Financing and management of public sector investments on local and regional levels
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Introduction

In today’s world, in the market economy, the public sector still plays an important role. There are even areas where its importance is growing, both in terms of national income and support of social and economic processes. The observed increased importance of the public sector in the market economy is related to its numerous functions in the state, economy, and society in the first place. From the economic perspective, it is impossible to underestimate how it stimulates development. Due to this particular function, the entities and organizational units considered part of the public sector and public administration bodies at the state, regional and local level provide strong support in many areas. One may claim that those entities work in the background of the main stream of economic and social transformations.

Therefore, the public sector guarantees the realization of public services (e.g. in the area of security, environmental protection) that due to their specificity do not belong to the key interests of the private sector. Although there are solutions in the area of joint intersectoral actions to provide public services, especially in the form of PPPs, the way that projects are financed in principle does not change the role and the function of public services. Such situations require diverse regulatory mechanisms that guarantee a specific quality of public services at socially acceptable prices.
The division of public and private sector activities is natural and relates to differences in the funding of their current activities, especially development projects. A well-organized, well-managed public sector is a “flywheel” for the private sector and it also creates good conditions for performing various social functions. Hence, there is no doubt that there are diverse interactions between the public and private sector, which affect how the state functions. This book attempts to handle the vast topic of public sector activity at various competence levels, both in state and local government administration, in a functional way. The interest in how local government bodies function and how public services are provided is clearly visible in Poland. This interest results from the political changes in the principles of management, with a clear division of competencies and tasks at the state level and of the local government bodies at the local level.

In the new conditions, this approach has changed as local communities have been given a new rank and the status of local democracy has improved. The dual power system, with the abovementioned clear division of state and local government competencies, has caused a transformation of the public sector in Poland as compared to the period of a centrally managed economy. Undoubtedly, various entities and organizational units that belong to the public sector are now functioning in totally different political, economic and social conditions. On the one hand, the conditions of functioning of the public sector changed, and on the other, there is a large scope of tasks that are partially modified by general social and economic conditions. The functioning of the public sector should still be considered a unique process of providing various public services that are a necessary part of the activity of the state and local governments aimed at satisfying basic needs and creating conditions for development.

In this book, the authors addressed the issues related to determining the role of the public sector in local and regional development, considering the changes that took place in Poland during the political transformation. Due to the importance of the problem, this work presents some financial tasks of the public sector. It appears that, in a market economy, accumulating public finances and allocating
financial resources is one of the most important factors conditioning a proper provision of services and proper financing of future investments. In the light of the above considerations, it seemed particularly important to determine the organizational and legal boundaries and to describe the conditions of the activity of entities and bodies from the private sector. It must be noted that the organizational and legal forms are one of the unique features in the process of financing tasks.

Based on the conducted research, the principles for the functioning of public sector entities were investigated in a chosen area of activity. The authors concentrated on municipal waste management, which due to its complexity attracts the particular attention of scientists and economists in various parts of the world. Thus, the production, collection and disposal of waste were given more prominence in the book. Observation of the processes in waste management in the world reveals and offers an opportunity to adopt organizational, technical and economic solutions, where waste can function in a closed system, without a negative effect on the environment.

The target reader of this publication is virtually anyone and it can be used as a supplement by students of economics who are interested in how the public sector functions. This book may also prove interesting to practitioners who, in their jobs, face real problems of providing public services. It should be emphasized that the problems addressed in the book do not exhaust the research potential of the diverse issues in various public sector entities and bodies, but it points towards more complex problems that those bodies and entities face in the Polish market economy.

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Grzegorz Maśloch
CHAPTER 1

The public sector against problems of local and regional development in Poland

1.1. Introduction

The public sector occupies a permanent and visible place in the structure of the state. Its range is clearly visible in the historical perspective, both in the capitalist economy of the interwar period and in the period after World War II. Directly after the war, the public sector in Poland was excessively expanded as a result of political changes, followed by the ownership transformations in the real economy. However, within this structure of the state, elements functioned that in organizational and economic terms were usually associated with the traditionally understood range of the public sector. In those political conditions, restoring the due importance of the public sector under the conditions of the market economy in Poland and reactivating the market system in Poland was not possible. The necessary activating condition for the process of changes could be significant socio-economic and political transformations.

The favorable situation that occurred in 1980 was characterized by many attempts at searching for a confirmation of the thesis on the possibility of reforming socialism in Poland towards a market-oriented economy. However, there were many failures in this respect and there was the inescapable belief that actual changes may occur in Poland only by means of systemic reforms and directing the economy
in Poland towards a market economy by means of real political changes. The market oriented socio-economic system in Poland was created in chaotic conditions. This statement seems adequate to the economic and social conditions present in 1980, that is since the collapse of the command economy and attempts at searching for solutions leaning towards systemic reforms. Essentially, that time was an announcement of passage for the new institutional order; it was a breakthrough in which the range and form of social and economic changes caused a significant clash of views, and there were many attempts at compromise regarding the shape of reforms and the depth of changes including the political transition.

Thus, the reactivation and evolution of the capitalist formation in Poland proceeded in specific and unique conditions. Therefore, searching for and the development of a new institutional shape and the creation of another (market) economic order became the purpose of the transformation processes. The primary goal was the transformation of the ineffective command economy into a new institutional and economic order. This statement is not exaggerated, considering how long it took to shape the views and attempt to reform the ineffective totalitarian socio-economic system.

When assessing the then phenomena from a broader perspective it can be assumed that the scale of the expected changes, as well as the general economic and political conditions, were not good enough to induce the necessary reforms. Despite a clear vision for the future shape of the economy, as expressed by both the representatives of the democratic opposition, who multitudinously joined the Solidarity movement, and the expectations of labor organizations in Poland, after imposing the martial law, there was only place for a phony economic reform, which was intended to balance the most urgent basic needs and to level the shortages in the supply of products in the market. However, without deeper reforms in companies and without changing their ownership structure, which in fact, was not achieved

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1 Z. Hockuba, Dynamika porządku ekonomicznego w procesie zmiany systemowej, [in:] Dziesięć lat transformacji gospodarki polskiej, UW, Warsaw 2001, p. 121.
1.2. The impact of systemic transformation...

anyway, obtaining permanent grounds for development has proven to be difficult to implement.

The Polish road to democracy, to a social market economy, was becoming longer. Seeking an answer to the question of when and in which direction the reforms in Poland took place, a reference should be made to the events from 1989–1990, the Round Table sessions and parliamentary elections. Firstly, the reform program was oriented towards transformations aiming at macroeconomic stabilization. However, it was obvious that this was also supposed to open the road to a transformation from a command economy to a market economy. It should be assumed that this was the moment when the right conditions to carry out a systemic reform in Poland appeared; the conditions which were initiated on 1 January 1990\(^2\) and which gave an impulse for the development of capitalism in Poland. The main point here was to identify and determine two important aspects of the systemic reform in Poland, which directed the country towards a capitalist economy. The first of them is the above indicated point in time and the scenario of specific solutions prepared with prior approval of the Parliament, and the second one involves establishing real assumptions and directions of the planned systemic reform.

1.2. The impact of systemic transformation on the socio-economic processes in Poland

The political transformation in Poland involved the need to draw attention to the diversified processes occurring in the external environment, including a new dimension of globalization processes. The globalization processes observed worldwide were usually focused on the expansion of the influence zone of the operations of companies taking the form of transnational enterprises and led to an increase in the free flow of capital surpluses within the global economy. Therefore,

the period of transformation in Poland required, in the programmed process of changes, considering diverse research studies and analyses of the effects of future events in the economic perspective as well as diversified groups and environments in the social dimension³.

However, globalization processes in the economy became possible as a result of the impact of diversified groups of aspects. It is necessary to pay attention to the technical progress and unprecedented development of new technologies of manufacturing, changes in the competitiveness of companies, changes in the competitiveness of states and regions, the liberalization of the international flow of goods and investment capital. Although the development of globalization processes was conducted with the support of nation states, over time, transnational corporations became the dominant entities, while the role of the state in the stimulation of international economic cooperation was significantly limited. Simultaneously, the position of organizations and international institutions became stronger. They became the supervisors of the idea of globalization, but also of those organizations that saw the economic and social risks in globalization processes⁴.

A particularly important role in those processes began to be played by large companies with an international range. It is the efficiency of operation of this group of enterprises that created a basis for the development of new conditions of management in the world beyond divisions. International institutions played a significant role in this process. These include the World Trade Organization, the World Bank, the International Monetary Fund, the OECD, institutions of the European Union, as well as numerous non-governmental entities (NGOs). The World Trade Organization played and still plays a particularly important role in the globalization process. The removal


⁴ A. Zorska, Proces globalizacji a przemiany gospodarcze w krajach Europy Środkowej i Wschodniej, [in:] Studia i prace KES, SGH, Warsaw 2001, pp. 9–11.
of barriers in international trade, supported by this organization, is recognized as one of the more significant methods of creating new conditions in world trade and consequently new conditions for capital allocation. The influence of the World Bank and the International Monetary Fund was visible with the support of privatization processes, diverse forms of deregulation in the economy and the liberalization of mutual economic relations worldwide. These institutions, seeking to facilitate the worldwide flow of capital within the global economy, continuously contribute to limiting the role of nation states and their protective functions. These organizations took an important place in creating models of socio-economic transformation in the countries of Central and Eastern Europe. Their previous achievements in the construction of transformation and development scenarios in developing countries have also been used for the Sachs-Balcerowicz plan.

During that time, a final definition of the scope of the public sector’s role in the conditions of the market economy became an indispensable condition for directing Poland towards fast development. Consequently, two main problematic scopes appeared at that time. The first one was a limitation and reduction of the influences of the state and its respective attributes wherever state organizational units, including companies, could not effectively function in market conditions. On the other hand, it was necessary to determine the scope of the public sector and assign it with a new functional importance as a valid aspect supporting the development in market conditions. Such a perspective meant a reduction of the influences of the state in some problematic scopes, with a simultaneous strengthening of the functions of state and local government units in these problematic scopes where entities classified as the public sector had to perform an important role.

As it is demonstrated by the experience of Central and Eastern European countries at the initial period of systemic transformation,

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the transition from a command economy to a market economy was characterized by considerable difficulties in the functioning of the sphere of the public sector, especially public finance. These conditions of public finance were simultaneously influenced by at least two basic causes. The first one included the adverse tendencies in the economy, a substantial reduction of production volume and value, which generated a decrease in the budgetary income of the state and, as a consequence, problems with balancing the budget. As a result of these phenomena, the negative effects on budget deficit promptly cumulated and its effect on the level of public debt increased. These phenomena intensified by the 1980s in the event of structural problems of insufficient, unadjusted to the changing preferences and citizen expectations financial and economic relations with capitalist countries, also in terms of the growing requirements of the economy and the external environment. The second cause included changes in the level and structure of budget revenues and expenditures, which manifested themselves in a change of cash flow streams and were reflected in decreasing revenues and at the same time growing budget expenses. These changes resulted from the then system solutions in taxes, and, to some extent, were connected with the reactivation of the local government in Poland and with new entitlements within the budget management of local government units, and new payment obligations.

Complex political changes led to a thorough reconstruction of the traditionally understood budget management of the state. Resulting both from the Constitution of the Republic of Poland and the Act on local government, the scope of tasks of these units involved the necessity to categorize income sources, the principles of financing and finally the principles of subsidizing tasks of external nature. These phenomena introduced significant changes to the previous budget practice of the state. As a matter of fact, these solutions led to limitations of the tasks of the state. However, from the point of view

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7 Ibidem, p. 12.
of budget management and especially of redistribution of budgetary income parts, they led to a reduction of fund volumes which remain within the power to tax of the state. Changes in the budgetary income structure in the state meant an increase in the budgetary income structure of local government units obtained from municipal property, including from income tax and the then turnover tax from field companies, which under the act have become communes’ property⁸.

During that time, many difficulties could not be avoided. The crisis of public finance in Poland in the initial period of transformation was of an objective nature. The transition from a command economy to a market economy forced the elimination of solutions based on simple and indiscriminate subsidizing of business projects in the sector of enterprises as well as in the public finance sector. As it results from the research by A. Wernik, although in 1990 a positive balance in the public finance sector was recorded, in the remaining years until 1992, in order to improve the relations between revenues and budget expenses, the policy of limiting expenditures was being implemented, which was supposed to be an attempt to improve the results of the budget in relation to the decreasing size of budgetary income. And so, in 1992 the real income of the public finance sector was by 18.1 percentage points lower as compared to 1988. At that time, the actual expenditures of that sector were by 7.1 percentage points lower than in 1988⁹.

It is worth noting the political and consequently socio-economic changes occurring in Europe. They appeared in the 1980s and in the early 1990s, also significantly affecting the situation in Poland. These changes resulted in the occurrence of completely new operating conditions, especially the emergence of a new development perspective in the form of a possible association of Poland with the European Communities and target membership of Poland in this organization¹⁰.

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The process of real changes accelerated in the second half of 1991–2000 as a result of initiatives prior to the EU accession, which began in 1991. In particular, this refers to the Europe Agreement establishing an association between the Republic of Poland, on the one hand, and the European Communities and their Member States, on the other, prepared in Brussels on 16 December 1991. It is worth emphasizing that at the meeting of the European Council in Copenhagen in June 1993 it was agreed that the affiliated countries may become members of the European Union, but a declaration of will of accession is necessary, along with the fulfillment of a number of adjustment conditions. The fulfillment of these conditions concerned in particular: the candidate state achieving stability of institutions ensuring democracy, rule of law and observance of human rights, as well as respect and protection of the rights of national minorities. It was also necessary to guarantee the functioning of an efficient market economy as well as achieving conditions for opposition against the competition pressure of enterprises operating within the European Union and improving the ability to perform obligations resulting from the membership. It was necessary to achieve efficiency in realizing the aims of the political, economic and monetary union. Meeting these conditions was a difficult task in absence of own experience in the management of such complex projects, complicated internal economic and political situations, and social conditions, in particular regarding the arguments of the integration opponents identifying a number of risks of social nature in this process, especially the risk of deterioration of the living standard of workers’ families.

An important turning point in the process of systemic transformation was the adoption of the Pre-accession Strategy by the European Council on 10 December 1994, which assumed the acceleration and particularization of forms of cooperation with associated states. At that time, a final decision was made concerning inviting Poland

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11 The decision of the European Council of 22 June 1993 on the possibility of accession of states from Central and Eastern Europe to the EU, after fulfilling specific political and economic conditions, Copenhagen 1993.
to an annual cycle of meetings of the European Council\textsuperscript{12}. It should be believed that along with the idea of reconstruction of the political and socio-economic system, strong tendencies towards providing Poland with conditions for integration into the European Community appeared already in the second half of the 1980s. These tendencies had their historical circumstances, manifested in sympathy and traditions of cooperation and consequently the willingness to cooperate with the West, as well as political circumstances. They also had their practical dimension. The disintegration of the Soviet Union and consequently the disintegration of the international economic relations within the Comecon organization gave hope for a prompt filling of the gap in the infrastructure of contacts and mutual relationships that should create the conditions for a further fast and sustainable development in Poland.

From the point of view of possible system solutions in Poland, diversified proposed changes, namely the requested dimension of reforms, should be separated from the real processes of reformist character and consequently from the changes that were introduced.

The future shape of the political system in Poland was to a large extent determined by, apart from diverse ideas produced internally, factors of external nature. Thus, it was not possible to prepare a consistent concept of further development of the country without taking into account the geopolitical and economic circumstances in Europe and in the world which, at that time, constituted the main axis of interest of state and government leaders. The most important factors of external nature should include the reunification on 3 October 1990 of the Germanies, political changes in the Soviet Union, democratic protests and consequently transformations in all countries of the former soviet bloc. The events greatly changed the realities in Europe. The result of these objectives was the accession of Poland to the NATO. This opportunity was given to Poland relatively early, almost at the beginning of the long process of reforms

\textsuperscript{12} Pre-accession strategy adopted by the European Council in Essen on 10 December 1994, Essen 1994.
in April 1992. Finally, Poland became a formal member of this pact on 12 March 1999.

The shape of the development policy was mainly influenced by independence and democratic movements of society, and an especially strong pressure towards real changes of the material situation and in the sphere of the democratization of public life. From the perspective of time, the requested changes meant an enormous range of institutional works. A particular role in the process of the democratization of public life was played by the reactivation of the local government in Poland. One of the first significant legal acts was the amendment of the Constitution of Poland pursuant to the Act of 29 December 1989, consisting in introducing new provisions governing the principles of functioning of the local government in Poland.

The reactivation of the local government in Poland and the adoption of basic legal acts governing the principles of its functioning revealed new possibilities of impact of public authorities on the socio-economic processes occurring in Poland. The new possibilities of stimulating the socio-economic development were mainly associated with the autonomy of local government units and with the democratization processes that the state guaranteed to the citizens. This autonomy included broadly understood economic matters, in accordance with the market organization formula of the economy and a democratic state.

The democratization of public life involved, among other things, a free choice of objectives, which was guaranteed to all entities and units in the reformed state. This became possible because numerous restrictions of administrative nature had been eliminated, mostly occurring in the form of prescriptive standards. Freedom of choice, which became the benefit of citizens, was an important determinant affecting the course of business processes and social affairs. Prior

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14 Samorząd terytorialny w tworzeniu warunków konkurencji sprzyjającej rozwójowowi społeczności lokalnych, [in:] Wzrost gospodarczy i rozwój społeczny jako paradigmy współczesności, SGH, Warsaw 2003, pp. 373–375.
experiences indicated an urgent need for creating new mechanisms of organization and management of the public sector, especially for improving the living standard of the residents, as well as the level of the state, whose tasks included reforming institutional structures and an indirect stimulation of development.

1.3. The public sector in Poland in the conditions of a market economy

A systemic transformation and changes in the principles of functioning of the economy in Poland resulted in the appearance of new relations between market and public management. The result was the start of a search for effective mechanisms governing economic processes at the meeting point of the public sector and private capital. Such a situation was forced by the new conditions of management, as well as the change in the scope of tasks of that sector, with a division into government and a local government subsector. The new management conditions have resulted in the fact that diversified capital, commodity and organizational connections became a common and permanent element of functioning of the economy. In the public sector at the local level, these phenomena emerged between local government units and private capital.

A new development element appeared, namely competition between various local government units, seeking the establishment of a good position for own further development. Improvement in attractiveness strictly involved the construction and effective use of economic infrastructure devices, which, in turn, forced the planning of an appropriate long-term investment policy. In the transformation period, the fulfillment of the competition requirements of enterprises became an important development condition. Competition in the private sector also emerged in the regional and local aspect in the form of territorial competition. Competition of local government units was not a well-known phenomenon in Poland. In the new political and legal conditions of the local government an important role was played
by the location attractiveness and the social and economic potential of local government communities.

This phenomenon appeared along with the activation of market processes in the economy. At that time, a process of changes in the awareness of public authorities was observed. The previous social egalitarianism was substituted with thinking using categories of input and output, rationality and effectiveness at an individual and social scale. In the public sector, due to the common deficiency of capital for financing investments related to the socio-economic infrastructure, allocation of resources and including private funds became a new challenge. In the traditional perspective the organizational units of the public sector, including government administration and local government administration, were the ones that became responsible for supporting the socio-economic development by means of fulfilling the *sine qua non* condition, which is the creation of grounds for further development. The new dynamic perspective projected an acceleration of the execution of public tasks as a result of an increased investment rate under combined public and private investment capital\(^\text{15}\).

The range of the public sector included a wide scope of issues of functioning of diversified organizational units, local government units in the local and regional dimension, organizational units at the state level, as well as other entities and units, including non-governmental organizations. The requirements of the political transition in Poland contributed to a fast development of the private sector and were forcing a far-reaching transformation of the public sector. The state reform process also included the creation of new structures, entities and organizational units that were included in the public sector. The activity of these units, due to the essence of the implemented tasks, was and still is subject to specific solutions, regardless of the wide context of the market economy\(^\text{16}\). This postulate can be justified


by the particular position of entities that are part of the public sector and is connected with functions performed in the economy and society. The position of public sector entities in the conditions of a market economy is conditioned by the type of operations and range of impact. We can indicate the entities whose meaning and range of impact is only local; we can also indicate the entities with a broader, nationwide range of impact.

