systems and solid waste go beyond the administrative boundaries and should be addressed with a functional perspective.

Box 6.13. A new approach to revitalisation in Poland

The SRD and the National Urban Policy (NUP) include revitalisation as a high priority for the country. Both documents coincide in moving from revitalisation as a physical renewal towards conceiving revitalisation as a “comprehensive process of recovering from crisis situation of degraded areas through complex activities (interrelated projects including social and economic or spatial-functional or technical or environmental issues), integrating intervention for the local community, space and local economy, territorially focused and conducted in a planned manner integrated through revitalization programs” (Article 2.1. Revitalization Act).

The Revitalization Act defines the steps of the proper revitalisation process, which includes: diagnosis, delimitating degraded areas and revitalisation areas, elaborating municipal revitalisation programmes and implementing planned activities. One of the main financial sources for revitalisation activities in Poland is currently EU funds. The Partnership Agreement for 2014-20 lists revitalisation as one of the five so-called strategic intervention areas.

The SRD specifies different initiatives to support and promote revitalisation at the local level, including:

- Financial support: Municipalities receive financial support to prepare and update their revitalisation programmes. Over 1 000 municipalities such a subsidy.
- Technical support: Implemented through the marshal office. Each office's Revitalisation Team monitors the quality of revitalisation programmes and consults municipalities on them.

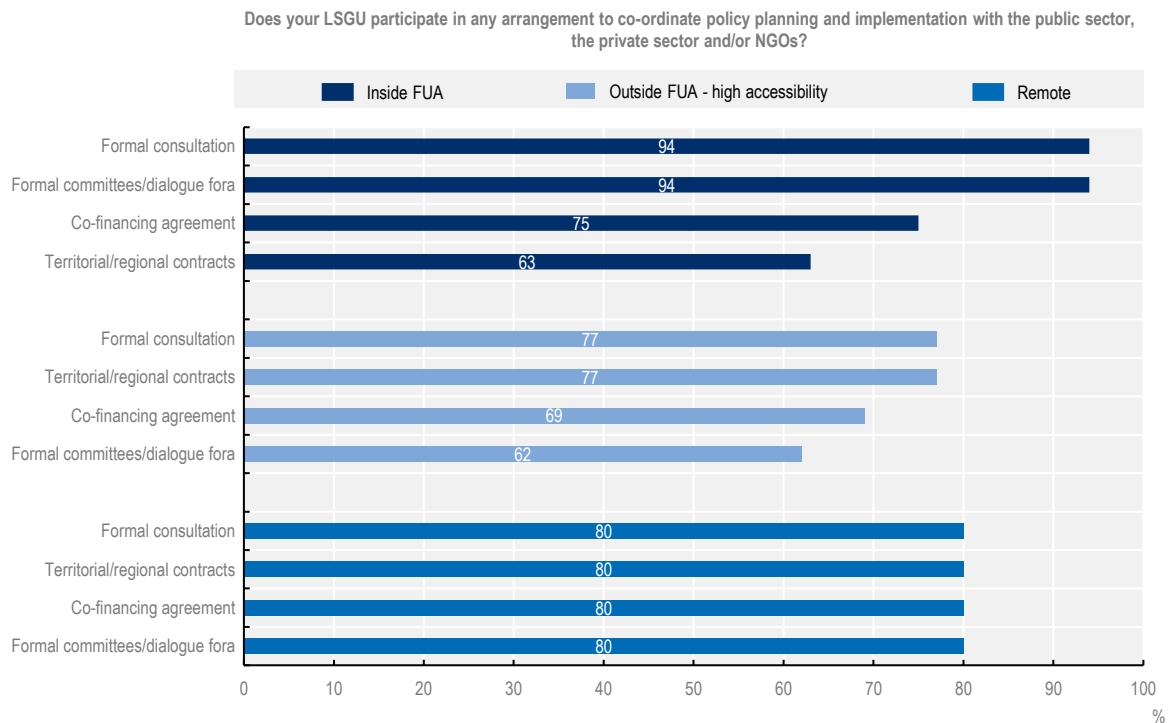
Moreover, the MDFRP implements the Model Revitalisation project. This initiative supports selected cities in the process of developing revitalisation programmes and model revitalisation activities. Additionally, three cities mentioned in the Partnership Agreement, Bytom, Łódź and Wałbrzych, receive revitalisation support under the Pilot Revitalisation project. This form of support is tailored to their needs and helps in developing solutions that respond to the specific needs of these cities, whilst fitting in with the vision of their development. In addition, these cities can count on the support of the MDFRP and external experts.