The political transformation in Poland forced a gradual reconstruction of the scope of public organization operations as well as evolutionary changes of the principles of operation of a number of units. The privatization processes in the economy initiated in 1990 had a significant effect on the transformation within the public sector. Privatization led to a decrease in the number of state-owned companies with the status of public sector entities. The transformation processes resulted in the occurrence of a significant diversity of organizational and legal forms of entities, operating in the national and local government public sector. A natural consequence of the changes in the political system was the need to search for and apply suitable methods of financing tasks and management in this area.

One of the directions of activities was adjusting the organizational capacity of the public administration to the realization of objectives from the point of view of assigning its certain functions with regard to the functioning conditions of the state, local government on diverse levels of responsibility and other units and adjusting the organizational capacity of the public administration under the conditions of Poland’s accession to the structures of the European Union. The pace changed and the scope of responsibility for the assigned tasks to individual links of the public administration led to a significant increase of its importance in raising the efficiency of public organization operations.

The division into two basic scopes of activity began to play an important role in the public sector: current, short-term (operational) activity and long-term, long-lasting activity (strategic activity). Current activity (operational) involved short-term tasks, implemented

17 Ibidem, p. 29.
within the existing resources, organizational and economic structures. Current activity became the most important scope of tasks. The effects of current operations became the basis for subjective assessments of the residents as to the quality of management and residence conditions both at the local scale and in a broader context of region and state. Total subjective assessments of the residents turned out to be an important practical dimension of the assessment of the achieved results. Activity in the strategic aspect was associated with planning and executing tasks which required investment outlays and were oriented towards an increase of resources of infrastructural nature from the point of view of satisfaction of future periods. The long-term perspective in the public sector started to be identified with a diverse time horizon. In practice the horizon could be dependent on the adopted objectives and investment projects related to them.

The transformation period disclosed significant investment needs in infrastructure development. The balance of needs is comprised of many reasons. The most significant one was the poor technical condition of infrastructural equipment or even its absence and large disproportions in the regional and local perspective regarding the equipment condition. The second cause involved Poland’s planned accession to the European Union and the need to join the trend of changes, according to the requirements of the EU cohesion policy.

With regard to investment financing in the public sector, there were difficulties with ensuring a relevant volume of funds under the current budget management of units. Thus, diversified mechanisms of co-financing investments with the use of investment credits, funds from the issuance of bonds as well as non-returnable measures started to be used on a larger scale. The complexity of the funding mechanisms often led to unforeseen circumstances of sudden growth in current expenses, an increase in the deficit and indebtedness of public sector entities. The freedom of access to the diversified financial instruments that could be offered by the market did not always lead to the intended results. It turned out that if, next to own budget resources, external funds of returnable nature are allocated to investments, an increase in investment risk occurs and in the degree of complexity of the decisions
undertaken by public authorities. Therefore, the new management conditions under the market economy led to a new situation in the form of measurable difficulties of some organizational units in the public finance sector, related to the management of own liabilities.

A qualitatively new situation occurred at the time of Poland’s accession to the European Union. The possibility to use public funds of the European Union appeared before public sector entities, mainly under EU structural funds. An effective absorption of the means required the fulfillment of additional conditions. Next to the formal and legal requirements related to the need to properly prepare the application for co-financing, often there was also a required participative contribution calculated in proportional relation to the overall value of the cost estimate of the project. Knowledge on the management of investment projects co-financed from the budget funds of the European Union as well as indispensible experience were also necessary. These requirements often constituted a barrier, which beyond other factors sometimes made obtaining a subsidy impossible or led to abandoning tasks.

In the concerned field there were difficulties in the efficient management of cash streams received from various sources. This problem partly resulted from the speed of changes taking place in the economy and the need to adjust to the realities of a market economy as well as to adjust to the new conditions of fund acquisition for investments and short-term and long-term management methods.

In Poland, just like in many countries of the world, since the 1980s an intensified interest in new methods of management in the public sector could be observed. This process was included worldwide under the notion of new public management (NPM). This approach consisted in the use of tools, assessment measures, financial instruments and models which are used in the private sector under the conditions of a free market, in these scopes of operation in the public sector where this type of solutions and methods can be used.

Under the concept of new public management it is advised to subject the projects planned in the public sector to analysis in terms of their internal financial efficiency and a broader assessment of their impact on the environment by applying an incurred costs analysis preferably
of full social costs and benefits. As a result, a better assessment of the use of investment outlays could be made in connection with the performed material effects. This process should lead to qualitative changes and become a new commonly used practice. However, the main condition for a broader use of the principles of new public management will be the popularization of knowledge concerning these problems. The considerations referring to the principles of public resources management indicate a high degree of complexity of the present phenomena. Further directions of changes should entail the need to include the principles of a market economy in budget accounts, the relevant streams of incomes and revenues as well as expenditures and outflows. The entities of the public sector are the rightful participants of the market and are related to the external environment through the market. Therefore, the management of public resources must entail the need to apply similar economic mechanisms to those that are applied in commercial business projects.

Apart from the mentioned approach, it is also necessary to mention the development of new management concepts in the public sector, which pave their own way in different theoretical concepts and practical conditions of local and regional management. It is worth mentioning the new approach to problems of management in the public sector, which is recognized as multi-level governance (MLG)\(^\text{18}\). It is the answer to the appearance of diversified reference levels, resulting, for example, from the concept of regional and local development.

Searching for new efficient methods of broadly understood management in the public sector is the answer to the changing external environment and the appearing increasing requirements that are requested from managerial staff responsible for making decisions in public resources management. These requirements involve increasing risk, which especially accompanies the financing of complex investment projects co-financed from various sources.

1.4. Multidimensionality of the public sector vs. problems of regional and local development

Currently, the socio-economic development is oriented on the mobilization of endogenous development factors and the activation of potential in regions, which basically means the activation of development factors at the local level, giving the perspective of a good satisfaction of the current and future needs of the inhabitants of particular local administration communities\(^1\). In the subject literature, among many definitions the term of local development is repeated, referred to as a set of activities undertaken of the will of local authorities, entrepreneurs, associations and residents, aiming at the creative, effective and rational use of endogenous materials and intangible resources\(^2\). Basically, local development is identified as the processes of changes taking place in communal local government units. This process should be systematic, which would result in a balanced interaction of essentially all members within the local community, public authorities, business leaders and other remaining participants to this process (social organizations, entrepreneurs, non-governmental organizations), who should constitute the natural extension of the possibility to use the endogenous development potential. Therefore, seeking the possibility of cooperation of any diversified environments at the local level, and the pursuit of the best utilization of resources should be the principle. Thus, local development should not be a clash of sometimes contradictory goals, which is unavoidable in any local community, but it should focus on broadly understood cooperation.

According to R. Brol local development should involve seeking the creation of new and improvement in the existing development advantages of the commune (creation of favorable conditions for the

\(^{19}\) J.J. Parysek, Podstawy gospodarki lokalnej, Uniwersytet A. Mickiewicza, Poznań 2001, p. 18.

local economy, ensuring spatial and ecological order)\textsuperscript{21}. In the opinion of J. L. Siemiński the essence of local development is a “gradual process of changes of a given community and form of performance related to a specific place, embedded in a specific space”\textsuperscript{22}. Particular importance in the abovementioned concept is attributed to the fact of a mutual connection between three components, i.e. the local community, the transformation process covering different fields and the space where the above transformations occur\textsuperscript{23}.

On the other hand, J.J. Parysek defines socio-economic development as “a process of positive changes, quantitative increase and any qualitative change” and perceives local development as a transfer of the above quantitative and quality process of changes to the conditions of functioning of local government units at the local level. With such a perspective it is necessary and possible to consider priorities, preferences and recognized value systems that may be disclosed in a given unit of the local government, constituting a point of reference\textsuperscript{24}. According to the above concept it appears that each community of residents has thus clearly defined recognizable qualities offering specific opportunities of further development. It should be taken into consideration that the development potential, which communal local government units have, may be significantly diverse, and thus in different individual cases it is worth determining and evaluating and then activating the appropriate scope of activities used for their application. At the same time, it is worth remembering, in the conditions of a market economy, that the development processes look slightly different in terms of tasks to be performed by entities and organizational units of the public sector.


\textsuperscript{22} J.L. Siemiński, Koncepcje rozwoju lokalnego, Booklet No. 104, Office of Regional Planning of the Capital Macro-Region with its seat in Warsaw, CUP, Warsaw 1994, p. 5.

\textsuperscript{23} Ibidem.

\textsuperscript{24} J.J. Parysek, Podstawy gospodarki lokalnej, Uniwersytet A. Mickiewicza, Poznań 2001, pp. 17–18.
and slightly different in terms of objectives to be met by companies in the real economy.

Therefore, the development at the regional and local level cannot be perceived as limited only in terms of economic development that shall be made within local communities on the regional scale, and it should be considered in a multi-dimensional way. The multidimensionality of regional and local development is manifested mainly by a broader perspective, taking account of not only economic, but also social, cultural, ecological, spatial as well as other development aspects important for the particular communities. The above phenomenon is pointed out by e.g. A. Klasik, who emphasizes the importance of the concept of integrated development, interdependently including all important dimensions, i.e. social, economic, ecological and spatial and also draws attention to the concept of self-sustainable development, consisting in considering such methods of satisfying present needs, which would allow to maintain the environment in a non-deteriorated condition, and would give the possibility of fair subsistence of the future local communities. The principle of sustainable development lies at the basis of any development process and for many years has paved its way in countries at different levels of development.

The principle of sustainable development has been included in the Treaty on the European Union, in the Treaty establishing the European Community and numerous acts of community law, including all the regulations governing community assistance. In the opinion of J. Sommer, the concept of sustainable development should be included in planning studies, and thus should be implemented on the basis of specific plans which, not being legal standards, would give


a basis for the formulation of standards describing the conditions and principles of running business operations, providing environment quality standards and standards governing the acceptable scope of use of environmental resources27.

The principle of sustainable development is in force also in Poland. In particular, the provisions in this respect have been included in Article 5 of the Constitution of the Republic of Poland and are binding as a constitutional principle28. In the Polish system of law references to sustainable development have already been considered earlier; they were included in the Act of 31 January 1980 on environment protection and shaping29, which was, however, repealed as of 26.10.2001. The principle of sustainable development has also been written in binding regulations of the Act of 27 March 2003 on spatial planning and development30 and the Environmental Protection Law31. In Article 3 item 50 of the Act on the Environmental Protection Law the definition of sustainable development was formulated as a socio-economic development, “which integrates political, economic and social actions, while preserving the natural equilibrium and the sustainability of basic natural processes, with the aim of guaranteeing the ability of individual communities or citizens, of both the present and future generations, to satisfy their needs”.

The principle of sustainable development is also included in the constitutional provisions regarding the principles of functioning for local government units in Poland. In particular, an important provision from the point of view of the implementation of the principles of sustainable development are the provisions of the Act on province self-government32. Article 11 section 2 of the aforementioned Act

27 Ibidem, p. 152.
28 Art 5 of the Constitution states that “The Republic of Poland shall ensure protection of the environment, guided by the principle of sustainable development”.
30 Journal of Laws from 2003, No. 80, item 717, as amended.
31 Journal of Laws from 2008, No. 25, item 150.
stipulates the objectives of the province development policy, including, among other things, issues of creating conditions of economic development, maintaining and the expansion of social and technical infrastructure serving the satisfaction of the needs of regional self-government communities, as well as the need of a rational utilization of natural resources and shaping the environment, according to the principles of stimulating sustainable development.

The logical consequence of the abovementioned legislative solutions must be the use of the principles of sustainable development also in local government units at a lower level, in districts and communes, which results from the regulations involving spatial planning and environmental protection. The implementation of sustainable development principles is a long-term process. The stipulations adopted at the conference in Rio de Janeiro in 1972 should be considered the beginning of it. The second conference in 1992 resulted in the formulation of Agenda 21, constituting the program document of the implementation of the principles of sustainable development at the local level. Therefore, next to appointing government commissions for sustainable development, a postulate appeared for creating local Agenda 21. In accordance with the provisions of chapter 28.3 of Agenda 21, each local authority should enter into a dialogue with its citizens, local organizations and private enterprises and adopt a local Agenda 21 for given territorial units: “Each Local authority should ENTER into a dialogue with its citizens, local organizations and private enterprises and adopt a local Agenda 21”\textsuperscript{33}. In Polish conditions, a local Agenda 21 as a separate document has not been included at the assumed extent in the development planning system in local government units. However, the important role that it played in the process of the popularization and development of the methodology of strategic planning should be noted, considering the principles of sustainable development, particularly at the local level.

The course of development processes on the local scale expressly shows the complexity of the phenomenon of development.

The meaning of extra-economic factors clearly increases at the local level. Various kinds of social considerations appear, which often in the opinion of public authorities prevail over economic reasons. The analysis of functioning of the local community proves that special attention should be paid to the conditions of living of the population, perceived in terms of the living standard of public quality, i.e. to such elements as the level of and access to educational, cultural, medical, municipal, administrative services, the status and development of sports and recreation, as well as the scope and freedom of organization’s operations for non-profit organizations. Access to public utility services is also important, provided on the basis of the existing technical infrastructure. It is necessary to pay attention to the supply of the population with water, discharge and sewage treatment, collective transport, local power engineering, as well as a transport network of supra-local significance, telecommunication network and equipment used for environmental protection. In the numerous definitions of local development attention should be paid to the positive character of changes, quantitative increase and qualitative progress and the need for a reference of the observed phenomena to the needs, preferences and the hierarchy of values corresponding to the given local system.\footnote{J. F. Nowak, Modernizacja lokalnej administracji publicznej a rozwój lokalny, Publisher: AE in Poznań, Poznań 2006, p. 19.}

The above changes are undoubtedly strongly linked to decision-making processes taking place at diverse levels of public administration, which in many issues should cooperate and complementarily participate in solving important development issues. Thus, the tasks and competencies of the local government administration at the local level should be taken into consideration: communes and districts and the regional administration of local government units and governmental administration in the provinces. It is difficult to clearly settle the importance of public administration at various levels. However, it seems that processes occurring at the local level have tremendous importance. This importance is distinctively visible in terms of the needs reported at the local level. The importance of focusing on the
needs in terms of local development is emphasized by J. L. Siemiński, when formulating – based on research by R. Rezsohazy – the definition of local development perceived as harmonized and systematic action, undertaken by representatives of the local community, bringing results enabling the satisfaction of the social needs of a given community and contributing to the general progress35.

1.5. Mechanism of regional and local development

In the conditions of a market economy a considerable responsibility with regard to the stimulation and shaping of processes of economic development lies in the hands of local authorities as they are the competent entity which may gather diversified tools for stimulating business processes. Local government authorities have great possibilities and they contribute to building a competitive position of local government units under the existing socio-economic system. Changes in the competitive position as a result of activities of local authorities may in consequence lead to specified flows of private capital focused on new investment projects and constitute an incentive for entrepreneurs with regard to the location of their business activities in the area of the selected local government units. The activity of the local government in this respect should be demonstrated by shaping the conditions for local development, consisting in creating relevant organizational structures of local importance, using the internal conditions of various entities and organizational units operating at the local level and as a consequence relying on the implementation of a specific investment policy serving the elimination of local development barriers, and, consequently, also larger territorial systems: districts and regions36. The cause-and-effect connection between the development

level of public services and economic development has already been noticed and described in scientific papers. The demonstrable relation between the level of public services and the development of local management is emphasized by E. Wojciechowski, proving on the basis of scientific research conducted under the conditions of the US economy that the higher the level of these services, the faster the pace of development observed at the regional and local scale.\textsuperscript{37}

Owing to a great number of tasks, relatively long investment cycles and periods of operation as well as the “condition of continuous development”, which is a typical phenomenon for local government units, the key development problems of this part of the public sector include the strategic planning process and the associated finance management. The management process in social and economic conditions is connected with an impact at three diverse levels: at the strategic level, at the tactical level and at the operational level. The strategic dimension applies to the general, complex and essentially long-term decision-making process, however the issues undertaken in the process of strategic planning may be of critical importance for development. According to the definition of strategic management prepared in 1978 by D. Schendel and Ch. Hofer, one can distinguish four key stages of strategic management. The first stage is the determination of the major goals of the organization, then there is the strategy formulation on the basis of earlier defined general goals. An important problematic range is the transition from the planning stage to the stage of strategies and implementation of the provisions specified therein. The transition from planning to the implementing and managing process is the key element, because it requires decision-making mechanisms involving defined social and economic consequences. At this stage, what is important is the cooperation of various organizations, political parties, entrepreneurs, entities and organizational units of the public sector, which should actively participate in both the planning process and later during the

\textsuperscript{37} E. Wojciechowski, Zarządzanie w samorządzie terytorialnym, Difin, Warsaw 2003, pp. 190–191.
implementation of the partial goals strategy. In the process of planning and then the realization of objectives, an important element is monitoring, evaluation and control of the occurring processes. Thanks to these mechanisms it is possible to identify the compliance of the achieved objectives with the provisions of the strategy as well as to correct the provisions in the strategic planning documents as a result of changing circumstances, which at the stage of planning could not be planned or identified.

An important instrument of strategic management is conducting periodical diagnostic analyses, in terms of the abovementioned unidentified development conditions, a verification of the major goals and detailed objectives and consequently – an update of the compliance of the scheduled assumptions and an adjustment of the provisions of the strategy to the new conditions. Within this process methods of verification of strategic goals are defined, methods of their realization as well as monitoring, evaluation and recommendations concerning the implementation of the action plans in a long-term perspective.

The reform of the public administration in Poland, implemented on 1 January 1999, as a result of the earlier adopted package of acts introducing changes in the administrative division of the country, consisting in the creation of a new formula of 16 self-government provinces and the establishment of a new structure of local government units, i.e. districts and self-government provinces, was an important element of the decentralization process of public authority, which in fact involved the adjustment of the structure of public administration to the future membership of Poland in the EU. As a result, a change took place within the scope of tasks assigned to individual local government units under the new structure of public administration in Poland. Along with these changes transformations occurred in terms of the principles of financing public tasks, implemented under the separated budgets of particular groups of local government units.

It is worth noting that the existing legal condition of the local government units of particular levels acts on its own behalf under their own financial plans. Therefore, they are liable for the decision-making and achieved results. This dimension in its essence determines the
unique, exceptional nature of the organizational and legal form of the local government as the public entity planning and implementing a specified scope of tasks. An important dimension of operations of local government units is their legal status. These units have legal personality and full freedom of action under the specified framework of acts. Interference in matters of local government units may take place only on the grounds of legalism, i.e. testing the compliance of the actions of these units with the legal provisions. Therefore, the protection of self-reliance of local government units results from legal regulations wherever the local government is present as a public authority, making decisions. The purpose of the protection mechanism is above all ensuring practical self-reliance of local government units in respect of other public administration bodies.\footnote{P. Winczorek, Komentarz do Konstytucji Rzeczypospolitej Polskiej z 1997, Warsaw 2000, pp. 217–218.}

It is worth noting that self-reliance of local government units and the position of the residents in the local Community result from legal regulations. Provided that local government units are an institutionalized form, the residents have freedom of choice and movement under their civil liberties. This means that affiliation of a citizen to a given local government unit results from choice rather than compulsion. In this sense it can be assumed that a community of residents in an institutionalized form of local government units is to a smaller or larger extent the result of free decisions of particular residents and does not arise from an institutional assignment of a resident to a given community. Therefore, the local government as an institution must have an open character, based on the freedom of movement of people, the freedom of capital flow and the freedom of placement of business operations, in accordance with the existing local conditions and preferences of the residents as well as entrepreneurs. It seems that the development of local government units in the form of a “local land-locked economy” is not possible. It can be assumed that to a large extent location decisions in the economic and social sphere are related to expectations in terms of the living conditions that are
possible to obtain in a given area. Therefore, achieving a high level of living, satisfactory effects on the side of social consumption, as well as an optimal or nearly optimal use of owned resources requires providing full openness in many aspects of the socio-economic life at the local level.