The achievements and results of the initiatives undertaken are disseminated through the National Knowledge Centre on Revitalisation, a portal about the modern approach to revitalisation.

Source: Ministry of Investment and Economic Development (2019^[31]), *Sustainable Urban Development in Poland*, https://www.funduszeuropejskie.gov.pl/media/72570/raport_en_final.pdf (accessed on 11 September 2020).

The OECD questionnaire reflects the efforts made by Poland to encourage vertical co-ordination (Figure 6.9). A vast majority of LSGUs participate in different arrangements for policy co-ordination. This is particularly true for municipalities pertaining to a FUA, among which 94% participate in formal consultations from the national level or in formal committees and dialogue fora. While less popular in municipalities outside FUAs or in remote ones, the percentage of municipalities that are consulted formally is still important (77% and 80% respectively). The other forms of co-ordination arrangements, e.g. co-financing and territorial contracts, are also popular among the three different types of municipalities.

Figure 6.9. Co-ordination mechanisms across levels of government



Source: Author's own elaboration based on municipality responses to the OECD questionnaire (2020).

Still, co-ordination across levels of governments occurs mostly on an ad hoc basis

Co-ordination across levels of governments occurs mostly on a project basis and depends strongly on the willingness to co-operate with the different parties. While in Poland consultations for the planning process or specific projects do occur, in some cases they are in place only to comply with the formal regulations and in others, participation from LSGUs remains limited. Moreover, as the planning documents do not necessarily include investments projects (for further analysis, please refer to Chapter 3), co-ordination tends to occur on an ad hoc basis, depending on the project pipeline, in particular for those financed by EU funds. A majority of LSGUs visited during the OECD field research declared having some meetings with the regional level called upon as the need arises but without a strategy envisaging a long-term strategic collaboration. This also happens as co-operation with the regional and national levels is strongly based on the willingness to co-operate of the different parties. The EIB study on subnational infrastructure investment shows that overall, the share of Polish municipalities willing to co-ordinate in planning and implementing investment projects is very low. Only 13% of Polish municipalities always co-operate with regions and 8% with metropolitan authorities (EIB, 2017^[5]). In addition, so far, dialogue mostly in the form of consultations is driven by upper levels of governments lacking bottom-up initiatives. Moreover, it is a common practice for national and regional authorities to launch consultations without prior notice and then set a short (e.g. 7-day) deadline for submitting comments, which in practice prevents some stakeholders from participating in consultations. This situation is particularly challenging for smaller and weaker LSGUs that face difficulty in undertaking ad hoc and short-term analysis of large draft documents. This, in practice, creates a barrier to proper engagement and prevents participation.

Rigid and complex legal forms also seem to hamper co-ordination between the different levels of government. During the OECD field research, some LSGUs declared that bottlenecks for vertical co-ordination often arise from a lack of understanding of the processes. This is in accordance with OECD

questionnaire responses from national level entities that declared that rigid legal forms appear to be the major challenge regarding co-ordination for policy design and implementation across levels of government. National and regional entities also highlighted the lack of capacities at the local level as an important challenge to co-ordination. At the same time, a World Bank study highlights that the limitations to create forms of co-operation and unions between relevant levels of self-government represent a major barrier to integration in the public transport sector. Creating transport unions covering all transport authorities in a given area, especially those responsible for rail, would constitute a major step forward. Indeed, the current Polish legal framework does not allow for the possibility to create unions between voivodeship and other local authorities (World Bank, 2016^[32]).

Moving towards a territorial approach to co-operation across levels of government

Since regionalisation reforms, territorial contracts have been a key tool used by Polish authorities at all levels to ensure co-ordination. Inspired by the French example, since the first edition in the years 2001-02, these instruments were foreseen to support decentralisation and foster the region's empowerment to programme and implement a regional policy (Churski, 2018^[48]). With Poland's accession to the EU, the territorial contracts (or provincial contracts as then known) became an instrument for redistributing state budget to co-finance EU Structural Funds and Cohesion Fund investments in the voivodeships, as well as for the financing activities realised only by national public means. For the 2014-20 programming period, the previous provincial contracts evolved towards "territorial contracts", with the clear objective of "co-ordination of pro-development activities undertaken by the national and local government targeted at achieving common objectives established in relation to the area defined in it (Churski, 2018^[48]). These contracts are prepared by the minister in charge of regional development together with ministers responsible for the contract. At the subnational level, voivodeship authorities are responsible, though submit the contract to LSGUs if the latter are concerned by the activities described.