The specification of the living standard involves the need for establishing and applying objective and universal measures allowing to assess the life conditions. This issue is complex and it is difficult to use any synthetic measures. Most likely, analytical measures should be sought and applied, which would give a basis for testing the situation in the selected sections. Such indicators would allow assessing the complexity of the effects of development processes in a qualitative and quantitative perspective. For instance, to identify the condition of local management it is possible to apply such measures as: level of average household income, amount of average salary, unemployment rates, the amount of budget income of the local government unit. Simultaneously, to identify social development it is possible to use such indicators as: educational structure, the availability of public utility services, provision of social and technical infrastructure equipment. In order to examine the living conditions it is possible to apply such indicators as: average life expectancy, natural environment condition, housing services, public safety situation and other substitutes defined in terms of the present local situation, as well as the socio-economic profile for evaluating the local government unit.

The tasks and competencies of local government units resulting from the statutory provisions obligate them to provide the agreed scope of public services, provided that the level of services should match the level of civilization development recognized as a proper point of reference. It should also correspond to the expectations and the needs of the local community inhabiting the given area. This particularly involves taking the responsibility for the organization of

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various public services. The particular role regarding the operation targets of local government units is connected with the construction and maintenance of the social and technical infrastructure. Public tasks are implemented mainly on the basis of existing infrastructure devices. Therefore, the expansion and maintenance of these type of devices is reflected in the budget expenses structure of particular local government units. In Poland, like in many highly-developed countries, the expansion of particular components of infrastructure is a common instrument of regional and local development. Strategic planning documents of local government units mainly contain provisions concerning the development directions of infrastructure as a factor determining a correct provision of public services in the future.

In the conditions of a market economy, the regional and local development in Poland is particularly sensitive to the level of availability and quality of social and economic infrastructure, which still remains one of the main barriers of development and the maintenance of a specific level of domestic and foreign investments from the private sector. Nowadays, efficient and modern infrastructure is necessary for all sectors of the economy as well as for enterprises operating in various markets in Poland and worldwide as well as for various entities operating in the form of global transnational companies or implementing diversified cooperation associations.

It is also worth noting the diversified effects linked to infrastructural investment implementation as well as various investments made by economic entities of the real sphere. An important position is occupied by multiplier effects triggered by investments. The scale and directions of multiplier effects depend on the direction of the allocation of investment outlays and can bring benefits to local markets associated with the use of local resources and can lead to the development of economic relations under the local economic structures\(^4^0\). At the same time, it is worth emphasizing that specific multiplier benefits

\(^4^0\) Przedsięwzięcia BOT (Buduj-Eksploatuj-Przekaż) w rozwoju infrastruktury komunalnej. Poradnik, Publisher: Municipal Development Agency (ARK), Warsaw 1999, pp. 41–42.
appear both during the construction of facilities and later on, after commissioning infrastructure devices for operation. As a result of the construction as indicated by A. Barteczek, measurable material production effects appear in the form of a reserve of various fixed assets, constituting a set of devices with a specific increase in production capacity, giving the possibility of increasing the volume of production

Production multiplier effects are in part directly related to the implemented investment project, namely the production, where supply goods are manufactured for a given investment, and in some part they have a wider range, because they cause induced effects also in companies, where consumer goods are produced, being the object of interest of buyers with funds within the implemented investment project. Induced multiplier effects cause both demand-based consumption effects generated directly by investment, and demand-based effects appearing as a result of growth of income in other sections related to a given investment project. With regard to investments implemented by local government authorities the multiplier effects normally have greater sizes than the effects created during the implementation of industrial investments. This results from the high capital intensity of infrastructural investments which, in practice, means high nominal one-time outlays for their implementation.

1.6. Attributes of the public sector

Long-term processes of socio-economic development expressly indicate that regardless of the profile of the economy, activities of various entities and organizational units included in the public sector are indispensable for a proper functioning of the state. The range of the public sector may be diversified and essentially is a derivative of the socio-economic system and the adopted state economic policy on

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41 A. Barteczek, Inwestycje infrastrukturalne jako instrument polityki przestrzennej, AE w Katowicach, Katowice 1982, p. 90.
42 Ibidem, p. 91.
which the degree of interference of public entities in the development processes may depend. We can thus, on the one hand, indicate examples of a command economy, where the state and thus public ownership may be of a tremendous size, often not caused by needs related to a correct fulfilling of all functions by the candidate state. In a command economy we are dealing with an excessive interference of public institutions, or excessively developed public property in enterprises which, consequently, may lead to incorrect relations regarding costs and prices. On the other hand, we might be facing an economic policy oriented towards far-reaching liberalism in terms of shaping social and economic processes. In this case solutions aiming to restrict at all costs the role of the state and therefore, of entities of the state in administration and the form of public property in the sector of enterprises, may be debatable. Also in this case, it may come to irregularities, which impede the normal functioning of the economy.

At this point, the question arises of whether the optimal range of the public sector in the economy and the state can be defined, namely such where the state together with public entities would manage such a scope of tasks, which only in the conditions of public control could be implemented in the best possible manner. It should be emphasized that such a problem, although it seems methodologically correct, in practice may be extremely difficult to solve. Socio-economic processes prove that it is easy to reach for extreme solutions, and thus the transition from a command economy to a market economy involves the risk of making the mistake of a too far-reaching liberalization of social and economic processes. In another extreme case, premature and not carefully considered privatization may lead to the necessity of future nationalization of previously privatized enterprises, as it was in the case of mining and heavy industry in the UK. Bearing in mind the above considerations, it is worth noting the aspects of and functions performed by the public sector at different levels of competencies in society and the economy. Seeking the optimum model of functioning of the public sector in the state, it should be taken into consideration that although under normal conditions the
public sector and the private sector perform different functions, their presence is indispensable. Research based on the literature on the subject allows to assume that in the contemporary world we are dealing with the functioning of states in the conditions of a mixed system\textsuperscript{43}. In practice, this can be assessed based on an indication of the major features of a mixed system, characterizing the private sector and public sector, and describing the role of central administration, as well as local administration at the regional and local level. A mixed socio-economic system is characterized by differences with regard to particular states, which may be analyzed in this aspect. In particular, this entails the abovementioned differences referring to the participation of the public and the private sector in the economy as well as the scope of the abovementioned tasks implemented by public administration\textsuperscript{44}. Bearing in mind the public sector, regardless of its scope in a given social or economic system, an important issue is the recognition at various levels of analysis of the functions the public sector can perform in the state. Most often, the range of the public sector results from a specified political consensus.

However, the adoption of political evaluation criteria of the public sector in the opinion of J. Stiglitz may cause the presence of complex and difficult to predict consequences of the undertaken activities. These difficulties may occur in the conditions of limited control of the public administration in a situation where general system conditions do not allow for interfere in operations by entities performing public tasks\textsuperscript{45}. Such a situation could for instance occur in the case of denial or limitation of impact of regulatory entities on the amount of fees for public services.

It is worth noting the presence of significant difficulties related to an unambiguous specification of criteria qualifying entities and diversified organizational units for the public sector. It should be

\textsuperscript{43} Transformacja gospodarcza w sektorze publicznym, ed. G. Szczodrowski, Publisher: Wydawnictwo Uniwersytetu Gdańskiego, Gdańsk 2002, p. 15.

\textsuperscript{44} Ibidem, p. 16.

assumed that the notion of public sector is conditional, because it is
difficult to clearly and conclusively determine, which entities belong
to this sector and which do not. These doubts obviously do not apply
to all entities and organizational units operating in a state, as some of
them undoubtedly belong to this sector. However, we are dealing here
with a group of business entities whose affiliation with the public
sector may be disputable. This applies to those situations where, for
instance, strictly public tasks are carried out by private entities. From
the economic and financial point of view, private ownership of the
means of production clearly determines the qualification of the entity
that performs public services to the private sector. In practice, the sit-
uation may be more complex, because we may indicate a whole range
of intermediate solutions when companies providing public services
may be partially of private property and at the same time public. This
kind of capital marriage is not a rarity, which explains why, espe-
cially in the sphere of production of public goods and services, there
are great difficulties when it comes to determining the affiliation
of a given entity with the private sector or the public sector.

However, if the same type of operations of a sample company
are examined from the functional side, namely in terms of type of
generated production and delivered public usability services, then
it could be assumed that the enterprise should be classified to the
public sector. For the above reasons, in order to qualify particular
entities to one of the two sectors, two independent criteria should be
applied: the criterion of ownership of the source of financing and the
functional criterion, reflecting the profile of operations. The public
sector is an area of diverse material as well as intangible operations,
which means that we are dealing with provision of e.g. administrative
services and a wide range of other services, the provision of which
requires creating specific economic structures. Therefore, we are deal-
ing with a group of entities and organizational units with a diverse
and inconsistent classification of functional, economic and organiza-
tional characteristics. The subject matter may include such scopes
of economic, social and institutional operations as: transport and its
infrastructure, collective transport at the level of the state, region and
at the local level, telecommunication systems, social services, including: health services, insurance, education, as well as administration and institutions at the level of the state and local government administration of various levels. An important position in the presented perspective is occupied by public finance, under which development projects are financed and the current activity of which is financed\textsuperscript{46}.

The implementation of such tasks requires incurring specified investment outlays. Therefore, the criterion of the object of expenses formulated by S. Owsiak may find an application here. When applying the above criterion it is possible to separate the public sector on the basis of the scope of expenses associated with fulfilling all functions by the state as well as expenses incurred by diverse organizational units. Consideration must be given to the presence of two categories of public expenses: material expenditures related to the purchase of goods and services necessary for conducting tasks and the so-called transfer expenditures, not directly related to the flow of goods and services, but being a form of redistribution of income by the state\textsuperscript{47}.

It is also worth drawing attention to the principles of classification of public sector entities proposed by W. Misiąg and E. Malinowska. In the proposed perspective the public sector may be defined as a collection of all state and municipal legal persons and organizational units without legal personality that are subordinate to public authority bodies\textsuperscript{48}. Therefore, the form of ownership and subordination are recognized as the main criteria which enable classifying entities that are the property of the State Treasury or the property of local government units as the public sector. This group should also include other entities that are not property of public legal persons, and only on the basis of respective legal provisions are subordinated to state authorities or resolution-making authorities of local government units. According to the quoted authors, a consequence of applying the above-presented


\textsuperscript{47} S. Owsiak, op. cit., pp. 85–86.

classification of entities that are part of the public sector should be
the incorporation of other entities operating according to various
organizational and financial principles.\textsuperscript{49}

In the perspective of binding legal regulations it is required to
indicate the provision of Article 5 of the Act on public finance, defin-
ing the scope of the “public finance sector”, according to which not
all entities that, according to the aforementioned criteria analysis,
can be classified as public sector may be included. The application
of additional criteria and analyses would be necessary here, in order
to determine the mutual relations between the terms “public sector”
and “public finance sector”.\textsuperscript{50}

The entities and organizational units of the public sector have
deﬁned common characteristic features, which clearly deﬁne their
position in terms of the satisfaction of diverse needs of public utility
services. An important operation feature is the satisfaction of the basic
and common needs of the population as well as the needs reported
by various companies of the real sphere. An important premise in
this process is the need for satisfying the abovementioned needs in
a reliable and absolute manner, both in time and in space with regard
to the whole social and economic sphere. Therefore, the provision
of services under the public sector includes a very broad scope of
recipients, mostly including nearly all residents of the state, region or
local self-government community. Therefore, companies and organ-
izational units of the public sector must indicate a continuous read-
iness to provide services of a given kind, according to the reported
demand of the residents.

An significant feature of operations of entities and organizational
units of the public sector is the service nature of any operation. We
are dealing with a situation where the availability of services needs
to have a common and nearly immediate nature. This also applies to

\textsuperscript{49} Ibidem, p. 6.
\textsuperscript{50} See: S. Owsiak, Sektor publiczny a fi-
nanse publiczne – stan i perspektywy, [in:] Stan i perspektywy sektora publicznego w gospodarce rynkowej. Wnioski dla Polski.,
tangible services such as, for example, the supply of water, electric energy, or providing telecommunication services. The service nature of operations results from a basic fact, which is the lack of possibility to store the products being the subject of provision. Basically, consumption of services proceeds almost immediately after their manufacturing. This also applies to the abovementioned material services where storage in terms of transfer to users at a later time is impossible or significantly limited. The inability of storage and simultaneous consumption and manufacturing results in the fact that some public sector entities operate continuously. Such a situation occurs for instance in the power industry, telecommunications, locally in water and heat supply as well as, to a limited extent, in other scopes of public services.

Regardless of the earlier presented classification of criteria of entities being part of the public sector, we should also refer to the internal structure of that sector from the point of view of major scopes of conducted operations. All the public services provided within the sector can be conditionally divided into three main categories of services: administrative, social and technical. Such a division enables an easier reference to the specific nature of services provision, typical of the abovementioned categories. Because the processes of provision of administrative services proceed differently, regardless of the level at which the services are executed, the processes of provision of social services proceed completely different from the processes of providing the said services of technical nature where the principles of management are applied similarly to the conditions in the sector of enterprises of the real sphere.

Regarding services of a technical nature, it is necessary to indicate various processes related to the implementation of manufacturing specific goods and services on the basis of defined resources of technical infrastructure. This group would include the already mentioned transportation services, public utility services at the regional and local level, especially water supply, sewage discharge and sewage, supply with electric and thermal energy, the supply of gas fuel. The provision of this kind of services is characterized by a relatively high
capital intensity. This means that a relatively higher capital commitment is necessary to generate product units, compared to the average conditions prevailing in the industry. High capital intensity results in specific economic effects and it leads to the necessity of bearing relatively high initial capital outlays for new investments as well as relatively high expenses for the expansion of enterprises.

An important feature of the said services category, which is connected with a high capital intensity, is the so-called technical non-divisibility of devices, also defined as massiveness. This means that when constructing the devices, as well as in their future development, it is necessary to consider the optimal size of these devices, in which the production capacity is often much greater than the reported demand, constituting a basis for the decision on the construction or development of the devices. The mentioned feature causes the devices to be built at a much greater scale as compared to the determined current demand. In such a situation already at the time of delivery of the facilities we are dealing with a large increase in production capacity, which, consequently, results in defined economic effects. Upon delivery of the devices we are dealing with a relatively large degree of under-utilization of the production capacity, which in the abovementioned high capital intensity and the associated significant write-downs causes an increase in the participation of permanent costs in the total costs and leads to disturbances in the calculation of total and unit costs and, as a consequence, may lead to significant price increases of the offered services.

The phenomenon described above is nothing unusual in the practice of conducting business operations by public utility companies. It should rather be considered as a general truth, which is characterized by the conditions for the provision of services in a given product market in the sphere of public utility. For this reason, knowledge on this mechanism must constitute the basis for any analyses in the short-term perspective, and in processes of strategic planning referring to directions of socio-economic development at the local level as well as the regional level. It should be pointed out that the conditions can be modified with time as a result of the implementation of new
technical solutions, new technologies or new management methods. However, the aforementioned mechanism, which is a derivative of the specific nature of the demand for services, cannot be significantly changed. The economics of the process of provision of public utility services at the regional and local level will be subject to fixed factors shaping the demand and, at the same time, influencing the area of production of services.

It is important to remember that technical and social infrastructure connected with the provision of public usability services requires sustaining significant initial investment outlays. As already mentioned, these outlays, as a matter of principle, are borne according to the budget funds, which have particular communities of residents organized in the form of local government units. Apart from other sources, which will always be transitional and supplementary, the weight of investment financing must rest on the operational surplus, that is on own sources of funds that may be used for investments after financing current tasks planned for the given fiscal year. This principle results in the fact that in many regions of the country local government units at the local level could have serious difficulties in terms of financing own infrastructural investments, exactly due to a deficiency of funds.

Therefore, consideration must be given to the tremendous importance of external non-returnable funds, which may be used for financing the abovementioned investments. In this case an important role can be played by funds from the European Union budget, special purpose subsidies, funds from the reverse charge of the residents. Attention should also be paid to another quite commonly used mechanism consisting in investment project financing – received from bank credits, loans or the issuance of municipal bonds. Such a mechanism of financing requires a good recognition of the financial situation of the unit of the local government in a long-term perspective and involves the necessity to include appropriate reserves in the budgets of future periods for the repayment of liabilities incurred before.

It is beyond doubt that supporting the socio-economic development within the means of the public sector is an extremely complex
task. It gathers numerous problems typical of a market economy, but it also gathers problems which may not fit into market categories and require a broader social approach. This means that simple evaluation criteria of the activities undertaken under the public sector cannot find a full application, because they prevent optimum decisions related to the possessed resources, on the one hand, and to recognized development targets, on the other hand. It seems that the specific character of the public sector and its clearly visible attributes indicate the need for a completely different approach to the whole field, classified conditionally to the scope of tasks of the public sector. Therefore, it should involve the application of adequate planning methods in order to recognize the current and long-term needs.

Actions aiming at the best utilization of the possessed resources should be correlated with the process of selection of needs and definition of the implementation tasks. Therefore, in this case the problem reappears of the rationality of selecting management goals and methods for the evaluation of the effectiveness of the undertaken actions. In terms of the tasks of the public sector, due to numerous multi-directional associations, it is difficult to use simple measures of evaluation of effectiveness referring to single tasks. We should rather seek evaluation methods of the abovementioned activities on the grounds of their broader impact of multi-directional associations, which would give a basis for the assessment of social costs and benefits within the diversified activities of entities and organizational units of the public sector. It seems that for many reasons this postulate is difficult to implement. The main difficulty consists in answering the question of whether it is possible to determine objective and universal evaluation measures for such actions, or whether assessment meters should be individualized and adapted to the specific nature of the conditions in which the given local community operates. It seems that a more readable solution may be an individualized approach, i.e. the assessment of development processes. Moreover, this does not limit the possibility for further expanded research and comparative analyses in the system of communes, districts and regions in different scales of reference, even within the European Union, for the purpose of
1.7. Conclusions

The acceleration of the socio-economic development in Poland was a logical consequence of the transition processes initiated in 1989–1990. These processes included an extensive range of public and economic life and reached an unprecedented scale of changes. Firstly, the political transformations should be considered, being an expression of a social consensus which led to the creation of a joint debate of all political forces and social organizations, undertaken within the Round Table sessions. Regardless of the opinions expressed after many years, it should be assumed that the agreement of that time regarding the scope of changes of directions of political, social and economic transformations in Poland was an undeniable achievement.

In particular, attention should be paid to the fast process of democratization of public life, initially manifesting itself through the possibility of conducting free elections to the Sejm in 1989 (the contracted Sejm), and the subsequent reactivation of the local government, which opened the way to real dualism of exercising power in Poland with the division into nationwide and local state matters. The systemic transformation has created conditions for the development of a social market economy in Poland, based on private ownership of means of production. Therefore, a new socio-economic system was created, where next to a previously expanded public property a clear development of the private sector took place. Thus, the public sector was gradually reclaiming its relevant position in terms of the implementation of public tasks and started to move away from influence on processes occurring in the economy.

An important factor of the socio-economic development in the new political conditions was the competition visible in many domains
of life in various so-called markets of operations (production sphere, commodity markets, the work market and a specific dimension of competition in the public sector between local government units reported as territorial competitiveness). The new management conditions resulted in many frictions and disproportions in a previously orderly world of a command economy. Next to possibilities of fast economic and social development, numerous risks appeared, especially in the social sphere. A particularly severe effect of the transformations was excessive unemployment and the problem of social exclusion. These phenomena were not known more broadly in the falsely understood social egalitarianism. In the new political conditions, the occurrence of social phenomena, sometimes bearing the signs of a crisis, was often a surprise to the public government and led to numerous difficulties in the elimination of negative effects.