Although the territorial contracts represent a strong tool to co-finance investments, there are also several shortcomings linked to their scope and implementation. Poland has encountered different challenges while implementing these contracts, related, among others, to their rigidity, limited scope and top-down elaboration process. It has been documented, for example, that the negotiation between the national and regional levels is not exempted from difficulties (Churski, 2018^[48]). The projects managed and co-financed through these arrangements tend to be fragmented and sector-driven and its use has been mainly restricted to large infrastructure initiatives in urban areas. Indeed, rural areas cannot enter into territorial contracts. In a majority of cases, initiatives and decisions are mostly taken at the national level, which at the same time leverages regional resources for sectoral plans. As a result, the links and alignment between territorial contracts projects and regional and local development strategies are weak.

In this scenario, some adjustments could help move towards territorially based contracts as in the examples of Colombia or France (Box 6.14). Territorial contracts need to be conceived as a way to identify relevant projects for competitiveness at the regional and local levels, which could benefit productivity greatly in all regions. To further develop contracts, some key elements to consider are:

- Specify territorial goals and regional development priorities supported by the contract through a careful assessment of needs and opportunities in voivodeships and municipalities (Charbit and Romano, 2017^[49]). These goals should be aligned with regional and local development strategies.
- Extend the scope of the contracts to the whole territory, encouraging investments that favour urban-rural, urban-urban or rural-rural partnerships that take into account the functional area.
- Rebalance the top-down approach that has been dominant in the current framework with a stronger bottom-up component through a consultation phase. The consultation should involve national and subnational actors, the private sector and civil society to establish priorities and actions by assessing regional development needs. In France for example, a two-year consultation phase

allowed national and regional governments to agree on state-region planning contracts (*Contrat de plan État-région*, CPER) (Charbit and Romano, 2017^[49]).

- Encourage partnerships with municipal associations to support investments at a supra-municipal scale. This might particularly help remote localities that do not have their own capacity to enter into such contracts. Funding could be especially dedicated to contracts signed by groups or networks of municipalities. Specific contractual arrangements might target metropolitan areas, along the lines of City Deals in the UK.
- Incorporate mechanisms and an evaluation phase in the initial contract monitoring that allow for assessing results and the potential impacts of contracts while learning from successes and failures and facilitating peer learning. Monitoring and evaluation are crucial to making enforcement possible with concrete incentives, allocating part of the funding based on good performance for example.

To further enhance territorially based partnerships, Poland also needs to take advantage of the policy planning process to ensure that priorities, objectives and policy implementation are aligned across levels of government (see Chapter 3 for further discussion). The confluence of many actors in territorial and local matters in Poland makes it critical to develop planning frameworks that promote a coherent approach. Planning documents, including vision-setting documents, integrated national-level strategic policies, sector policies and subnational development strategies, are co-ordination mechanisms that build vertical and horizontal links between government actors and their actions. Such documents also connect the various levels of a policy cascade and help co-ordinate diverse interests when implementing a new or reformed policy. For this to happen, development strategies should be based on an assessment of regional and local characteristics and specific competitive factors, with investments aligning with regional needs (Mizell and Allain-Dupré, 2013^[33]). An important effort of communication and information from the national and regional levels – as well as a more strategic approach to co-ordinated policy planning – is needed. Indeed, ensuring that different levels of government are aware of each other's vision for development, priorities and planned activities is fundamental to coherent policy implementation. The recently enacted amendments to the Principles of Development Policy in July 2020, represents an important step forward in ensuring local development planning that could help Poland to attain better productivity levels in the entire territory.

Box 6.14. Contracts for investments: The cases of Colombia and France

France

State-region planning contracts (CPER) have been in operation since 1982 and are important tools in regional policy in terms of planning, governance and co-ordination. They are characterised by their broad thematic coverage and cross-sectoral nature, with a territorial approach applied across diverse policy fields including industrial, environmental and rural issues. DATAR functions as the regions' main national partner in developing and implementing such planning documents. The President of the Regional Council and the Prefect, as representative of the national government's different ministries, develop the contract. The co-financing of interventions is seen as an important co-ordination mechanism.