The socio-economic transformations in Poland could not take place in a short period of time. The scope of tasks which had to be implemented and the numerous cases of negligence originating from the last social and economic period caused both the democratization of public life and the improvement in the material living conditions of the residents to be a process conducted over a longer period of time. The process of social and economic transformation expressly revealed the need for a clear separation of the tasks and funds of public character from the scope of tasks and their source of funding within the private sector. It thus became clear that totality of public tasks should be implemented at an adequate level of competence of state, regional and local authorities. Such a structure of public administration constituted a good basis for the organization of society and the economy.

The range of tasks and competencies of particular entities of the public sector was precisely defined and found its place both in the Constitution of the Republic of Poland and in numerous Acts and documents of lower ranks. On the grounds of the provisions of law a new model of socio-economic development emerged. Within its frameworks, the entities and organizational units of the public sector at various levels of competencies began to play an important role
supporting the socio-economic development and sometimes acting as participants of this development.

The entities and organizational units that had undertaken the implementation of many new investments classified into the scope of the public sector. It is worth indicating here, for instance, transport infrastructure, national roads and motorways, power engineering, local investments in water supply and sewer systems, railway development, numerous devices of social infrastructure.

The significant needs with regard to social and technical infrastructure caused, in the existing conditions, infrastructure development in accordance with the recognized needs to encounter serious difficulties associated mainly with the limited sources of financing as well as the limited production capacity of construction and assembly work enterprises. A new challenge accompanying these processes was the need to develop and implement adequate management methods of all processes taking place in entities and organizational units of the public sector. Such a conclusion is indicated by a growth in the complexity of problems, which were faced by public authorities in these new political conditions. This situation became even more complex after the accession of Poland to the European Union. It involved the need to activate adaptation and unifying processes within the structures of the EU, as well as the need for a proper management of budgetary funds of the EU provided for the support of various projects. A new element also appeared in the process of development in the form of the need to conduct research and analyses on the efficiency of both current operations and undertaken investment projects.

It should be pointed out that in the legal and organizational conditions existing in Poland, the freedom of choice of investment directions of public sector entities is limited. Such limitation results from the scope of tasks and competencies of particular entities of the public sector as well as from the adopted procedures of selection of strategic goals, detailed objectives, implementation tasks and investment projects formulated on their basis. The aforementioned limitations are of a subject-matter nature because the scope of the tasks of entities and organizational units of the public sector is outlined by law and
it is also limited with regard to the scope of undertaken investments, as well as the size of funds that these entities have.

In terms of the changes occurring rapidly in Poland and in the external environment, it is justified to develop a new approach to public services. Such a solution results at least from two premises. The first one involves changes within the services themselves perceived traditionally, where it is required to indicate technical and technological transformations as well as economic changes. Secondly, it should not be forgotten that rapid qualitative changes are observed in the area of public services and consequently new categories of services appear, which were previously unknown to recipients.

Conducted research indicates changing conditions of local and regional development in Poland, pointing to the increasing importance of management efficiency within local and regional economic and social systems and their associations with the external environment. Changes in the external environment cause significant changes in the mutual relationships between previously atomized local government units, especially at the local level.

The socio-economic development at the local level as well as the regional level is a result of the operations of local communities, business entities in a given area, state and local administration according to their scope of competencies. The cooperation of local government units at the local level and business entities and non-governmental organizations with their counterparts in closer and further vicinity may create a new quality in the stimulation of development processes. Research indicates that opening up to development processes at the local level, and a broader view in particular at the regional scale, will lead to clearly visible synergy effects, which can lead to measurable social and economic effects. Cooperation and openness when formulating development objectives may lead to achieving measurable economic and social effects at the supra-local dimension, which can contribute to the emergence of external effects that could be used in local and regional systems.
CHAPTER 2

Selected problems of task financing within the public sector in Poland

2.1. Introduction

The social and economic transformation and changes of the conditions of management in Poland induced changes in the approach to the public sector. The public dimension of the tasks of the state and of the local administration in the period of the command economy was perceived in terms of the need to undertake a significantly greater scope of tasks than in the conditions of a market economy. In particular, business activity is no longer a domain of the state, which in the conditions of a market economy became the domain of various business entities, emerging on the basis of private capital. The transformation period resulted in the fact that some tasks remained the obligation of the state and local government units. As a matter of principle, these units should be organized in the public sector, while the service sector should be provided by entities funded under public resources. The search for new methods of financing and management of public services brought a new approach to this sphere of operations. Therefore, it is possible to co-finance tasks of a public nature also from private funds and the conditions have been created for the implementation of new management methods for services. However, this does not change the principle according to which tasks of a public nature presented in relevant acts by virtue of the law remain the tasks of public resources.
The above transformations occurring in the sphere of the public finance sector prove that the position of the public sector, the scope and volume of the services provided, play a significant role in the social and economic sphere. Despite clear and commonly acceptable principles of conducting business operations in the conditions of a market economy, the scope of the public sector is broad and requires efficient sources of financing. However, it is difficult to accommodate the principles of economic liberalism and freedoms of economic decision-making with established beliefs fixed in the mentality of society regarding the achieved level of services of a public nature. Thus, we are dealing with an extended level of social expectations and habits. The range of public tasks and related expenditures, however, is not always reflected in public income. Thus, in the short-term perspective we are dealing with commonly occurring excessive budget deficits, which in a longer period of time result in public debt. This problem seems to be difficult to solve, because a reduction of public debt involves the necessity to activate saving programs leading to limitations of the budget deficit, which in practice means forcing or obtaining social consent to reduce the level of social benefits, which always leads to lower living standards.\(^{51}\) The acceptance of such solutions from the social point of view is doubtful and difficult to carry out due to the risk of a deterioration of the living standard of the poorest groups of society and poverty risks. These problems have already appeared in the European Union Member States and the fight against them has been reflected in the strategic development goals of the EU.\(^{52}\)

The purpose of the paper is to assess the changes in the budget management of the public sector and the ability to finance public tasks. Therefore, the research area focuses on the significant dilemma of the evaluation possibilities of the actual volume of services and production under the public sector, in the adopted time horizon.

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and data on public resources. Essentially, the problem refers to the financial situation of public sector entities and the actual possibilities of financing tasks within the current operations and of financing tasks related to development. Still, the central point remains the adoption of procedures and standards of behavior aimed at identifying public needs, setting short-term and long-term goals, selecting programs and implementation tasks and, as a result, defining investment projects that will become the subject of financing. Such financing involves the settlement of a well-known dilemma of whether to consume public funds, or save and invest them to satisfy the needs of future periods. This prospective aspect of activity in the public sphere should additionally include crisis phenomena, the drastically changing criteria for the decision-making process in respect of the majority of investment projects undertaken in the past, as well as those that are just launched. In the conditions of a crisis the verified procedures of conduct do not always include observing the principle of rationality in terms of selecting tasks and do not always allow to clearly assess the effectiveness of the undertaken actions. Financial considerations, especially investment capital deficits, may disrupt the earlier process of programming investments and the schedules for their implementation.

2.2. Directions of changes of public task financing in Poland in the period of transformation

The development of the public sector in the conditions of a capitalist economy is subjected directly to the impact of factors typical of the general principles of development, especially the crisis phenomenon and cyclic changes in the economic situation. As shown by statistical material, over the period of twenty years of transition (1989–2014) Poland had years with a good economic situation as well as weaker periods\(^{53}\). A completely new and unexpected phenomenon was the

financial crisis, which began in the United States of America, and due to the advanced processes of globalization, initiated in the previous decades, to a different extent also affected the Polish economy. Although the causes and the scope of the crisis phenomena in Poland had a slightly different character than in the countries of the Euro Zone or in other parts of the world, due to financial associations they had a visible effects also in the public sector.

Along with the reactivation of capitalist formations in Poland at the end of the 1980s it became clear that in the public sector, like in the entire economy, significant changes must take place. In the previous historical period an excessive expansion of the public sector was clearly visible, where besides public tasks also a number of other tasks were included, which should not be attributable to public authorities. The new political conditions inspired to search for other solutions, a new formula of functioning of public sector entities. As a matter of principle, the need to determine the scope of issues regulated within the competencies of public authorities was not questioned. Research clearly indicated that the public sector in Poland became a well-defined range of business, administrative and social operations54.

The basis of the abovementioned changes included the reactivation of the local government in Poland. This event became a key element for the further efficient functioning of the public sector. There were no doubts that in the new political conditions of a social market economy a far-reaching delegation of rights must take place with regard to the implementation of public tasks to the local government. The essence of the institutional changes, which, consequently, was also becoming a fulfillment of one of the conditions for the democratization of public life, was the division of tasks and competencies and, as a result, the determination of the principles of division of public resources between the state and local government units. In the new political conditions the public sector remained and

did not stop to perform its functions. However, in order to ensure a correct course of the social and economic processes, the principles of organization also had to be subjected to restructuring processes. It became evident that the requested and expected changes could not be a single act and should become a process of arriving at a solution considered as desired.

From the point of view of the past years of transformation it can be stated that these transformations resulted in systemic solutions in an evolutionary manner. The previous time constituted an important period in outlining tasks and competencies, as well as the financial grounds of local government units. The autonomy and self-reliance of local government units resulted in revealed and strengthened previously existing disproportions in socio-economic development, especially of communes, but also regions. These disproportions concerned rural areas as compared to the situation observed in cities, and were also present between municipal settlement units of different sizes. There were also infrastructural barriers, significantly influencing the level and the quality of life of the residents and opportunities for further development. In this context, the achievement of the objectives of the cohesion policy of the European Union in Poland may be deflected. There is a real threat of “regionalization” of some problems and the consolidation of the occurring differences in the future.

In the period of the systemic and socio-economic transition, starting from 1989, it is possible to indicate numerous examples of a lack of sufficient care for the maintenance of standards regarding the rationality and effectiveness of the management of public resources in the public sector. The situation in the financial markets in Poland and the deteriorating situation regarding the public finance sector at the present time are questioning the feasibility of the scope of investment projects, and cause the necessity for adjustments in planning documents. The above conclusion results from, among other things, a clear diversity of macroeconomic sizes contained in the planning documents of the National Bank of Poland or of the Ministry of Finance and the actual course of the phenomena. In the
above context, although the process of improvement of the changes in the public sector has not been completed yet, current far-reaching corrections are certainly necessary in respect of the crisis. Owing to the complexity of the issue, the introduction of favorable changes cannot be a single act and will not be easily subjected to decisions of an administrative nature. Changes in this field will be made in an evolutionary manner, and in order to secure the effectiveness of the undertaken activities it seems necessary to continue multidimensional research on the essence of the functioning and development of the public sector, especially of regional and local development and consequently the involved entities. The size of the crisis is indicated by the belief that this process should involve different groups, institutions, non-governmental organizations and even commercial companies whose position may be increasingly visible due to popularizing the form of development of cooperation within PPP between the public and the private sector.

In terms of the earlier presented discussion, the basic question arises of whether in the new political conditions, due to the restitution of institutional structures suitable for the functioning of a democratic state in respect of directing economic development towards a market economy, as well as in respect of Poland’s accession to the European Union and occupying a valid place in its structures as a full-fledged business partner and strengthening the position of Poland on the international stage, it is reasonable to maintain the scope of the internally expanded organizational structure of the public sector in its present shape. This question is fully justified bearing in mind that in the period of the command economy the size of the public sector, namely the scope of affairs remaining within the power of the state, expanded significantly.

The changes occurring in Poland, perceived from the perspective of the reconstruction of state administration as well as economic changes occurring in the direction of a market economy, were expressly forcing an evolutionary character of the changes in the public sector as a whole. It seems that the transformation of the public sector is still incomplete and unfinished. This process comprises new conditions,
such as the use of support under structural funds or seeking effective methods for battling crisis phenomena in the world, in the Euro Zone, and also within a country.

Within the scope of this paper it is thus important to refer to the past assumptions contained in the planning documents in a possibly complete manner in terms of the real accomplishments, being the result of undertaken investment projects, but also to refer to the expected directions in the completely changed situation. Such an approach is justified by the observed significant growth in the budget deficit. It is thus questionable whether a growing budget deficit and the related public debt would not prejudice the already achieved results, such as the criteria of convergence conditioning the accession of Poland to the Euro Zone or even the proper functioning of the economy as a whole. Therefore, one of the major current challenges of the public sector is to indicate the ability to acquire funds for investments and the effectiveness of the use of public resources in the course of achieving the assumed goals. This particularly applies to operations of an investment nature. Investments must be perceived in terms of economic and financial mechanisms, which should independently regulate the economic aspects within the activity of the organizational units of the public sector in terms of development. In a period of crisis an efficient finance management in the aforementioned organizational units may bring measurable benefits for the recipients of the services, for public sector entities as well as for private companies financing these services. In the days of difficult credit money, effective finance management may lead to achieving benefits resulting from the principles of rationality and management efficiency. As a result, savings should appear, which may become the source of financing of further tasks.

2.3. Financial management of public sector entities in 2000–2014

In terms of the disclosure of numerous barriers of development, the funding of tasks of the public sector was subject to a strong evolution, manifested by borrowed patterns of behavior and solutions used with regards to the financial management of commercial companies\textsuperscript{57}. Changes of behavior are associated with, first of all, strong pressure for an improvement in the effectiveness of use of own resources as well as an extension of the investment cooperation between the private sector and the public sector for the realization of public tasks. The organizational units of the public sector, also at regional and local level, despite commonly known difficulties, have a relatively good competitive position as potential partners for private companies and as contractors for investment banks.

Improvement in effectiveness is now becoming an objective condition of management. This also applies to the units that operate based on a financial plan, namely where we are dealing with a simple budgeting of tasks. It also applies to organizational units, which make their services available on the basis of partial or full payment. The necessity to draw attention to the effectiveness of use of public resources involves the creation of a new situation in terms of quality consisting in extending the scope of social needs, and, at the same time public tasks, with a simultaneous increase in the total cost of provision of these services\textsuperscript{58}. The dynamic growth in residential development and the subsequent needs with regard to technical and social infrastructure in Poland form a new objective reality. The objectivity of this situation consist in the fact that private investors have funds allocated for investments, while organizational units of the public


\textsuperscript{58} M. G. Phelps, Changing Costs of Public Services, Office for National Statistics, Newport, South Wales 2009, p. 32.
sector do not keep up with securing funds for the implementation of the necessary components accompanying the infrastructure of these investments. As a matter of fact, new techniques and technologies create a qualitatively new situation due to relatively lower investment outlays. However, we are dealing with, in all this complexity, important development problems. In fact, it is necessary to develop a new approach to financial governance in organizational units of the public sector at the regional and local level, which can further lead to creating the appropriate conditions for the development and achievement of the set goals.

It is also necessary to remember situations involving a permeation of influences between the management of the public sector and the private sector. This phenomenon is visible in the practice of management of the local government. A possibility of cross-sectoral cooperation emerges here as a very significant aspect of management of the public sector, which could enable the implementation of the tasks of the public sector. In market conditions, such phenomena may be found at a larger scale, also at the level of the state, with clear contact and interaction between the two sectors of the economy: the private and public sector.

Consideration must be given to the wide range of tools, which the public sector has in the process of executing its tasks. One of them is the possibility of non-investment restructuring both at the state level and in the area of the local public sector\(^59\). Organizational changes should run in parallel to the planning and execution of specified investment projects. Such solutions can significantly diminish the cost value estimate of projects and finally lead to an improvement of the long-term results. Research shows that various changes in the structure of the public sector occurred in 2000–2013. On the one hand, as a result of restructuring processes the economy experienced a decrease of the role of the state within the structure of the economy (limitation of employment in companies being the property of state

legal persons and reduction in participation of state-owned companies in GDP). On the other hand, an extension of the scope of the public sector was observed. Considering the revenues of the public finance sector it should be noted that in 2000–2013 the income of the sector in total increased by 139.4%. It seems that such a significant growth of income clearly indicates a substantial extension of the possibilities of financing various public tasks.

The above changes were determined by many factors. Firstly, the beginning of the first decade of the 21st century was another year of a good economic situation in Poland and consequently it was characterized by a stabilization of income sources of the state budget. Secondly, in the discussed period, Poland was on the path leading to integration with the European Union. The pre-accession period involved the possibilities to use non-returnable aid, consisting in the activation of adaptation processes in administration, as well as adjustment processes in the economy and society. Thirdly, in 2004 Poland became a member of the European Union and acquired the right to use aid from the budget funds of the EU, intended as part of various funds for the stimulation of socio-economic development. Finally, it is also worth drawing attention to the general climate in the development of entrepreneurship in Poland, which was connected with the abovementioned transformations as well as high social optimism, which gave direct economic effects. In particular, a rapid development of small and medium enterprises was observed, along with an increased rate of investment projects in the economy, where an important role was played by direct foreign investments. The aforementioned phenomena in connection with a number of other factors of national, as well as regional and local importance clearly stabilized the socio-economic growth rate in Poland and contributed to a visible improvement in the living standard. These tendencies remained essentially until 2008 when the global financial crisis influenced the socio-economic processes occurring in Poland. As a result, economic stagnation took place, along with a reduction in the pace of GDP growth to the level of 1.6% in 2009.
The main source of budgetary state income was the state income tax. The share of this income in the total income throughout the whole period covered by the analysis reached the level of nearly 90%. For instance, in 2000 this share amounted to 88.2%, while in 2013 only 86.6%. Detailed numeric data illustrating the changes in the level of total income of the public finance sector and the total income of the state budget with a division into the main categories of income in 2000–2013 is presented in Table 1 and is graphically illustrated in Figures 2.1, 2.2 and 2.3.

The highest share of tax income in the state budget income was recorded in 2002, i.e. 89.7%, while the lowest in 2009, i.e. 78.4%. The presented numeric data clearly indicate the scope of the crisis phenomena that also occurred in Poland. The deterioration of the economic situation and decrease of effective internal demand and exports resulted in a reduction in the tax revenue base, which was consequently reflected in the discussed share. Other budget revenues included a non-tax income, as well as funds gathered within the EU budget, classified as state budget.

![Figure 2.1. The revenues of the public finance sector in 2000–2013 (in billion PLN).
Source: as in Table 2.1.](image)

Source: as in Table 1.
Table 2.1. Income of the public finance sector in 2000–2013 (in billion PLN).

<table>
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<tbody>
<tr>
<td>Revenue of the public finance sector – total</td>
<td>271.6</td>
<td>291.5</td>
<td>304.8</td>
<td>320.0</td>
<td>345.9</td>
<td>382.5</td>
<td>420.4</td>
<td>484.9</td>
<td>515.2</td>
<td>539.9</td>
<td>551.1</td>
<td>604.2</td>
<td>651.1</td>
<td>650.3</td>
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<tr>
<td>State budget revenue – total</td>
<td>135.7</td>
<td>140.5</td>
<td>143.5</td>
<td>152.1</td>
<td>156.3</td>
<td>179.8</td>
<td>197.6</td>
<td>236.4</td>
<td>253.5</td>
<td>274.2</td>
<td>250.3</td>
<td>277.6</td>
<td>287.6</td>
<td>279.2</td>
</tr>
<tr>
<td>Tax revenue – total</td>
<td>119.6</td>
<td>119.1</td>
<td>128.8</td>
<td>135.2</td>
<td>135.6</td>
<td>155.9</td>
<td>174.9</td>
<td>206.4</td>
<td>219.5</td>
<td>214.9</td>
<td>222.6</td>
<td>243.2</td>
<td>248.3</td>
<td>241.7</td>
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<td>Including:</td>
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<tr>
<td>Value Added Tax (VAT)</td>
<td>51.7</td>
<td>52.9</td>
<td>57.4</td>
<td>60.4</td>
<td>62.3</td>
<td>75.4</td>
<td>84.4</td>
<td>96.3</td>
<td>101.8</td>
<td>99.5</td>
<td>107.9</td>
<td>120.8</td>
<td>120.0</td>
<td>113.4</td>
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<tr>
<td>From excise duty</td>
<td>27.3</td>
<td>28.9</td>
<td>31.5</td>
<td>34.4</td>
<td>38.0</td>
<td>39.5</td>
<td>42.1</td>
<td>49.0</td>
<td>50.5</td>
<td>53.9</td>
<td>55.7</td>
<td>58.0</td>
<td>60.4</td>
<td>60.7</td>
</tr>
<tr>
<td>Income tax from legal persons</td>
<td>16.9</td>
<td>13.2</td>
<td>15.0</td>
<td>14.1</td>
<td>13.1</td>
<td>15.8</td>
<td>19.3</td>
<td>24.5</td>
<td>27.2</td>
<td>24.2</td>
<td>21.8</td>
<td>24.9</td>
<td>25.1</td>
<td>23.1</td>
</tr>
<tr>
<td>Income tax on individuals</td>
<td>23.1</td>
<td>23.4</td>
<td>24.1</td>
<td>25.7</td>
<td>21.5</td>
<td>24.4</td>
<td>28.1</td>
<td>35.4</td>
<td>38.7</td>
<td>35.8</td>
<td>35.6</td>
<td>38.1</td>
<td>39.8</td>
<td>41.3</td>
</tr>
<tr>
<td>Non-tax revenue – total</td>
<td>15.9</td>
<td>20.3</td>
<td>14.3</td>
<td>16.8</td>
<td>17.9</td>
<td>21.1</td>
<td>20.1</td>
<td>22.4</td>
<td>19.3</td>
<td>27.4</td>
<td>24.5</td>
<td>32.3</td>
<td>37.1</td>
<td>36.0</td>
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<tr>
<td>Funds from the European Union and other non-</td>
<td>–</td>
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<td>–</td>
<td>2.6</td>
<td>2.4</td>
<td>2.0</td>
<td>7.5</td>
<td>14.7</td>
<td>31.9</td>
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<td>2.2</td>
<td>1.5</td>
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<tr>
<td>refundable funds</td>
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<tr>
<td>Budget revenue of the local government – total</td>
<td>72.6</td>
<td>79.6</td>
<td>80.0</td>
<td>79.1</td>
<td>91.5</td>
<td>102.9</td>
<td>117.0</td>
<td>131.4</td>
<td>142.6</td>
<td>154.8</td>
<td>162.8</td>
<td>171.3</td>
<td>177.4</td>
<td>183.5</td>
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The main source of state budget income in the whole discussed period was income from the Value Added Tax. Although in 2000 this share reached the level of 38.1%, in the subsequent years the related income increased significantly. It is beyond doubt that this indirect tax constitutes a very stable efficient source in the state budget income. The share of tax reached the highest level in 2011, i.e. 43.5%, and in the subsequent years this share slightly decreased. Another significant source of budgetary state income was the excise tax. The revenues from tax in 2000–2013 increased by 122.3%, although the share of this category of income in the total state budget income remained at a stable level and oscillated around 20%. In the discussed period the Value Added Tax and the excise tax constituted more than half of the total state budget income. In 2010, the share of the two aforementioned streams of tax income reached the highest level and amounted to 65.3%, while it reached the lowest level in 2009, i.e. 55.9%.

Figure 2.2. The revenues, expenditures and the result of the state budget in 2000–2013.
Source: as in Table 2.1.

It is worth noting that throughout the whole period covered by the analysis an unsettled balance of revenues and expenses of the state budget is sustained. In 2000 the negative result of the budget amounted to 15.4 billion PLN, while in 2013 it reached 42.2 billion PLN.
Simultaneously, the state budget deficit expressed as a percentage ratio of the negative result of the state budget income was 11.3% in 2000, but 27.5% in 2001. The lowest share was recorded in 2007 when it amounted to 6.8%. In subsequent years the budget deficit further increased, and its maximum in the value perspective was reached in 2010, and amounted to 44.6 billion PLN.

Figure 2.3. Total state budget revenues and total revenues of the local administration budgets as compared to the total income of the public finance sector in 2000–2013.
Source: as in Table 2.1.

At that time, another tendency was observed, consisting in a decrease in the share of direct taxes in the state budget income, i.e. corporate income tax and individual income tax. While in 2000 the income from corporate income tax constituted 12.4%, in 2013 it decreased to the level of 8.3%, although in the value perspective an increase was recorded in the volume of taxes on this account from 16.9 to 23.1 billion PLN. The share of income from personal income tax also decreased. And so, in 2000 it amounted to 17.0%, while in 2013 to only 14.8%, although at that time, the volume tax increased from 23.1 to 41.3 billion PLN. It should thus be stated that in 2000–2013 a measurable strengthening of the budgetary income of
the state occurred, based on reclassified indirect taxes, shaped on the basis of legal regulatory mechanisms with a simultaneous reduction of payments share in the state budget revenues from direct taxes: from individual income tax and from corporate income tax.

In the discussed period an important role regarding the process of shaping the budget situation was played by the budgets of local government units at the local level, communes and districts and at the regional level of local government provinces. In 2000–2013 the income of the budgets of the mentioned units increased by 152.8%. At that time, which is worth noting, state budget revenues increased by 105.7%. Research results indicate clearly that local government units of particular levels took an important place in the system of public finance in Poland. The local government took over a substantial part of public tasks, especially at the local level. Such a situation occurred already at the time of reactivation of the local government in 1990 and was recorded in 1990–1999 when local government units did not operate yet at the level of districts and provinces. Local democracy shaped at the level of communes and districts, as well as regionalism, having its bases in province structures of the local government, have a good support in the financial supply system and opportunities of conducting own budget management. It should be assumed that a systematic increase in the budgetary income of local government units is a fully positive phenomenon, because within the budgets of these units a considerable scope of support in the development of entrepreneurship in Poland is provided, and the scope of public services quality is raised. It should be pointed out that some local government units need to face the problem of budget deficit and of public debt at the level of a unit of the local government. This problem has its broader determinants consisting mainly in the failure to adjust the budgetary income structure to the scope of tasks to be executed. Thus, the willingness to accelerate development leads to reaching for external returnable sources of financing, which, consequently, may cause the aforementioned phenomena. An undoubtedly favorable mechanism is the system of support under the budget of the EU, which makes it possible to increase the rate of investments
Table 2.2. Revenues of the local administration budgets with a division into the levels of the local government in the years 2000–2013 (in billion PLN).

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<tbody>
<tr>
<td>Revenue of municipal budgets</td>
<td>56.4</td>
<td>61.0</td>
<td>63.6</td>
<td>63.5</td>
<td>72.1</td>
<td>82.1</td>
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<td>103.9</td>
<td>111.8</td>
<td>115.2</td>
<td>126.2</td>
<td>132.7</td>
<td>139.7</td>
<td>144.3</td>
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<tr>
<td>Revenue of powiat budgets</td>
<td>12.6</td>
<td>14.0</td>
<td>12.3</td>
<td>11.1</td>
<td>12.5</td>
<td>13.8</td>
<td>14.8</td>
<td>16.2</td>
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<td>20.1</td>
<td>22.5</td>
<td>23.6</td>
<td>22.5</td>
<td>23.1</td>
</tr>
<tr>
<td>Revenue of voivodeship budgets</td>
<td>3.7</td>
<td>4.6</td>
<td>4.2</td>
<td>4.6</td>
<td>7.0</td>
<td>7.1</td>
<td>9.5</td>
<td>11.3</td>
<td>12.7</td>
<td>19.5</td>
<td>14.1</td>
<td>15.1</td>
<td>15.2</td>
<td>16.1</td>
</tr>
<tr>
<td>Total budget revenue of local government</td>
<td>72.6</td>
<td>79.6</td>
<td>80.0</td>
<td>79.1</td>
<td>91.5</td>
<td>102.9</td>
<td>117.0</td>
<td>131.4</td>
<td>142.6</td>
<td>154.8</td>
<td>162.8</td>
<td>171.3</td>
<td>177.4</td>
<td>183.5</td>
</tr>
</tbody>
</table>

Source: as in Table 2.1.
in the value perspective, to extend the scope of tangible investments and, most importantly, to shorten the time of reaching the set quantitative and qualitative standards in the area of services.

Among the aforementioned organizational units of the local government the greatest volume of income was recorded in communes. In 2000 the share of these revenues in the total revenues of local government units amounted in total to 77.7% and was maintained in 2013 at a similar level of 78.7%. On the other hand, the revenues of the budgets of self-government provinces significantly increased. In the category of units there was a nearly 4.5-fold growth of income (4.35). A particularly rapid increase in the revenues of the budgets of provinces was recorded after Poland’s accession to the EU, especially in 2007–2013, when the regions became co-responsible for funding the implementation of the cohesion policy of the EU.

In the period covered by the research a significant effect on production growth was recorded in the total income of the public finance sector. This growth involved an improvement in the material situation of the state budget as well as increasing budgetary revenues of local government units. The improvement in the material situation had an undeniable positive impact on the possibility of extending the scope of financing expenses in the budget, which related both to current expenses and investment financing. The period of 2000–2013 was characterized by very good opportunities of financing the tasks of the public sector. Next to the maintained good pace of GDP growth in spite of occurring turmoil being the effect of the global financial crisis, the possibility of financing tasks within the budget funds significantly improved. Changes in this respect, originating from the pursuit of a rapid leveling of development differences, especially in the sphere of social and technical infrastructure, were associated with strong pressure due to unsatisfied needs. Therefore, since 2004 a permanent implementation of the volume of tasks in the value perspective became a more frequent phenomenon, exceeding the possibilities of financing within a sustainable state budget. A natural consequence was the appearance of a budget deficit in subsequent years, starting from 2005, which in the following years remained at a diverse level. As a result,
an increase of public debt values occurred in the subsector of public finance units of the local government. An exception in the examined period was 2007, when a positive result of the total budgets of local government units was recorded. This situation is illustrated in Figure 2.4.

Figure 2.4. The total revenues, expenditures and result of the budgets of local government units in 2000–2013 (in billion PLN).
Source: as in Table 2.2.

In the transformation period, an increase in debt occurred in the public finance sector in Poland. In the period covered by the research the debt was increasing in a continuous manner. In 2000–2014 the debt of the public finance sector in the nominal perspective increased from 288.3 billion PLN to 898.8 billion PLN, i.e. by 211.8%, provided that the debt of the government sector increased in this period by 192.2%, while the debt of the local government sector increased by 720.2%, although in the value perspective this growth occurred from 9.4 billion PLN in 2000 to the level of 77.1 billion PLN. It is beyond doubt that the main cause of the increased debt was the desire to accelerate the development processes on the basis of own and external returnable sources of financing. Detailed data illustrating the condition of debt of the public finance sector in 2000–2014 are presented in Table 2.3 and are illustrated in Figure 2.5.
Table 2.3. Debt of the public finance sector before the consolidation in 2000–2014 (in billion PLN).

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<tbody>
<tr>
<td>Debt of the public finance sector</td>
<td>288.3</td>
<td>314.7</td>
<td>365.4</td>
<td>415.9</td>
<td>440.5</td>
<td>477.1</td>
<td>518.2</td>
<td>537.4</td>
<td>609.4</td>
<td>693.6</td>
<td>778.7</td>
<td>861.2</td>
<td>945.2</td>
<td>898.8</td>
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<tr>
<td>Debt of the government sector</td>
<td>267.6</td>
<td>285.6</td>
<td>330.7</td>
<td>381.8</td>
<td>405.2</td>
<td>442.3</td>
<td>482.2</td>
<td>503.6</td>
<td>572.7</td>
<td>705.9</td>
<td>772.6</td>
<td>795.7</td>
<td>839.9</td>
<td>781.8</td>
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</tr>
<tr>
<td>State Treasury</td>
<td>266.8</td>
<td>283.9</td>
<td>327.9</td>
<td>378.9</td>
<td>402.9</td>
<td>440.2</td>
<td>478.5</td>
<td>501.5</td>
<td>569.9</td>
<td>631.5</td>
<td>701.9</td>
<td>771.1</td>
<td>793.9</td>
<td>838.0</td>
<td>779.9</td>
</tr>
<tr>
<td>Debt of the local government sector</td>
<td>9.4</td>
<td>14.9</td>
<td>18.5</td>
<td>21.8</td>
<td>24.5</td>
<td>27.3</td>
<td>30.9</td>
<td>31.1</td>
<td>33.9</td>
<td>45.3</td>
<td>59.9</td>
<td>70.4</td>
<td>72.8</td>
<td>74.1</td>
<td>77.1</td>
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<tr>
<td>Independent public health care institutions</td>
<td>-</td>
<td>2.5</td>
<td>3.0</td>
<td>4.4</td>
<td>5.2</td>
<td>5.8</td>
<td>5.6</td>
<td>4.9</td>
<td>4.7</td>
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<td>4.4</td>
<td>3.9</td>
<td>4.1</td>
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<tr>
<td>Debt of the social insurance sector</td>
<td>11.3</td>
<td>14.2</td>
<td>16.3</td>
<td>12.3</td>
<td>10.8</td>
<td>7.5</td>
<td>5.1</td>
<td>2.7</td>
<td>2.8</td>
<td>12.5</td>
<td>12.9</td>
<td>18.2</td>
<td>21.1</td>
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<td>39.9</td>
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<tr>
<td>Funds managed by ZUS</td>
<td>10.2</td>
<td>13.2</td>
<td>15.0</td>
<td>11.2</td>
<td>10.1</td>
<td>7.1</td>
<td>5.1</td>
<td>2.7</td>
<td>2.8</td>
<td>12.5</td>
<td>12.9</td>
<td>18.2</td>
<td>21.1</td>
<td>31.3</td>
<td>39.9</td>
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</table>

As it appears based on the above graph as well as on the collected numerical material, the main component of the debt of the public finance sector was the debt of the government sector. While in the base year this share was 92.8%, in 2014 it amounted to 87.0%. The above graph expressly indicates that in the discussed period we had to deal with a significantly growing volume of debt, with a simultaneous slight decrease in the share of the government sector in total debt, as well as with an increase in the share of debt of the local government sector. While in 2000 the share of the local government sector in the debt of the public finance sector amounted to 3.3%, in 2014 this share was 8.6%.

At this point, it is also worth noting the changes in the level of debt of the State Treasury with a division into the main categories of creditors. The numeric data has been presented in Table 2.4 and illustrated in Figure 2.6.

In the period 2007–2015 the debt of the State Treasury to foreign investors increased. While in 2007 it amounted to 189.4 billion PLN, in 2015 (as of 31 March) the debt to this group of creditors amounted...
Table 2.4. Debt of the State Treasury in a subjective structure in 2007–2014 (in billion PLN).

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<tbody>
<tr>
<td>Domestic banking sector (billion PLN)</td>
<td>93.9</td>
<td>144.9</td>
<td>153.0</td>
<td>137.6</td>
<td>120.2</td>
<td>98.6</td>
<td>125.8</td>
<td>165.7</td>
<td>174.5</td>
</tr>
<tr>
<td>Domestic non-banking sector (billion PLN)</td>
<td>218.2</td>
<td>228.7</td>
<td>235.5</td>
<td>251.2</td>
<td>261.9</td>
<td>262.9</td>
<td>277.5</td>
<td>157.3</td>
<td>166.8</td>
</tr>
<tr>
<td>Foreign investors (billion PLN)</td>
<td>189.4</td>
<td>196.3</td>
<td>243.0</td>
<td>313.1</td>
<td>389.0</td>
<td>432.4</td>
<td>434.7</td>
<td>456.9</td>
<td>465.1</td>
</tr>
<tr>
<td>The share of foreign investors (in%)</td>
<td>37.8</td>
<td>34.4</td>
<td>38.5</td>
<td>44.6</td>
<td>50.4</td>
<td>54.5</td>
<td>51.9</td>
<td>56.6</td>
<td>57.7</td>
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</table>


Figure 2.6. Debt of the State Treasury in a subjective structure (in billion PLN).
Source: as in Table 2.4.
to 465.1 billion PLN, and thus the increase in the value of the above obligations amounted to 145.6%. At that time, a growth in debt in relation to the domestic banking sector was observed. This growth was, however, significantly smaller and amounted to 80.6 billion PLN, which meant an increase by 85.8%. At that time, the liabilities of the domestic non-banking sector were noticeably increasing, mainly in 2007–2013, however throughout the 2007–2015 period the debt in respect of that sector was reduced to the level of 166.8 billion PLN, i.e. by 26.3%.

In the light of the aforementioned discussion about the changes in the sector of public finance in Poland, it is also worth referring to a broader European context. Similarly to Poland, also in the EU Member States public debt is in the centre of interest of economists, politicians, entrepreneurs as well as various social and professional groups. Two opposing tendencies can be noted here. The first one involves strong pressure on an increase of public expenses for the implementation of various tasks within the public finance sector. Social expectations regarding an increase of the allocation of public funds for the realization of such tasks may be partly considered reasonable, because it involves the actual removal of development barriers, and leads to the leveling of social effects, constituting a consequence of operations in market economy conditions. The social consequences, which persist over a longer period of time, include unemployment continuing on a relatively high level and the ineffectiveness of self-adjustable market mechanisms, which would lead to a growth of employment and, as a result, to maintaining unemployment at a socially acceptable level. The second tendency involves attempts of limiting or reducing the growth rate of public expenses, constituting directed activities aiming at the stabilization of the country’s finances. It concerns the limitation of public expenses in spite of the presence of fully justified social needs, which in the existing economic conditions in the public sphere cannot be satisfied. The fulfillment of such needs is, in this perspective, limited by the real capacity of state and local government units with regard to financing public tasks without disturbing the general balance.
Based on empirical material it can be said that the influence of particular groups of factors forming the above-listed tendencies is diverse. In the European Union Member States, it is possible to observe a regular growth in values of public debt and an increase in the ratio of public debt to gross domestic product. The scale of this phenomenon is common and in many EU Member States it has reached such a great size that public debt constitutes a major limitation, even destabilizing the existence of some states. Table 2.5 presents the results of calculations for particular EU Member States in 2004–2014 to fully illustrate these phenomena.

Table 2.5. General government gross debt as % of GDP.

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<td>Belgium</td>
<td>96.6</td>
<td>94.7</td>
<td>90.7</td>
<td>86.8</td>
<td>92.2</td>
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<td>27.1</td>
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<td>67.1</td>
<td>66.5</td>
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<td>4.4</td>
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<td>Ireland</td>
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<td>24.0</td>
<td>42.6</td>
<td>62.3</td>
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<td>111.2</td>
<td>121.7</td>
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<tr>
<td>Luxembourg</td>
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<td>6.3</td>
<td>7.0</td>
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Source: Eurostat 2015.

As far as the level of the analyzed index is concerned, the most difficult situation occurred in the Member States of the so-called “old fifteen”. For many years, the most difficult situation was in Greece, where the relation of debt to gross domestic product remains at the level of more than 170%. A difficult situation also took place in Italy where in 2014 the debt ratio exceeded 132% and increased as compared to 2004 by 32.1 percentage points. Despite a number of efforts aiming at the reduction of public debt in this country, this has not been achieved. It is also worth paying attention to the situation prevailing in Portugal, where in 2014 the debt ratio also exceeded 130%. As compared to 2004 the value of the index increased more than twice. At this point, it is worth presenting a graph illustrating the discussed changes in ratio value. Figure 2.7 presents the relation of public debt to gross domestic product for 2004, 2007 and 2014. 2007 was included due to its lowest level of the index in almost all EU Member States in 2004–2014.
Disturbing phenomena in 2004–2014 occurred also in Ireland, UK, Slovenia, as well as in Spain and France. In Ireland in 2004 the value of the discussed index reached a relatively low level of 28.3%, but in 2014 this ratio amounted to 109.7%. In the UK in the same period the discussed index increased its value from 40.2% to 89.4%. In Slovenia the value of the index increased from the level of 26.8 to 80.9%. In Spain and France this index increased from 45.3% and 65.7% to the levels of 97.7% and 95.0%, respectively. At this point, it is worth taking a look at an illustration presenting the value of the discussed index in particular Member States of the European Union. Figure 8 presents the diversity of the index value in the EU in 2014.