2007-13 planning contracts: A new generation of state-region contracts were introduced in 2007 alongside the 2007-13 Structural Funds programmes, in order to increase links between French and EU regional policies. The new contracts have the same timeframe as the EU operational programmes, are based on a joint territorial analysis and have integrated systems for monitoring. Similar to the Structural Funds, regions can decide that funding be de-committed 18 months after approval for projects if no commitment has been made. Contracts increased their focus on the Gothenburg and Lisbon

agendas. They reflect three priority areas: the promotion of territorial competitiveness and attractiveness, the environmental dimension of sustainable development, and social and territorial cohesion. The emphasis on sustainable development has grown, with a consultation process launched in 2007 (*Grenelle de l'environnement*). Priority is given to soft functions (e.g. education, R&D) as well as infrastructures other than roads.

2014-20 planning contracts: A new generation of state-region planning contracts 2014-20 has been launched. Five topics have been selected: higher education, research and innovation; national very high-speed broadband coverage and development of digital technologies usages; innovation, promising niches and the factory of the future; multimodal mobility; the environmental and energy transition. Being a priority for the government, employment will be treated as a cross-cutting issue in the contracts.

In order to ensure equality between territories within the regions, contracts will mobilise specific resources for priority areas: urban priority neighbourhoods, vulnerable areas undergoing major economic restructuring, areas facing a deficit of public services (rural areas), metropolitan areas and the Seine Valley. Inter-regional contracts for mountainous and fluvial basins will be renewed. The preparation of this new generation was conducted in two phases: a first phase of strategic thinking and co-preparation between the national government and the regions; a second phase of financial negotiation.

Colombia

Efforts to better co-ordinate investment among the three levels of government in a cross-sectoral way led to the introduction in the early 2010s of *Contratos Plan*, investment programmes in specific areas defined jointly by the national government (which finances most of it), departments and municipalities. Seven *Contratos Plan* were developed as a first step in the 2010-14 National Development Plan (in 9 departments and 272 municipalities) and 17 are planned in the 2014-18 National Development Plan until 2018. They focus on lagging regions and on improving road connectivity or service delivery – education, healthcare and water sanitation. While Colombian contracts are inspired by the French CPER, they differ from these in that the French system provides for simultaneous preparation of all of the contracts, each lasting for seven years. The *Contratos Plan* signed so far have different timings (from 3 to 8 years) and have a different territorial coverage: some focus on a department (e.g. Santander); one focuses on a group of departments (Atrato-Gran Darien covering 25 municipalities in the 3 departments of Antioquia, Chocó and Córdoba); and the majority focuses on groups of municipalities. For the seven pilot *Contratos Plan*, parties had to agree to a strategic agreement for the development of the territory.

Source: OECD (2017^[37]), *Gaps and Governance Standards of Public Infrastructure in Chile: Infrastructure Governance Review*, <https://dx.doi.org/10.1787/9789264278875-en>.

Recommendations

Reduce the mismatch between expenditure and revenue-generating means

Recommendations for the national level

Increase the tax autonomy of LSGUs to reduce the dependency of local and regional authorities on state transfers

A better balance between revenue-generating means and expenditure needs might help Poland in creating better accountability and responsiveness. Further decentralising revenues by granting larger tax autonomy

to LSGUs, i.e. more taxing power over rates and bases, in particular concerning property tax, may ensure more efficient functioning of the decentralisation system.

Ensure that devolved responsibilities are sufficiently funded

The existence of unfunded mandates represents an important challenge for LSGUs across Poland, in particular due to the transfer of new competencies (e.g. education) to local authorities. For counties, pressure on subnational finance comes mostly from the requirement to ensure higher standards for local services (e.g. social assistance, retirement homes, orphanages, etc.) without the adequate transfer of resources. It is thus crucial that the national level allocates sufficient financial resources to local authorities ensuring that the transfer of new responsibilities to LSGUs is accompanied by adequate resources. For this, a review of the competencies and functions of LSGUs and their corresponding funding could be undertaken to clarify the breakdown of responsibilities and how they are funded. This would help have a clear view of the impact of recently transferred responsibilities in terms of charges and constraints. This review could also take place over the medium term within the framework of a formalised national dialogue, involving all levels of government as well as relevant stakeholders and experts, on the current decentralisation system in Poland. This national dialogue could aim to review the current administrative and territorial organisation of the country at the local level with a view to rationalising and clarifying its administration, reducing its complexity and embedding it with a clear functionality along with the resources to enable its execution.

Recommendations for LSGUs

Adopt innovative sources of financing

To reduce the dependence on national transfer and ensure financing for investment projects, large LSGUs with sufficient capacity should adopt innovative funding mechanisms, e.g. partnering with the private sector and institutional investors, adopting public-private partnerships or other instruments such as green bonds and social bonds for the large metropolitan areas. The use of new and innovative financing mechanisms should be accompanied by an assessment of their benefits, risks and local capacities to employ them.