It seems, based on Figure 2.8, that the highest level of debt was recorded in the western and northern part of the European Union. Member States in the central and eastern part of the EU were characterized in 2014 by relatively lower levels of debt in the scale of the EU. It should be assumed that the occurring tendencies are a symptom of the disturbing phenomena taking place in the economy and society of the European Union. On the one hand, we can observe a relatively high level of the relation of public debt to GDP.
in countries with a well-established market economy and a relatively high living standard of their residents. In particular, attention should be paid to the situation in Italy, France, the UK and Ireland. A relatively good situation was present in the Member States incorporated into the European Union in 2004. Therefore, within the EU we are dealing with a situation where the less wealthy societies, with lower living standards of the residents, have a relatively better situation in terms of public debt compared to the societies of the Western European states and “the old fifteen”, where a relatively higher standard of living of societies is observed in the situation of a sometimes significantly higher level of public debt.

Figure 2.8. General government gross debt as % of GDP in 2014.
Source: Eurostat 2015.
It is worth noting that in 2004–2014 a substantial impact of the world financial crisis was recorded on the situation of public finance of EU Member States. In the majority of them in 2004–2007 a decrease in the value of the index occurred, being the result of positive tendencies in the economy as well as adopted programs counteracting the excessive budget deficit. However, since 2008 the level of the concerned index has already increased in all Member States of the EU. This growth tendency could not be stopped throughout the 2008–2014 period. Tremendous difficulties in the reduction of the negative impact of the financial crisis on the real economy and budget revenues are clearly visible, which consequently affects the general sphere of the public finance sector. The difficulties in maintaining the current financing of public tasks, customarily implemented under the state budget and the budgets of local government units, as well as other institutions of the public finance sector, resulted in the need to increase the financing of public tasks from external sources, which, consequently, had to result in a deterioration of the situation with regard to the index expressing the relation of public debt and gross domestic product.

It should be noted that the phenomena taking place in the public sector are sometimes perceived as one of the signs of excessively extending the public administration. However, this opinion requires verification and deeper analysis. This would refer to considering the aggregated measures of changes in the size of the public sector. One of the more representative measures in the context of such considerations may be the level and changes of employment in organizational units, entities and companies conditionally included in the public sector. One of the more sensitive measures of evaluation of the public sector is the size of employment and the derived relativized measures. An important measure is also, as already mentioned, the volume of budgetary income, the volume of budget expenses and the financial measures created on the basis of the source material describing the financial situation of public sector entities.

Changes in the level of the measure should be arranged with changes in the scope of the tasks implemented within a sector from
the point of view of the demand for public services in the scale of the state and local and regional spatial systems. The basis of analysis and evaluation of changes in employment should include the public tasks which are to be implemented by public sector entities, as well as the imperfection and unreliability of the market with regard to various public services, which often do not have their money equivalent but which are socially important. When conducting an analysis of employment in the public sector it is necessary to adopt assumptions according to which employment should be minimized or an increase in employment limited at all costs. When analyzing the changes occurring in the public sector in Poland, it is worth noting the changes in the level of employment. Such an analysis rather refers to searching for the optimal sizes of employment, adequate to the range of the set tasks.

Based on the empirical data gathered in a long-term perspective involving the period of 2000–2013, in this time frame an absolute decrease in the number of total employment was observed. While in 2000 nearly 4 million people were employed in the public sector, in 2009 this number amounted to slightly more than 3.2 million employees. In 2013 this number amounted to 3.05 million employees. Therefore, it is visible that despite important changes taking place in the public administration in 2000–2013, and especially the changes related to the reform of the public administration launched in January 1999, Polish accession to the European Union, as well as the adaptation of the system of public administration in Poland in terms of the requirements related to the absorption of financial means under EU funds, the aforementioned increase in tasks was implemented with a decreasing number of persons employed in the sector. This conclusion applies to the overall situation in Poland, which does not fully reflect the material situation from the local as well as the regional perspective. Table 2.6 presents the numeric data describing the changes in the level of total employment in the public sector with a division into the basic categories of public ownership in 2000–2013.
Table 2.6. The total employment in the public sector with a division into the basic categories of public ownership in 2000–2013 in Poland (in thousands).

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* estimated values.

Source: Prepared on the basis of the Local Data Bank, Central Statistical Office of Poland (GUS) 2015.
Considering the main categories of the employed in the public sector in the sectoral perspective, in 2000–2009 a decrease in the number of the employed was recorded in the sphere of ownership of the State Treasury as well as in the sector of state enterprises. In these two groups of the employed, employment in the discussed period was reduced from slightly above 2.2 million to the level of 1.3 million. This implies a reduction of employment by 41.0%. However, there was a substantial growth of employment in the local government sector. While in 2000 the number of employees in this sector amounted to nearly 1.6 million, in 2009 this was 1.8 million. Hence, in 2000–2009 the growth of employment amounted to slightly above 13%.

In 2010–2013 the decrease in the number of employees continued, and so in 2013 employment in the ownership sector of the State Treasury was lower by 8.9% compared to 2009. At that time, employment in local government units reached some stabilization and was even reduced, in 2013 the employment in this sector was lower by 1.4% than in 2009. It should be emphasized that in all the subsectors included in Table 6 in 2009–2013 stabilization of employment was recorded, although in some scopes there was a slight increase. In the overall category in 2009–2013 a further decrease of employment was recorded, which at that time was 6.8%. A graph illustrating the changes in this respect is presented in Figure 2.9.

It is also worth drawing attention to the changes in the structure of employment in the public sector. These changes have been presented in Table 7. Consideration must be given to the significant growth in the share of employees in the local government subsector. While in 2000 this share amounted to 39.9% and was the biggest among other groups of employment, in 2009 it increased to 55.3%. In subsequent years, the share of the employed in local government units in the total employment in the sector further increased reaching almost 60% (58.5) in 2013. Such a high share was associated with an absolute growth in the number of employed in the local government sector with a simultaneous reduction in the number of employed in units and companies of the State Treasury as well as in the sphere of state legal persons. An increase in employment in the local government sector was related to several important reasons. The first one
was the aforementioned reform of public administration, launched by relevant acts on 1 January 1999. According to the idea of a systemic reform, district local government units were established at the local level, and self-government provinces were also established – in fact, they were supposed to constitute the future base of the regional perspective on development processes, especially in the context of the future membership of Poland in the European Union.

The reform of public administration caused an increase of employment associated with the activation of pre-accession processes, which required a greater expenditure of work, higher qualifications and the activity of local and regional authorities in creating grounds for the operations of Poland in the structures of the EU. The second one was the fact of Poland’s accession to the European Union in 2004 and that it was necessary to strengthen the public potential in terms of undertaking new tasks related to the activation of the regional development process at the EU scale. This applied to province local government bodies, and thus units at the regional level, as well as the participation of local government units at the local level, which were to play a significant role in the stimulation of social and economic processes in Poland.

Figure 2.9. The changes in the level of employment in the public sector in 2000–2013 in Poland (in thousands).
Source: as in Table 2.6.
It is beyond doubt that the growth of employment in the local government sector should be considered as positive, because the centre of gravity and the responsibility for the stimulation of the development processes was transferred from the government administration to the local administration. It is debatable whether employment in the local administration sector reached its optimal level, however the answer to this question is not easy, because it would require conducting in-depth research in this respect, which would allow for an evaluation of the effectiveness of employment. It seems that an optimal employment level is one that is stable and that is not subjected to significant short-term changes. In the long-term perspective it appears that in the local administration sector employment will decrease as a result of the development of IT technologies, a natural decrease in the scope of tasks with respect to those that are currently being performed, especially in the sphere of development projects.

A graph illustrating the changes of the structure of employment in the public sector in 2000–2013 is presented in Figure 2.10.

![Figure 2.10](image-url)

**Figure 2.10.** The share of employment by category of total employment in the public sector with a division into the basic categories of public ownership in 2000–2013 in %.
Source: as in Table 2.7.
Table 2.7. The share of employment by category of total employment in the public sector with a division into the basic categories of public ownership in 2000–2013 in %.

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</table>

* estimated values.

Source: Prepared on the basis of the Local Data Bank, Central Statistical Office of Poland (GUS) 2015.
Figure 10 clearly shows that in the years covered by the analysis we were dealing with contradictory trends. On the one hand, there was a decrease in employment in the public sector with state ownership, and on the other hand we observed a growth of employment in local government units. In the first case the decrease in employment was associated with the privatization processes in the economy, while in the second case it appears that the increase in employment was associated with an increase in the tasks of local government units and especially an acceleration of investment processes after the accession of Poland to the European Union.

2.4. Final remarks

The experiences gained from the period of systemic transformation in Poland at the end of the 20th century and the experience resulting from Polish membership in the EU clearly prove that the public sector took an important place in the structure of the economy. Such an assessment can be based on the character and the scale of changes, which had to occur to create the conditions for a sustainable socio-economic development in Poland. However, the public sector in the new political conditions should not be identified with the scope of public tasks implemented within a command economy. In the new political conditions, the organizational units included in the public sector became rightful entities participating (in various organizational forms) in the processes of development. In the new system, funding tasks within the public sector in Poland became an important problematic issue, which had to be regarded as a priority in relation to the social expectations and the planned directions of economic development.

The funding of tasks was strictly linked to the necessity to compensate for the development delays in the sphere of economic and social infrastructure. Therefore, a considerable scope of tasks was attributable directly to local government units, initially at the commune level, and subsequently since 1999 at the district and regional level. The mentioned funding of tasks has been implemented from
public funds within the state budget and at the level of the budgets of local government units, in proportion to the scope of their competencies resulting from statutory regulations.

In accordance with the recognized actual conditions, Poland managed to make significant changes in the abovementioned domains in quite a short time, in terms of numerous existing complex conditions of management in the public sector. In particular, attention should be paid to the tangible results of undertaken investment processes aiming at the mitigation of disproportions in the national system and as compared to other European countries. Also, consideration should be given to the significant scope of tasks to be undertaken in the nearest future. The financial means transferred under the support policy by the European Union are very important for the level of investments of public sector entities. These funds allow to visibly increase the rate of investments, and hence to extend the tangible scope of effects of the undertaken investment projects and shorten the time of reaching the expected standards.

It seems that in Poland the time factor, which became an important economic criterion affecting all processes of socio-economic development, has gained significance. Under the conditions of management of the public sector it became extremely important to relatively quickly undertake the implementation of infrastructural projects, the lack of which could constitute a barrier to further development of the country. It is commonly known that complex development or modernization projects are characterized by long cycles of implementation. Thus, the time factor affects the economics of the investment project and, consequently, postpones the anticipated, mainly tangible, effects. In the sphere of investment planning the lack of discipline leads to disastrous results, because failure to keep schedules, interrupting and then resuming the already initiated investments in fact moves the expected results ad calendas graecas, which results in difficult to estimate economic and social losses.

In the conditions of a market economy, the main postulate becomes an improved effectiveness and ensuring the rationality of public resources management. In the case of management of the public sector the implementation of new solutions and far-reaching
changes in the structure of management in a short period of time is not possible. This would create barriers and not only in the economic aspect. The most serious obstacles include insufficient human capital resources. As in this case, the main factor behind the process of creating changes and the field of implementation of investment projects is qualified directional personnel. The barrier in the form of qualified staff is relatively difficult to be removed over a short period of time and there is even the necessity of long-term consequent actions of public authorities and cooperation with academic centers where such specialists can be trained for difficult jobs related to widely understood management in the public sector. The lack of such an approach results in experimental activities and will certainly not guarantee the fulfillment of the conditions mentioned before, namely the rationality and efficiency of public resources management.

The conducted research proves that completely new possibilities appeared for accomplishing the objectives, which under different conditions would not be possible. Paradoxically, in the market conditions of the transformation period, the public sector in Poland experienced strengthening. It has become a beneficiary of substantial financial means generated from own resources but also from the state budget, the European Union budget and other sources in the form of the issuance of bonds, credits, loans or the aforementioned public-private partnerships. The importance of the public sector has also increased in recent years due to problems related to budget deficit and public debt. The management of public liabilities is a collective problem of local administration communities, and at the national level – of the entire society. In this sense, public debt, as one of the tasks of the public sector, in a significant way, paradoxically, strengthens the role of that sector in the economy and it is not without an effect on the area of the real economy of the private sector and directly on the citizens.

A further evolution of the public sector in Poland in the conditions of a market economy should result in increasing discipline and responsibility in the management of public resources. The basis of such a postulate includes the aforementioned rationality and effectiveness of public resources management, regardless of the volume of funds.
The changes in the economic and social system, which started in 1989 in Poland, sparked a debate in political and academic circles about the role of public sector enterprises. As a result of this discussion and practical activities, the so-called dualistic model of the economy was shaped in Poland, in which some sectors of the national economy are private property through the process of privatization, and some industries, mainly community sectors, are publicly owned. To this day, there are disputes about the effectiveness of various organizational and legal forms. However, it is difficult to determine which organizational and legal forms are most effective from the point of view of the expected objectives and forms of ownership. For example, in the public sector, in some situations, depending on the nature of the leader (commune head, mayor, president), the form of local government budget division works well. In other cases, limited liability companies, municipal or personal involving private persons, or simply private companies are more effective. In an established market economy, the form of ownership is slowly losing its importance and the

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managements in both sectors (private and public) begin to pervade each other. Some of the tasks of the public sector are also performed by individuals engaged in business activities in various organizational and legal forms.

The State Treasury is the main public sector entity. The State Treasury, according to the definition of the Central Statistical Office, is a specific legal entity that is the bearer of the rights and obligations related to state property that does not belong to any other state legal person. It participates in civil transactions not as a whole, but through the so-called *stationes fisci*, which are defined organizational units\(^{62}\). Commercial law companies are companies with Treasury shareholding. Also the existing state-owned enterprises are still subject to the state. In the organizational structures of the state, also state organizational entities and funds experience some forms of economic activity. According to another classification, business activities are conducted also by capital companies or joint-stock companies, as well as limited liability companies and local communities, which are divided into voivodeships, powiats, municipalities, communal associations or intercommunal unions. Self-government communities may perform business activities of different legal forms, starting from commercial law companies and ending with budgetary entities and units.

Business activities in the public sector and for the public sector can also be carried out in the form of a cooperative or foundation. The forms that can be regarded as favoring activities in the public sector also include churches, religious organizations, political parties, housing communities. Table 3.1 presents national economic entities divided into public and private sectors, in accordance with the selected legal forms, i.e. divided into state enterprises, commercial companies, civil companies, cooperative societies, foundations, associations, social organizations, and individuals engaged in business activities in the years 2005–2015.

\(^{62}\) Zmiany strukturalne grup podmiotów gospodarki narodowej w rejestrze REGON, I półrocze 2015, GUS, Statistical information and reports, Warsaw 2015, p. 16.
Table 3.1. The number of national economic entities in the period from 31 December 2005 to 20 June 2015.

<table>
<thead>
<tr>
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<td>In total</td>
<td>3615621</td>
<td>3636039</td>
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<td>139505</td>
<td>124528</td>
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<td>121948</td>
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<td>3851828</td>
<td>3947500</td>
<td>3996274</td>
<td>4017103</td>
<td></td>
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<tr>
<td>According to chosen legal forms</td>
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<td></td>
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<tr>
<td>State owned enterprises</td>
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<td>194</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Joint-stock Companies</td>
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<td>Ltd. Companies</td>
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<td>1317</td>
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<td>1775</td>
<td>1992</td>
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<td>Evident Companies</td>
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<td>Foundations</td>
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<td>Associations and social organizations</td>
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</table>

Source: Zmiany strukturalne grup podmiotów gospodarki narodowej w rejestrze REGON, I półrocze 2015, GUS, Statistical information and reports, Warsaw 2015, p. 29.
Most economic entities operate in the private sector. In the middle of 2015 there were over 40 million economic entities, compared to about 3.5 million in 2005. In the reported period, the number of public sector entities slightly decreased. In the middle of 2015, almost 122 thousand of these entities were noted. The number of state-owned enterprises decreased rapidly, from 1029 in 2005 to 154 in the middle of 2015. In the middle of 2015, 363 thousand of these companies were noted. However, individuals involved in business activities were the most numerous. In the middle of 2015, there were nearly 3 million. Since 2005, this number increased by approximately 200 thousand.

3.1. Local self-government

In the public sector, local government units are of great importance for infrastructure investments. Two partially divergent concepts of local self-government can be distinguished. The first concept assumes that the local government is an organization, the aim of which is to perform public administration tasks, in a determined way and on its own responsibility, through entities separate from the state that are not subject to any interference of the state in performing their tasks. Based on this, the concept of “indirect public administration” was created. This administration is not carried out by direct public authorities, but by independent entities capable of legal action and administering national tasks. Of practical importance is the separation of direct and indirect state administration, because direct administration is outside the instance order of state authorities. The second meaning of self-government is political, and it involves the honorary participation of individuals in performing specific state tasks – it is all about personal self-governance.

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64 F. E. Schnapp, Samorząd jako element polityki porządku państwowego, Samorząd Terytorialny 2001, No. 7–8, p. 4.
The European Charter on local self-government, drawn up in Strasbourg on 15 October 1985, talks about the essence of territorial self-governance. Art. 4 of this Charter states that the basic competencies of local communities are set out in the Constitution or the law. This provision, however, does not preclude the possibility of granting local communities the powers necessary to perform specific tasks in accordance with the law (paragraph 1). Local communities have – within the law – full freedom of action in any matter that is not excluded from their competence or does not fall within the scope of competence of other authorities (paragraph 2). Overall responsibility for public affairs should be borne first and foremost by those authorities that are closest to the citizens. When entrusting these functions to another authority, account should be taken of the scope and nature of tasks, as well as the requirements of efficiency and the economy (paragraph 3). The powers conferred to local communities should be complete and exclusive, and may be questioned or limited by other central or local authorities only to the extend provided by the law (paragraph 4). In the case of delegating competencies to local communities by central or local authorities, they should, where possible, have complete freedom to adjust the execution of these competencies in accordance with local conditions (paragraph 5). Local communities should be consulted, as far as possible, in good time and in due course, when developing plans or making decisions on all matters directly concerning them (paragraph 6).65

Article 9 of the European Charter on local self-government sets out the rules of financing local communities. According to its content, local communities have the right, within the framework of national economic policy, to have their own financial resources which they may freely use while exercising their powers (paragraph 1). The level of financial resources of local communities should be adapted to the scope of powers conferred on them by the Constitution or law

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(paragraph 2). At least part of the financial resources of local communities should come from fees and local taxes, and their amount can be determined by local communities within the range specified by the law (paragraph 3). Financial systems, on which the resources remaining at the disposal of local communities are based, should be varied and flexible enough to correspond, as far as possible, to the actual changes at the level of costs associated with the exercise of powers (paragraph 4). Protecting local, financially weaker communities requires the equalization of procedures or compensation measures aimed at correcting the effects of unequal distribution of potential sources of income, as well as the expenses burdened by these communities. These procedures or actions should not limit the freedom of local communities to make decisions within their powers (paragraph 5). Local communities should be consulted, where appropriate, when it comes to the forms of locating resources from the redistribution of income (paragraph 6). As far as possible, subsidies granted to local communities should not be used to finance specific projects. The granting of subsidies may undermine the basic freedoms of local communities to freely conduct their own policy within their granted powers (paragraph 7). For the purpose of financing investment expenses, local communities should have access to the domestic capital market, within the limits laid down by law (paragraph 8)\(^66\).

Local self-governments, and municipalities in particular, are of great importance as the initiators of infrastructure investments. They are also important for the private sector because they create favorable conditions for doing business on the territory of, for example, a municipality, by determining the amount of local taxes and fees and organizing the provision of services arising primarily from own tasks. Not without significance are the possibility and the need to carry out tasks related to the municipal economy.