Strengthening inter-municipal co-operation

Recommendations for the national and regional levels

Develop financial and non-financial incentives for inter-municipal co-operation

Polish LSGUs are increasingly recognising the benefits of inter-municipal co-operation. While increasing, the take-up of the different forms of inter-municipal co-operation remains slow and differs across the country. Co-operation between municipalities is mainly done on a project basis, lacking a comprehensive functional approach to co-operation, and remains limited in sectors such as education and housing. To further encourage inter-municipal co-operation, the national level, in co-operation and co-ordination with voivodeships, can take complementary measures to actively promote and support inter-municipal co-ordination and demonstrate its benefits:

- Create financial incentives for inter-municipal co-operation whereby municipalities can access higher funding amounts for joint projects or shared services. These financial incentives can be given by the national and/or regional levels (national or regional operational programmes) and should particularly target projects aligned with the supra-local development strategies, as per the amendment to the Principles of Development Policy Act as of July 2020. By assigning a share of existing funds for local development and investments exclusively to joint projects, Poland can, at the same time, encourage the development of these new supra-local strategies. Poland could also

promote co-financing arrangements for projects between the national government and municipal networks. For this, it is important to develop more flexible rules allowing for the undertaking of joint public services by inter-municipal partnerships.

- Encourage inter-municipal collaboration by providing consulting and technical assistance, promoting information sharing or providing specific guidelines on how to manage such collaborations. The national or regional level could organise peer learning activities where municipalities participating in successful co-operation arrangements can share their experience and encourage other municipalities to enter into such arrangements. Voivodeships could lead this capacity building and peer learning process, in particular in areas where LSGUs have a more limited institutional capacity and/or challenging development conditions. This process should particularly focus on municipalities that are areas of strategic intervention (ASI).
- Encourage, through financial or non-financial incentives, the creation of collaboration schemes between municipalities with different capacities, given the heterogeneity of the municipal landscape in Poland. Larger, stronger municipalities that benefit from greater capacities to implement certain development projects should collaborate with smaller surrounding municipalities. Both types of municipalities can benefit from synergic positive effects and in particular smaller ones can greatly benefit, in the medium term, from the knowledge and capacities of bigger municipalities.

Strengthen LSGU capacities to develop inter-municipal collaboration schemes, in particular in view of the new supra-local development strategies and territorial agreements

- Organise targeted training for LSGU staff on the different existing co-operation schemes and their regulations. This training should focus particularly on remote and small LSGUs that do not often establish inter-municipal co-operations. The Ministry of Development Funds and Regional Policy (MDFRP) should in particular provide training and capacity building activities regarding the supra-local development strategies and territorial agreements recently introduced by law. This training could first target municipalities that are located in non-urban FUAs and ASI. This is also a way of encouraging LSGUs to develop supra-local strategies.
- Develop of clear toolbox or guidelines for municipalities specifying the benefits of different types of inter-municipal co-operation arrangements, as well as the concrete steps they could take to establish a partnership with neighbouring municipalities. This document needs to include clear guidelines on how to deal with the administrative procedures of the different instruments foreseen by law when establishing co-operative arrangements. These guidelines would accompany the peer learning process.
- Capitalise on successful networking and collaboration schemes to strengthen inter-municipal co-operation within functional areas. To expand the successful experience of ITIs to all cities and their functional areas as currently envisaged by the MDFRP, the ministry, in co-operation with voivodeships, should promote peer learning and organise capacity building workshops to share good experiences on how to implement them. Other initiatives that could serve as a learning base for peers is the Partnership City Initiative that has also been successful in promoting networks of municipalities for integrated and sustainable development.

Ensure that legal frameworks for inter-municipal co-operation are simple and flexible

Municipalities across Poland highlight that the existence of rigid legal forms of co-operation in Poland is among the top challenges for establishing co-operative arrangements. The lack of concrete incentives coupled with bureaucratic procedures results in weak co-operation between municipalities. The flexibility of co-operative arrangements is particularly relevant for municipalities pertaining to different functional areas that face specific and distinct challenges. The flexibility of co-operative arrangements is also crucial

to allow municipalities to react more efficiently and quickly to the challenges which arise from unexpected crises. Some key steps to move in this direction are:

- Simplify the administrative procedures to establish co-operative arrangements between municipalities. For this, a thorough revision of the different existing legal frameworks would be needed. This revision should be accompanied by a consultation with municipalities to clearly identify the main bottlenecks. This process should also lead to clarifying the various advantages of the different existing legal frameworks.
- Integrate flexibility to the different inter-municipal co-operation legal frameworks so they can be adapted to different context and needs. The French reciprocity contacts, for example, serve such a purpose by structuring a dialogue between rural and urban municipalities rather than rigidly fixing the responsibilities of each party. These agreements are adaptable to different territorial realities; their jurisdictions are not predefined, which allows them to cover different areas depending on the issue at hand.

Recommendations for all LSGUs

Adopt a supra-local development strategy and co-operation schemes

The amendment to the Principles of Development Policy Act adopted in July 2020 introduces the possibility for municipalities to prepare joint development strategies or supra-local development strategies for the so-called functional areas. Municipalities across Poland pertaining to the same functional area should actively seek to develop these strategies. These supra-local development strategies should serve as the main planning framework to decide which partnership instruments to establish (inter-municipal union, association of municipalities, inter-municipal agreements, territorial agreements, etc.) and with whom. For this, it is important to:

- Identify a person/team within the LSGU administrative staff that is in charge of seeking and establishing co-operation opportunities with neighbouring LSGUs, especially with those pertaining to the same FUA. This person/team should actively and regularly identify opportunities for co-operation, monitor the co-operation scheme and evaluate its results/outputs.
- Define indicators (financial and non-financial) to monitor and evaluate co-operation and partnership agreements. For this, it is important that the different partnerships (independent of its form) set clear objectives and actions to achieve them. LSGUs should take actions in accordance with the results of the evaluation.
- Counties can also play an active role in encouraging co-operation through financial incentives as from the planning phase. For this, examples such Lubelskie, which provides additional funding for municipalities of the functional area that prepare a joint strategic plan, could be further expanded.

Moving forward with the governance of metropolitan areas

Recommendations for all levels of government

Introduce legal arrangements to recognise the special status of metropolitan areas and encourage experimentation

The urban landscape in Poland is heterogeneous and a governance model for metropolitan areas needs to take into account this heterogeneity by being as flexible as possible (and not “one-size-fits-all”). The governance model must be in tune with the structure of the different FUAs. While for certain urban areas empowering the regions or the county with metropolitan governance responsibilities might be an effective solution, for other urban areas the creation of a new and independent institution might be necessary. In other cases, a supra-municipal arrangement – as the one established in the Slaskie Voivodeship – where

governance structures are reshaped to fit or approximate the functional economic area of the metropolitan region might also be an effective solution. OECD countries are increasingly implementing differentiated metropolitan governance approaches within their countries – rather than one-size-fits-all approaches (Allain-Dupré, Chatry and Moisis, 2020^[50])

These different approaches to the governance of metropolitan areas might be: i) flexible or experimental (see below), allowing for bottom-up initiatives based on existing general acts and laws; ii) based on formal legal acts (e.g. metropolitan association in Silesia Voivodeship); or iii) based on existing institutional structures such as metropolitan associations or unions.

Whatever the form, the legal framework needs to recognise the special status, with specific powers and responsibilities (e.g. transport, spatial and local development planning, socio-economic development) as well as adequate funding (see below). Such an asymmetric approach – one that differs depending on the specific context – should be based on consultations, dialogue, transparency and agreements between all main stakeholders.

Allow experimentation when establishing flexible metropolitan governance models

For a metropolitan governance model to be successful, pilot projects, whereby the country can experiment with different models, would be beneficial. Drawing on practical experience in implementing this asymmetric approach can enable stakeholders to successfully roll out different governance models in the near future. The experience of Metropolis GZM can be drawn on as a pilot experience. An exhaustive evaluation of its functioning may allow expanding this experience and adapting it to the different metropolitan contexts of the country. Poland could also take advantage of pilot experiences in the devolution of competencies as a way to ensure a gradual institutional change and “learning by doing”.

To facilitate successful pilot actions that lead to long-term systematic changes, an enabling regulatory and legislative framework could be beneficial as well as close and regular co-ordination among different stakeholders. The regulatory framework can delineate the validation and evaluation of pilot action results and provide the possibilities and revenues to scale up. Meanwhile, during the pilot project implementation, close and effective co-operation and co-ordination should be maintained among all stakeholders, including government and self-government administrations at different levels. Close co-ordination is aimed to secure common objectives and joint efforts in developing best solutions and practices to implement pilot actions successfully, ensure the influence and dissemination of results across the country and even lead to long-term regulatory and legislative changes.