The municipal economy is a section of the national economy that aims to address the material and housing needs of the population.

\(^66\) Ibidem, p. 81.
In Poland, the municipal economy includes, among other things, water distribution, wastewater management and heat distribution companies, companies distributing fuel and energy to households, and waste management companies\(^67\).

Therefore, municipal economy includes particular public service tasks aimed at meeting the collective needs of the population through the provision of widely available services. It should be noted that the legislature defines the boundaries of the municipal economy, recognizing that these boundaries are established by public tasks (municipality’s own tasks) referred to in the Act of 8 March 1990 on Commune Self-Government, but the essence of the municipal economy is the realization of public service purposes\(^68\).

Of crucial importance for the legal characteristics of the municipal economy is the concept of “organizational freedom”, which is a vital attribute of any business, including business activities of self-governments undertaken in the interest of the residents (including the interests of self-government authorities) and, of course, “within the limits of the law”. This is recognized also by the Act on local government and the Act on municipal economy\(^69\). Municipalities may independently decide in what organizational form they conduct business activities.

When considering the legal forms of conducting the municipal economy, is should be kept in mind that “the main difference between municipal economy and business activity lies in the fact that the municipal economy is not profit-making in nature. It must fit within the framework of municipal activities, and its mandatory goal is to perform the municipality’s own tasks, including meeting the collective needs of the community (public service tasks). A municipality is primarily an organ of public authority, which means that it inevitably

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\(^68\) Art. 7 of the Act of 8 March 1990 on Commune Self-Government (Journal of Laws from 2001 No. 142, item 1591, as amended).

\(^69\) M. Kulesza, Gospodarka komunalna – podstawy i mechanizmy prawne, „Samorząd Terytorialny” 7–8/2012, p. 9.
must take on the specific interventional functions in the economy. This concerns areas of socially necessary activities, where private entities are not interested in taking up business activities (e.g. lack of profitability), the creation of new jobs, and support of local traditions and centers of economic and cultural activity”.\(^{70}\)

Depending on the way of providing services, municipalities may use different models, among which the most important ones are\(^{71}\):

- the self-sustaining model, in which municipalities perform the functions of the initiator, controller, manufacturer of services, providing full or partial funding in the case of some services;
- the market model, where economic entities are direct service providers (operators), who undertake to perform services defined by the regulator. Municipal authorities, i.e. the municipal council, head of the commune, and municipal administration, as the representatives of the self-government community (customers), take over the role of the service regulator. The regulator performs all the functions that form the widely understood management, i.e. organizing, planning, ordering, financing, coordinating, and monitoring services;
- the mixed model, combining the elements of the above solutions.

Depending on the participation of the public and private sectors in the system of provision of municipal economy services, the following structures are possible\(^{72}\):

- public ownership of production assets and public management;
- public ownership of production assets and private management;
- private ownership of production assets and private management.

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\(^{70}\) Judgement of the Supreme Administrative Court of 19 January 2003, SA/Gd 1968/02, OSS from 2003 No. 4, item 105.

\(^{71}\) E. Wojciechowski, Zarządzanie w samorządzie terytorialnym, Centrum Doradztwa i Informacji Difin, Warsaw 2003, pp. 144–148.

The presented ways of providing municipal services in a municipality can also be presented in the form of two separate models of organization of municipal services. In the first model, municipal services are provided by community organizational entities, and in the second model, they are provided by economic entities.

In the first case, the municipality, forming broadly understood organizational units, specifies (e.g. in the statute) the scope of their tasks and is also responsible for financing their activities on the basis of the principles laid down in the Act on public finances.73

In Article 2 of the Act on municipal economy it is furthermore stated that the “municipal economy may be carried out by local government entities, especially in the forms of self-government budgetary units or commercial law companies”, and in Art. 3 that “self-government entities by agreement may entrust the execution of tasks from the area of municipal economy to individuals, legal persons, or organizational units that have no legal personality, and, if on the basis of other Acts it is required to obtain a permit in order to carry out given activities, self-government entities may entrust the execution of tasks only to an entity that has the required authorization”. Therefore, the merging of the private and public sector is also visible at the level of local government entities.

Local government entities carry out activities in the form of budgetary units only when these activities are of public service nature. However, in accordance with Article 10 of the Act on municipal economy, outside the area of public service, “a municipality may create commercial law companies and join them if all of the following conditions are met:

1) there are unmet needs of the self-government community in the market;
2) unemployment in the municipality significantly affects the standard of living of the self-government community, and the implementation of other actions and legal measures resulting

from the legislation in force has not led to economic activation, and in particular to significant local market recovery or a permanent limitation of unemployment. The municipality may create and join commercial law companies outside the public utility area also when the disposal of items of community property is a non-monetary contribution to a company or a regulation”.

There is, of course, no unequivocal answer to the question: which form should be chosen for a particular business? Each requires an individual approach74.

While analyzing the changes in the municipal economy, we should bear in mind the growing importance of ownership restructuring75 processes, mainly including privatization. The essential circumstances of the privatization of communal companies are:

- the difficult financial situation of entities that leads to seeking money to fund current needs and necessary investments;
- raising funds for the modernization of companies that provide important services within the scope of the so-called own tasks of local governments, which have to be ensured to be provided to the residents by municipalities or powiats;
- depoliticizing companies and implementing methods of rational management consistent with the financial account (especially in those that generate losses);
- improving the quality of municipal services;
- reducing budgetary expenses, while at the same time increasing the scope and quality of services;
- using private capital in community investments.


75 Z. Grzymała, Restrukturyzacja... op. cit.
3.2. State-owned enterprises

A state-owned enterprise is an independent, self-governing, self-financing entrepreneur that has legal personality, created by the founding body (primary and central government administration bodies, the Polish National Bank, or state-owned banks). The legal basis of action is the Act of 25 September 1981 on state-owned enterprises or a separate Act that gives legal personality to a specific state-owned enterprise. State-owned enterprises have to be registered in the National Court Register\textsuperscript{76}. Graph 3.1 presents the distribution of state-owned enterprises in 2015 in a territorial arrangement.

\textbf{Graph 3.1.} The distribution of state-owned enterprises by voivodeships. Situation as of 30 June 2015.


\textsuperscript{76} Zmiany strukturalne grup podmiotów gospodarki narodowej w rejestrze REGON, I półrocze 2015, GUS, Statistical information and reports, Warsaw 2015, p. 18.
State-owned enterprises are located mainly in the Masovian Voivodeship (between 65 and 70 entities), and in the Greater Poland Voivodeship, Lower Silesian Voivodeship and Lesser Poland Voivodeship (between 12 and 64 entities). State-owned enterprises hardly ever occur in the following Voivodeships: Warmian-Masurian, Podlaskie, Podkarpackie, Łódź, Opole, Lubusz. The main areas in which these enterprises operate are industrial processing and construction.

Companies owned by the State Treasury are also public entities. In mid 2015, there were 1162 of these companies. Most of these companies operate in the area of industrial processing (370), trade and automotive repair (121), housing market management, and professional, scientific, and technical activities (101 entities each)\(^77\).

### 3.3. Commercial law companies

Commercial law companies are: joint-stock companies, limited liability companies, general partnerships, partnerships, limited partnerships, and limited joint-stock partnerships. Commercial law companies can be divided into partnerships and corporations\(^78\). Partnerships include: general partnerships, partnerships, limited partnerships, and limited joint-stock partnerships. Corporations include: joint-stock companies and limited liability companies. Corporations also include single person companies, in which all shares or stocks belong to one partner or shareholder.

In general, partnerships may acquire rights in their own behalf, including ownership of property and other rights in rem, enter into commitments, sue and be sued, and operate enterprises under the name of their company. Articles of partnership may be amended with the consent of all partners, unless another solution was previously

\(^77\) Zmiany strukturalne grup podmiotów gospodarki narodowej w rejestrze REGON, I półrocze 2015, GUS, Statistical information and reports, Warsaw 2015, p. 18.

adopted. Similarly, corporations may acquire rights in their own behalf, including ownership of property and other rights in rem, enter into commitments, sue and be sued. In the case of corporations, we can distinguish the so-called indirect form (until the registration or entry into the register) of a company in the process of formation. In practice, the provisions concerning the type of company after its entry to the register apply in the case of a corporation in the process of formation. These companies should bear the additional designation “in the process of formation”. As confirmed in Art. 12 of the Code of Commercial Companies, “a limited liability company in the process of formation or a joint-stock company in the process of formation becomes a limited liability company or a joint-stock company and acquires legal personality at the moment of entry into the register. At this moment, it becomes subject to the rights and obligations of a company in the process of formation”. The company and the people who work on its behalf are responsible for the obligations of a joint-stock company (Art. 13 and 14) in the process of formation. The partner or shareholders of a corporation in the process of formation are jointly responsible for their obligations to the amount of the uncalled contribution to cover taken up shares or stocks. The subject of contribution to a corporation may not be the so-called non-transferable right or provision of work or services.

3.4. Corporations

A joint-stock company, as well as a limited liability company, can be established by one or more persons. A joint-stock company may not, however, be formed exclusively by a single-person limited liability company. In accordance with Article 306 of the Code of Commercial Companies, the formation of commercial companies requires:

1) establishing a company, including signing the Statue by the founders;
2) contributions of shareholders in order to cover the whole share capital, taking into account;
3) establishing a Management Board and a Supervisory Board;
4) entry in the register.

The statutes of a joint-stock company are drawn up in the form of a notarial act, and the signers are considered to be the founders. The statutes of a joint-stock company (Art. 304) should specify the following:

1) the name and seat of the company;
2) the corporate purpose;
3) the duration of the company, except when it is indefinite;
4) the amount of the share capital and the amount paid before registration in order to cover the share capital;
5) the nominal amount of the shares and their number, with an indication of whether the shares are registered shares or bearer shares;
6) the number of shares of each type and related entitlements, if shares of different kinds are to be introduced;
7) the names and surnames of the company (names) or the founders;
8) the number of members of the Management Board and the Supervisory Board, or at least the minimum or maximum number of members of these bodies, as well as the entity entitled to determine the composition of the Management Board or the Supervisory Board;
9) announcement letter, if the company intends to make announcements outside the Court Monitor and Economic Monitor.

The statute should also contain, under pain of nullity, provisions relating to:

1) the number and types of titles of participation in profits or in the distribution of assets and the related rights;
2) all obligations of the company associated with shares, except the obligation to pay for shares;
3) the terms and the manners of redemption of shares;
4) lock-up on shares;
5) personal powers of the shareholders;
6) at least an approximate amount of all costs incurred by or charged to the company in connection with its establishment. The share capital of the company is divided into shares of the same nominal value, and the shareholders are not personally responsible for the commitments of the company. The company’s name shall bear the additional designation “joint-stock company”. It is permitted to use an abbreviation “S.A.” (JSC in English).

Issues relating to the value of capital allowing the establishment of a joint-stock company are governed by Article 308, which says that the share capital of a company shall be at least 100,000 PLN and that the nominal value of shares may not be lower than 1 grosz. In practice, the formation of a joint-stock company takes place at the moment of taking up all shares. As in the case of a limited liability company, a joint-stock company has the status of a company in the process of formation prior to registration. This is mentioned in Art. 323. As stated in Art. 315, payment for shares should be made directly or through an investment company, to the bank account of the company in the process of formation managed by a bank on the territory of the European Union or a country which is a party to the agreement on the European Economic Zone. Art. 316, on the other hand, says that the Board shall declare the formation of a company (presumably after taking up all shares) to the Registry Court competent for the company’s registered office in order to enter the company to the register. A request for registration of the company is signed by all the members of the Board.

A joint-stock company issues registered shares or bearer shares. The company can issue shares with special rights (Art. 351), which should be described in the statutes (preference shares). Preference shares, with the exception of non-voting shares, should be registered. The shares of a joint-stock company are transferable. Apart from some exceptions, the company may not acquire shares issued by itself. Issues relating to shareholder shares in the profits are regulated, for example, by Art. 347 of the Code of Commercial Companies, which says that the shareholders are entitled to participate in the profits shown in the financial report, audited by an auditor, which
have been designated by the general assembly for distribution to the shareholders, and that the profits shall be divided in proportion to the number of shares. If the shares are not paid for in full, the profits shall be divided in proportion to the effected payments for the shares.

The Management Board, consisting of one or more members, manages the affairs of the company. Persons from among the shareholders or other persons may be appointed to the Management Board. Members of the Board are appointed for 5-year terms and dismissed by the Supervisory Board. They can be dismissed at any time. The Supervisory Board exercises permanent supervision over all areas of activity of the company. The Supervisory Board comprises at least three members, and in the case of public companies, at least five members. In accordance with Art. 375, the General Assembly and the Supervisory Board may not give the Management Board any binding instructions with respect to the management of the affairs of the company.

Like in the case of limited liability companies, a proxy may be appointed with the consent of all the members of the Management Board in joint-stock companies. The General Meeting oversees a joint-stock company. The scope of powers of the General Meeting (Art. 393) includes, among other things, consideration and approval of the report of the Management Board on the operations of the company and the financial report for the previous financial year and the granting of approval for the performance by the members of the company governing bodies of their duties, issuing convertible bonds or bonds with the right of priority, issuing subscription warrants. It can also, for example, increase the share capital. Overall responsibility for the operations of the company is limited to its capital. However, the Code of Commercial Companies in Chapter 8 mentions civil liability. For example, the members of the Board are accountable to the creditors for, among other things, providing false data in declarations (Art. 479), or, as defined by Art. 482: “A person who in the course of examining a financial report of a company, through his fault, has allowed damage to be caused to the company, shall redress it”.
Dissolution of a joint-stock company can take place in accordance with the arrangements set out in the statutes, by resolution of the General Meeting, by transferring the registered office abroad or due to its bankruptcy.

In all corporations, including joint-stock companies, where there is a conflict between the interests of the company and those of a member of the Management Board, his spouse, relatives or relations up to the second degree and persons with whom he has personal relations, the member of the Management Board shall withhold from deciding on such matters and may request that this be recorded in the minutes (Art. 377 of the Code of Commercial Companies). Similarly, a member of the Management Board may not, without the consent of the company, engage in a competitor business or participate in a competitor company as a partner in a civil law partnership or a partnership, or as a member of a governing body of a capital company or participate in another competing legal person as a member of its governing body. This prohibition also applies to
participation in a competitor capital company, where the member of the Management Board holds at least 10 percent of shares of that company or the right to appoint at least one member of its Management Board (Art. 380).

The Masovian Voivodeship has the most joint-stock companies (almost 4 thousand companies). The smallest number of companies (less than 219) was recorded in mid-2015 in the following voivodeships: Warmian-Masurian, Podlaskie, Lubusz, Opole.

3.5. Limited liability companies

In accordance with Article 151, a limited liability company may be formed by one or more persons for any purpose allowed by law. A limited liability company may not be formed solely by another single-shareholder limited liability company. In this legal form, the shareholders are not being liable for the obligations of the company. The share capital of a limited liability company, as stated in Article 154 of the Code of Commercial Companies, is divided into shares. The share capital of the company shall be at least 5,000 PLN, and the nominal value of a share may not be lower than 50 PLN. The articles of association of a limited liability company (Art. 157) should have the form of a notarial deed and shall specify the following:

1) the name and seat of the company;
2) the corporate purpose;
3) the amount of share capital;
4) information whether or not a shareholder may have more than one share;
5) the number and nominal value of the shares subscribed for by individual shareholders;
6) the duration of the company, if it is defined.

The name of the company should include the additional words “spółka z ograniczoną odpowiedzialnością” (“limited liability company”), and the abbreviation “spółka z o.o.” or “sp. z o.o.” may be used in business dealings.
In accordance with Article 163 of the Code of Commercial Companies, the following is required for the creation of a limited liability company:

1) conclusion of the articles of association;
2) shareholders making contributions to finance the entire share capital, and where the share is subscribed for a price higher than the nominal value, also contributing to the balance, taking into consideration Art. 158 § 11;
3) appointment of the Management Board;
4) establishment of a Supervisory Board or an audit committee, if this is required by the law or by the articles of association;
5) entry in the register.

Upon the conclusion of the contract, only a so-called limited liability company in the process of formation is created. Subsequently, the Management Board must report the establishment of the company to a register court with jurisdiction over the registered seat of the company in order to enter it to the register. After registration, the company becomes a limited liability company – a legal person acquiring the obligations of the company in the process of formation (general succession). Shareholders in a limited liability company have equal rights and obligations, unless the articles of association provide for other solutions. A shareholder shall be entitled to a share in the profits specified in the annual financial report and allocated under a resolution of the general meeting for division (Art. 191).

The company is represented and managed by the Management Board. The Management Board consists of one or more members and is elected from among the shareholders or from outside their ranks. The members of the Board are appointed and dismissed at any time by a resolution of the shareholders. Each member of the Management Board may, without a prior resolution of the Management Board, manage affairs which do not exceed the ordinary affairs of the company. A limited liability company can appoint a proxy.79

79 Power of procuration is a power of attorney granted by an entrepreneur subject to the obligation to be entered into the register of entrepreneurs, which authorizes to perform judicial and extrajudicial activities associated with running a business.
This appointment requires the approval of all the members of the Management Board. Article 209 of the Code of Commercial Companies states that where there is a conflict between the interests of the company and those of a member of the Management Board, his spouse, relatives or relations up to the second degree and persons with whom he has personal relations, the member of the Management Board shall withhold from deciding on such matters and may request that this be recorded in the minutes. Art 211 of this Code states that a member of the Management Board may not, without the consent of the company, engage in a competitor business or participate in a competitor company as a partner in a civil law partnership or in a partnership, or as a member of a governing body of a capital company, or participate in another competing legal person as a member of its governing body. This prohibition also applies to participation in a competitor capital company where the member of the Management Board holds at least 10 percent of shares of that company or the right to appoint at least one member of its Management Board.

The Management Board may be controlled by a shareholder. In addition, in accordance with the mentioned Article 163 and Article 213, the articles of association may establish a Management Board or a Review Panel or both of these bodies. In companies with a share capital exceeding 500,000 PLN and with more than twenty five shareholders, a Review Panel or a Management Board should be established.

By means of a resolution (Art. 128) shareholders examine and approve reports of the Board, financial statements for the previous fiscal year, and grant discharge to the members of the company for the execution of their obligations. The company can be liquidated due to the reasons provided in the agreement, by a resolution of the shareholders or by means of moving the head office abroad.

Also bankruptcy or other legal causes may lead to liquidation. In case of the execution of a compensation against a creditor, if the execution against the company proved to be ineffective, the members of the Board are jointly responsible for the company’s obligations.

As in the case of joint-stock companies, most limited liability companies were registered in the Masovian Voivodeship (more than
116 thousand). Less (between 25 thousand and 116 thousand) were registered in the Pomeranian, Greater Poland, Lower Silesian, Silesian and Lesser Poland voivodeships. The least amount of limited liability companies (less than 8.5 thousand) were registered in the Warmian-Masurian, Podlaskie, Świętokrzyskie and Opole voivodeships.

3.6. Partnerships

A general partnership is lead by an enterprise under its own name, and each partner is responsible for the obligations of the company, without restrictions, with all their assets and jointly with other partners and with the company. The articles of association shall be concluded in writing, under pain of nullity, and should state the name and the registered office of the company, as well as the contributions of shareholders and their value, the object of activities, the duration
of the company, except when it is indefinite. Officially, a partnership is formed at the moment of entry into the register. Similarly to other partnerships, there is no intermediate form, the so-called company in the process of formation, as is the case for corporations. However, the persons who work on behalf of the company after its formation, but before its entry to the register, are jointly responsible for the obligations arising from this act. In accordance with Article 24 of the Code of Commercial Companies, the business name of a registered partnership shall include the surnames or business names of all the partners, or the surname or the business name of one or several partners and the additional words “spółka jawna” ("registered partnership"). The abbreviation “sp.j.” may be used in business dealings. The assets of a partnership (Art. 28 and 29) include any property contributed to the partnership and that acquired by the partnership in the course of its existence and each partner has the right to represent the partnership. The articles of association may provide (Article 30) that a partner is deprived of the right to represent the partnership or that he is authorized to represent the partnership only together with another partner or the holder of the commercial power of attorney. In the case of a general partnership, the company’s affairs may not be managed by third persons. Its affairs can be managed only by the partners.