Ensure adequate resources for metropolitan areas

Regardless of its form, the effectiveness of any metropolitan institution will depend heavily on its competency allocation and the structure of its financial and administrative resources provision. To be successful, metropolitan institutional structures must enjoy a degree of decision-making authority over resources and own revenues. A metropolitan governance structure needs to manage either its own resources, a transfer from the national level, municipal contributions or a combination of all three. To start, specific tax regimes for inter-municipal groupings or metropolitan areas could be promoted without taking resources away from the municipalities. The national level needs to make sure that metropolitan governance models, independent of their form, have adequate funding in order to match responsibilities and respond to their financial needs in terms of infrastructure and services. A legal act might be needed for this to happen. Alternatively, municipalities pertaining to the metropolitan area may decide to pay a contribution from their municipal budgets (e.g. as an amount per capita).

Building stronger partnership and collaboration mechanisms across levels of government

Recommendations for the national level

Strengthen territorial contracts

Territorial contracts represent a strong tool to co-finance investments but the country has encountered different challenges while implementing these contracts, related, among others, to their rigidity, limited scope and top-down elaboration process. In this scenario, some adjustments could help to move towards territorially based contracts conceived as a way of identifying relevant projects for competitiveness at the regional and local levels that could greatly benefit productivity in all regions. To further develop contracts, some of the key elements to consider are:

- Specify territorial goals and regional development priorities that will be supported by the contract through a careful assessment of needs and opportunities in regions and municipalities. This implies, among other things, involving initiatives from different sectors. These goals should be aligned with regional and local development strategies.
- Extend the scope of the contracts to the whole territory, encouraging investments that favour urban-rural, urban-urban or rural-rural partnerships that consider the functional area.
- Rebalance the top-down approach that has been dominant in the current framework with a stronger bottom-up component through a consultation phase. The consultation should involve national and subnational actors, the private sector and civil society to establish priorities and actions by assessing regional development needs.
- Encourage partnerships with municipal associations to support investments at a supra-municipal scale. This might particularly help remote localities that do not have their own capacity to enter into such contracts. Funding could be especially dedicated to contracts signed by groups or networks of municipalities. Specific contractual arrangements might target metropolitan areas, along the lines of City Deals in the UK.
- Incorporate in the initial contract monitoring mechanisms and an evaluation phase that allows assessing results and, potentially, the impacts of contracts while learning from successes and failures and facilitating peer learning. Monitoring and evaluation are crucial to making enforcement possible with concrete incentives, allocating part of the funding based on good performance for example.
- Ensure that they are a flexible tool that can be adapted to different local contexts and urban and rural localities. The key point is to specify the regional development priorities supported by contracts, possibly through a careful assessment of needs and opportunities.

Take advantage of the policy planning process to ensure that priorities, objectives and policy implementation are aligned across levels of government

The confluence of many actors in territorial and local matters in Poland makes it critical to develop planning frameworks that promote a coherent approach. Planning documents, including vision-setting documents, integrated national-level strategic policies, sector policies and regional, supra-local and local development strategies are co-ordination mechanisms that build vertical and horizontal links between government actors and their actions. For this to happen, local and supra-local development strategies should be based on an assessment of regional and local characteristics and specific competitive factors, with investments aligning with regional needs.

Make sure that consultations across levels of governments are a two-way engagement process

- Consultation processes involving LSGUs and led by the national or voivodeship levels have gained prominence in Poland. However, sometimes they can represent an important burden for the parties involved and are sometimes perceived as a way of complying with rules instead of a genuine engagement process. This is particularly true for smaller LSGUs which do not have the capacity to react to draft documents in a short period of time. Indeed, the sole existence of these consultations does not ensure an effective dialogue. This is why some complementary considerations to improve the outputs and outcomes emerging from these consultations include providing sufficient time for LSGUs to get familiar with the issue that is being consulted and allowing them to properly plan and allocate resources (in terms of time and personnel) for the task. For this, it might be necessary to introduce an obligation to announce the consultation in advance (e.g. at least 14 days in advance) and allocate a similar deadline for LSGUs to answer (e.g. a minimum of 14 days).
- Launch a dedicated website (that could be run by the MDFRP) for policy-makers and stakeholders to participate in consultation solutions that directly or indirectly co-shape the development of their LSGUs' path. This website should gather all relevant information regarding consultations held by the national level and in which LSGUs should participate. LSGUs would then receive prior notification of a future consultation (see above).
- Present the information in a simpler way, to help and stimulate LSGU engagement and design and communicate the message to the end users in a way that encourages and facilitates active participation.
- Ensure transparency in the process to ensure LSGUs understand the rules and impact of their engagement.
- Provide feedback on the ways consulted issues have been integrated into final policy decisions.

Make the most of the new territorial agreements

The recent creation of territorial agreements in the framework of the amendment to the Principles of Development Act is a key step forward for the financing of projects involving several municipalities. To make sure these agreements respond to local needs, and in particular to those of municipalities pertaining to the same functional area, it is important to consider some elements:

- *Promote bottom-up initiatives.* For these types of agreements, combining top-down and bottom-up approaches to define the projects and their objectives is crucial to establish priorities in a consensual manner by assessing local development needs and the impact of different on different people and places.
- Involve the private sector and civil society from the early stages of the definition of territorial agreements. While rebalancing the top-down approach that has been dominant in the current framework, involving the private sector and civil society from the conception of territorial agreements is important to better assess needs and establish priorities and actions.
- Integrate monitoring mechanisms and an evaluation phase that assesses results and, potentially, the impacts of territorial agreements. Monitoring and evaluation are crucial to making enforcement possible.
- Ensure that the procedures to establish a territorial agreement are simple, in view of greater uptake of these instruments by municipalities. There is a potential risk that the existence of diverse instruments to co-ordinate policies across levels of government – and with the creation of a new instrument – coupled with weak capacities may lead to inefficient or low use. It is crucial to weigh up the administrative burden with the expected policy benefits to avoid an excessive amount of guidance and legislation.

Recommendations for all LSGUs

Actively seek dialogue opportunities with the national and regional levels as well as other key relevant stakeholders

In Poland, there are several dialogue and consultation opportunities. For them to be effective, the initiatives taken by the national and regional levels need to be accompanied by active actions from LSGUs seeking to establish a dialogue with upper levels of government to communicate its priorities regarding investments and local development policies. For this to happen it is important that LSGUs:

- Participate systematically in formal consultations arranged by other levels of government and provide comments/suggestions when decisions affect its territory/citizens. These inputs need to be based on a consultation with the relevant staff within the administration, as well as with relevant stakeholders from the LSGU.
- Officially designate a person(s)/team(s) to support the mayor, in charge of seeking and establishing co-operation with the voivodeship and/or national government. These person(s)/team(s) should clearly define needs, opportunities and objectives for co-operation, establish and monitor co-operation agreements/co-financing and evaluate the results/outputs of the co-operation agreements. This process should be accompanied by regular training.
- Actively seek innovative ways of engaging with stakeholders. Other consultation mechanisms may be mobilised (roadshows, consultation roundtables, conferences, e-voting, etc.) to listen to different stakeholder views as well as innovative sharing information tools including Internet tools. This is particularly relevant in the current COVID-19 crisis recovery that offers an opportunity for LSGUs to communicate differently with citizens.

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Notes

¹ The 2 258 OECD small (TL3) regions correspond to administrative regions, with the exception of Australia, Canada and the United States. These TL3 regions are contained in a TL2 region, with the exception of the United States for which economic areas cross state borders.

² For this chapter, subnational governments refer to the three levels: municipalities (gminas), counties (powiats), and regions (voivodeships). In the System of National Accounts there is no disaggregation for different layers of subnational governments to ensure international comparability of national accounts.

³ In a recent study, the OECD has developed the Municipal Fiscal Indicator using unique fiscal data, collected from the national accounts and the municipal accounts of 32 unitary EU and OECD countries. The indicator considers three sub-indicators: the municipal share of general government spending, the municipal own revenue share and the portion of non-shared municipal tax revenues. The methodology is based on assumptions that municipalities benefit from a greater spending autonomy when: i) a large share of public expenditures is decentralised; ii) municipalities have a low dependency on national government transfers; and iii) municipal tax revenues are mostly based on non-shared taxes.

⁴ The vertical fiscal gap refers to the transfers received by municipalities as a share of municipal total revenues.

⁵ The six associations of local and regional authorities in Poland are: the Union of Rural Communes of the Republic of Poland, the Association of Polish Cities, the Association of Polish Counties (ZPP), the Union of Polish Metropolises (UMP), the Union of Polish Towns, and the Association of Polish Voivodeships (ZWRP).

⁶ Please refer to the introduction chapter for all methodological issues of the OECD questionnaire.



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