When it comes to financial accounts, in accordance with Article 51 each partner is entitled to an equal share in the profits and participates in the losses in the same proportion, irrespective of the type and value of the contribution. A partner’s share in the profits defined in the articles of association also applies, in case of doubt, to his share in the losses. The articles of association may release a partner from participation in losses. There is also a possibility, as stated in Article 53, that a partner may demand every year a 5 percent interest on that partner’s capital share, even if the partnership has sustained a loss. The company may be liquidated for the following reasons:

1) the reasons set out in the articles of association;
2) a unanimous resolution of all partners;
3) a declaration of bankruptcy of the partnership;
4) the death of a partner or declaration of his bankruptcy;
5) termination of the articles of association by a partner or a creditor of a partner;
6) a final court judgment.\textsuperscript{80}

A professional partnership is a partnership created by partners for the purpose of pursuing a profession in a partnership which operates a business under its own business name. In accordance with Article 88, persons qualified to pursue the following professions may become partners in a partnership: advocate, pharmacist, architect, civil engineer, auditor, insurance broker, tax adviser, stock broker, investment adviser, accountant, physician, dentist, veterinary doctor, notary, nurse, midwife, legal adviser, patent attorney, property appraiser and sworn translator.

A limited partnership (Art. 102 of the Code of Commercial Companies) is a partnership whose purpose is to operate a business under its own business name, at least one partner of which is liable to the creditors for the obligations of the partnership without limitation (the general partner) and the liability of at least one partner (the limited partner) is limited. In other matters of a limited partnership, including the conclusion of the articles of partnership, provisions similar to the solutions in a general partnership apply. But the articles of partnership of a limited partnership must be concluded in the form of a notarial deed. The business name of the limited partnership shall include the surname of one or several general partners and the additional words “spółka komandytowa” (“limited partnership”). The abbreviation “sp.k.” may be used in business dealings. The surname of the limited partner may not be placed in the business name of the partnership. If the surname or business name of the limited partner is placed in the business name of the partnership, that limited partner shall be liable vis-a-vis third parties like a general partner. When it comes to financial commitments in a limited partnership, the limited partner is liable for obligations of the partnership vis-a-vis its creditors only up to the commendam sum. A limited partner participates in the profits of the partnership proportionately to his contribution made to

\textsuperscript{80} Ibidem, art. 58.
the partnership. The company is usually represented by the general partner; a limited partner may in fact represent the partnership only as an attorney. In accordance with Article 24, the death of a limited partner is not a reason for dissolving the partnership. The heirs of the limited partner designate one person to exercise their rights. Actions of the remaining heirs made prior to such designation are binding for the heirs of the limited partner.

A limited joint-stock partnership is a partnership whose purpose is to operate a business under its own business name, at least one partner of which is liable to the creditors for the obligations of the partnership without limitation (the general partner) and at least one partner is a shareholder (Art. 125). It is formed at the moment of entry into the register. The share capital of a limited joint-stock partnership shall be at least 50,000 PLN. The persons who sign the statutes are the founders of the partnership. The statutes should be signed by all general partners. In accordance with Articles 130 and 131 of the Code of Commercial Companies, the statutes of a limited joint-stock partnership should be drawn up in the form of a notarial act and include:

1) the name and seat of the company;
2) the corporate purpose;
3) the duration of the company, except when it is indefinite;
4) a description of the contributions made by each of the general partners and their value;
5) the share capital, the manner in which it is collected, the nominal value of the shares and the number of shares, with information as to whether the shares are registered or bearer shares;
6) the number of shares of each type and related entitlements, if shares of different kinds are to be introduced;
7) the surnames and first names or business names of the general partners and their seats, addresses or addresses for correspondence;
8) the organization of the general assembly and the Supervisory Board, if the law or the statutes provide for a supervisory board.
With regard to the legal relationship of general partners, the provisions of a registered partnership apply; with regard to other matters, the provisions of a joint-stock company apply. In accordance with Article 126 of the Code of Commercial Companies, the business name of a limited joint-stock partnership shall include the surnames of one or several general partners and the additional words “spółka komandytowo-akcyjna” (“limited joint-stock partnership”). The abbreviation “S.K.A.” may be used in business dealings. Written communications and commercial orders filed by a limited joint-stock partnership on paper and electronically, and the information published on the partnership’s websites, should include the following:

1) the business name of the partnership, its seat and address;
2) the registry court where the documents of the partnership are filed and the number of the partnership in the register;
3) the tax identification number (NIP);
4) the share capital and the paid-in capital.

The shareholder is only obligated to provide the performances set out in the statutes. The company is represented by general partners, who are responsible, without limitations, for the obligations of the company. The shareholder, as well as the general partner in a limited partnership can only be a delegate of the company. In accordance with Article 142, a Supervisory Board may be established in any limited joint-stock partnership. If there are more than twenty five shareholders, the creation of a Supervisory Board is obligatory. The members of the Supervisory Board are appointed and dismissed by the General Assembly, and a general partner or his employee may not serve as a member of the Supervisory Board.

If the statutes do not provide for other solutions, the general partner and shareholder participate in the profits of the partnership in proportion to their contributions made to the partnership. A limited joint-stock partnership can be liquidated in accordance with the regulations and for the following reasons:

1) the reasons stipulated in the statutes;
2) a resolution of the general assembly on the dissolution of the partnership;
3) a declaration of bankruptcy of the partnership;
4) the death, declaration of bankruptcy or withdrawal of the sole
general partner, unless the statutes provides otherwise.

3.7. Cooperatives

In Poland, cooperatives operate on the basis of the cooperative law\textsuperscript{81}. A cooperative, in accordance with the Act, is a voluntary association of an unlimited number of persons, with a variable composition and changing member funds, which conducts business activities in the interests of its members. In accordance with Article 3 of this Act, the property of a cooperative is privately owned by its members. In accordance with Article 6 of the Act, persons wishing to establish a cooperative (the founders) adopt the statutes of the cooperative, confirming its adoption by means of their signatures, and they choose cooperative bodies, whose selection, in accordance with the statutes, lies within the competence of the General Meeting or the Organizational Commission consisting of at least three persons. The number of the founders of a cooperative may not be less than ten if the founders are individuals, and not less than three if the founders are legal entities. In agricultural production the number of founders (physical persons) may not be less than five.

A cooperative has to conduct business activities on the basis of economic calculation, providing benefits to the members of the cooperative. Cooperatives can connect and divide. The liquidation of a cooperative, in accordance with Article 113, takes place with the expiry of the period for which the cooperative was created, or as a result of the reduction in the number of members to a value below the number indicated in the statutes, or as a result of matching resolutions of General Meetings voted by a majority of 3/4 of votes at two consecutive General Meetings with an interval of at least 14 days.

\textsuperscript{81} Act of 16 September 1982 – Cooperative Law (Journal of Laws from 2013, item 1443, as amended).
Graph 3.4 presents the distribution of cooperatives in 2015 in a territorial arrangement.

Most cooperatives were registered in the Masovian Voivodeship (more than 3 thousand) and in the Greater Poland Voivodeship (more than 2 thousand). The smallest number of these entities was in the Podlaskie, Świętokrzyskie, Opole and Lubusz voivodeships (less than 739 cooperatives in each of these voivodeships).

3.8. Housing cooperatives

A cooperative is a voluntary association of an unlimited number of persons, with a variable composition and changing member funds,

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82 Housing cooperatives may construct premises for rent or sale. M. Majchrzak, Metodyka tworzenia planów zarządzania nieruchomościami, Warsaw 2012, p. 34.
which conducts business activities in the interests of its members (Art. 1 of the law governing cooperatives) and satisfies their needs. In the case of a housing cooperative, the essential goal is to meet the housing needs (and other related needs) of its members and their families. The subject of activity of a cooperative is always precisely defined in its statutes.

The rules governing housing cooperatives are laid down, inter alia, in the Act of 16 September 1982 – the Cooperative Law 83, or in the Act on Housing Cooperatives of 15 December 2000, entered into force on 24 April 200184. Subsequently, this law was amended in 2007.85 The statutes of a cooperative usually include:

– the acquisition or construction of single-family or multi-family houses;
– helping the members of the cooperative in the construction of houses;
– the acquisition or construction of facilities and premises of functions other than the residential function;
– management of buildings, residential premises, commercial premises, objects of technical and social infrastructure;
– conducting other business activities which meet the statutory objectives of the cooperative and its members86.

Various kinds of premises are in the possession of housing cooperatives. The most common are residential premises (or of a mainly residential function), but cooperative resources also include commercial, service, administrative, office, cultural, educational objects, etc. Any real estate that is used for the statutory activities is considered to be a cooperative’s asset. In general, the assets of housing cooperatives include87:

84 Act of 15 December 2000 on Housing Cooperatives (Journal of Laws from 2001 No. 4, item 27, as amended).
85 Act of 14 June 2007 on Housing Cooperatives and on the Amendment of Certain Other Acts (Journal of Laws from 2007 No. 125, item 873, as amended).
86 M. Majchrzak, Metodyka... op. cit., p. 35.
87 Ibidem, p. 35.
– developed properties, used by cooperatives to conduct commercial, administrative, educational, social, cultural activities, etc. (for the purpose of the statutory goals);
– developed properties with technical infrastructure equipment necessary for the proper functioning of buildings and settlements;
– undeveloped grounds.

The bodies are:
– the General Meeting;
– the Supervisory Board;
– the Management Board;
– the Community Council.

The General Meeting is the highest authority. Its competencies – as well as the competencies of other bodies – are specified in the statutes. The second most important authority of a housing cooperative is the Supervisory Board.

3.9. Private partnerships

A private partnership is a form of deed, limited or not limited in time, in which, in accordance with the Civil Code (Art. 860), the partners commit to strive to achieve a common economic purpose by acting in a specified way, especially by making contributions. This deed is concluded in writing and should include the economic purpose for which the partnership has been established, as well as the principles of cooperation between the partners. Each partner must perform separate business activities (natural or legal persons) and inform the Central Registry and Information about Business Activity that he conducts business activities in the form of a private partnership. The partners also report the deed to the competent tax office, statistical office, and, in the case of hiring employees, to the Social Insurance Institution (ZUS). The assets of the partnership are the joint property of the partners. However, the partners are responsible for the company’s liabilities with all their property,
not just the assets of the company. The company may be liable for VAT, but the partners calculate their income taxes independently. The company ceases to exist in the case of expiry of its term, if it was created for a limited time, if one of the partners terminates the deed 3 months before the end of the fiscal year, or due to so-called other important reasons without the necessity of observing the 3-month notice. Graph 3.5 presents the distribution of private partnerships by voivodeships.

Graph 3.5. Distribution of private partnerships by voivodeships. Situation as of 30 June 2015.


In the case of private partnerships, most were in registered in the Masovian Voivodeship (more than 56.5 thousand), the Greater Poland, Lower Silesian, Silesian, Lesser Poland voivodeships (between 25.5 thousand and 56.5 thousand). The lowest level of private partnerships registered in mid-2015 can be found in the following voivodeships: Warmian-Masurian, Podlaskie, Świętokrzyskie, Opole and Lubusz (below 10 thousand in each voivodeship).
3.10. Natural person conducting business activities

In accordance with the Civil Code\textsuperscript{88} (Art. 43), this is an entrepreneur conducting business or professional activity on his own behalf. The launch of such business activities has been simplified. Most formalities are handled at the Municipality Office. Entry into the register of economic activities (Central Records of and Information about Business Activity) is an essential condition. Filling in the application for registration means registering in the register of entrepreneurs and applying to the Tax Office, Social Security, or KRUS, but does not mean that the entrepreneur does not have to visit all these institutions separately to complete the formalities associated with starting business activities.

\textbf{Graph 3.6.} Natural persons conducting business activities by voivodeships. Situation as of 30 June 2015.


\textsuperscript{88} Act of 23 April 1964 – Civil Code (Journal of Laws from 2015, items 4, 397, 539, 1137.)
An individual running a business is liable for his obligations with all his assets. The business is run under the name of the entrepreneur’s company, and he is required to put his surname and name in the name of the company. A business conducted by an entrepreneur may be liquidated due to his death or the decision to dissolve the business.

The highest business activity carried out by natural persons was reported in the Masovian Voivodeship (more than 500 thousand people). The lowest, as in the case of other legal forms, in the following voivodeships: Warmian-Masurian, Podlaskie, Świętokrzyskie, Opole, Lubusz (less than 123 thousand people in each of these voivodeships).

3.11. European companies

Another legal form, rarely used in Poland, is a European company. Such companies are created to bring together the organizational and technological culture of the EU, and to operate on the partnership principle. A European company (SE) is a European joint-stock company, whose share capital – of at least 120,000 EUR – is divided into shares. A European company, along with a European Economic Interest Group (EZIG) and a European Cooperative, belongs to the so-called cross-border companies. At the end of August 2013, there were only 2 European companies registered in Poland. The status of a European company is governed by the Council Regulation (EC) No 2157/2001 of 8 October 2001 on the Statute for a European Company (SE). In Poland, the legal regime of European companies is set out by the Act of 4 March 2005 on the European Economic Interest Group and joint-stock companies.

92 G. Maślach, Spółka europejska – szansa czy zagrożenie dla gospodarki komunalnej, [in:] Samorządowa gmina w nowoczesnym państwie, ed. G. Maślach, Publishing
In accordance with Regulation (EC) 2157/2001, a European company may be created by means of:
– merger of joint-stock companies;
– establishment of a European holding company (a limited liability company may participate in such a holding company);
– establishment of a European subsidiary;
– conversion of a joint-stock company into a European company;
– establishment of a daughter European company.

The low popularity of European companies in Poland is associated, among other things, with:
– relatively high costs of creation;
– time-consuming procedures;
– insufficient knowledge about European companies among entrepreneurs;
– limited methods of creating European companies and no direct ability to create European companies by limited liability companies;
– the cross-border requirement, which is difficult to meet, and in particular the requirement to have a subsidiary or a branch in another Member State for at least two years before the creation of a European company.93

3.12. Condominiums

The basic legal act, which determines how condominiums operate is the Act on Ownership of Premises94. This Act refers to the issues

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of co-ownership more broadly than the provisions of the Civil Code (Art. 195–221 of the Civil Code)\(^95\). In accordance with Article 6 of the Act on Ownership of Premises, a condominium is considered to be all owners who have premises in a specific property. Therefore, all the owners are responsible for the liabilities arising from the joint ownership, proportionally to their shares in the common part. This community, however, is a so-called legal entity without corporate status, which means that it has no legal personality, but can – on the basis of the Act – acquire rights, enter into obligations, sue, and be sued\(^96\).

In common buildings there are mainly residential premises, but also the owners of commercial premises may be the members of a condominium. In the early stages of creating condominiums, the owners were municipalities or the State Treasury. These entities usually had their own offices or commercial premises in residential buildings. Over time, these commercial premises became privately owned. Also garages are considered to be commercial premises.

A condominium is created automatically, as soon as the first premise is separated. This means that when the first premise is sold by the developer, the State Treasury, the department of labor or by the municipality to the tenant in a municipal building, this building becomes a condominium. The sale must be made in the form of a notarial act, and a land registration must be established.

Jointly owned property includes land (it can be a part of the condominium’s ownership or in perpetual usufruct) and those parts of the building and technical devices that are not intended for use by a specific owner. The common parts of a given property belong to all the landlords, proportionally to the usable area of their premises.

The way of managing a jointly owned property is quite flexible. For example, a condominium, on the basis of Article 18 of the Act, has the right to determine the method of management in the agreement. Information about this decision has to be entered in the land

\(^95\) Act of 23 April 1964 – Civil Code (Journal of Laws from 1964 No. 16, item 93, as amended).

register. Apart from that, the owners may entrust the management of the jointly owned property to a natural or legal person on the basis of an agreement. A manager may belong to the condominium or be from outside the condominium. In the absence of contractual provisions, other legal acts govern these matters. For example, the Act on Ownership of Premises, depending on the number of units (separated and non-separated), divides condominiums into small and large condominiums. Small condominiums have 7 units, large ones have more than 7 units. Small condominiums are governed by the provisions of the Civil Code\(^97\) and the Code of Civil Procedure\(^98\) relating to co-ownership. In small condominiums, the management does not have to be selected from among the members. There is also no obligation to entrust the management to other persons, although the law does not prohibit that if all the members of the community decide to entrust the management to other persons. As M. Majchrzak notes, small communities most often do not have a formal management, and the owners are directly involved in managing their jointly owned property. In accordance with the provisions of the Civil Code, each owner is obliged to cooperate. Based on the will of the majority of owners with most shares activities are performed belonging to ordinary management, but the consent of all the members is required to perform an activity exceeding the scope of ordinary management. In practice this is often difficult to achieve, which is why some small condominiums do not perform major renovations or modernizations, because they are blocked by one or two co-owners. Of course, co-owners with the majority of shares may bring such a case to court, but not many condominiums follow this path\(^99\).

In condominiums with more than 7 units, i.e. large condominiums, it is mandatory to establish a management. A management is established to lead the condominium within the framework of the

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\(^{97}\) Act of 23 April 1964 – Civil Code, art. 195–209 (Journal of Laws from 1964 No. 16, item 93, as amended).


so-called ordinary management. It also represents the condominium
to the outside, for example in offices or courts. Matters exceeding
the normal scope of the management remain the responsibility of
the owners.

3.13. Associations

The legal basis for defining the functioning of associations is the
Act of 7 April 1989 on Associations\textsuperscript{100}. An association, in accordance
with the Act, is a voluntary, self-governing, long-term, non-profit
organization. As T. Niepytalski notes, there are ordinary or registered
associations. An ordinary association usually has no legal personality
and may be created by at least 3 individuals\textsuperscript{101}. An ordinary asso-
ciation cannot conduct business activities. Business activities can
be conducted by registered associations. Such an association must
have at least 15 members, who adopt statutes, select the founding
committee, and register the association. It operates “according to the
general rules set out in separate provisions. Income from business
activities serves to realize the statutory goals and may not be divided
among the members”\textsuperscript{102}.

3.14. Consortiums

A consortium is the last proposed legal and organizational form. A con-
sortium is a union of companies or banks from different countries,
established in order to organize international financial operations
(e.g. loans) or to acquire control over a branch of the industry\textsuperscript{103}.

\textsuperscript{100} Journal of Laws from 1989 No. 20, item 104.
\textsuperscript{101} T. Niepytalski, Konsorcjum. Umowa o współpracy gospodarczej, Dłfin S.A.,
\textsuperscript{102} Ibidem, p. 15.
\textsuperscript{103} W Kopaliński, Słownik wyrazów obcych i zwrotów obcojęzycznych, Wiedza
This definition is developed by T. Niepytalski, who describes a consortium as an agreement between a group of companies (banks), who combine their funds to perform a specific project. Usually, a consortium is established to create a group of companies (banks) that is able to realize a large investment project (as a party). From the legal point of view, a consortium fulfils the requirements of a partnership. It may work well when implementing undertakings related to renewable energy sources. It can include different legal entities, from individuals to commercial law companies. At the same time, it is a form relatively safe for its members, because they do not lose their legal independence, as is the case when a consortium becomes a commercial law company.

Summary

The proposed organizational and legal forms do not cover all the forms available in Poland. They also have not been discussed in great detail. Only a general outline has been presented in order to show their opportunities. This paper includes only those forms which, in the opinion of the author, may constitute public property or be used for the provision of services for the public sector. Therefore, other forms of foundations have been omitted, and the forms of holdings and clusters have not been presented. Each of the presented forms may be useful under certain conditions, depending on the scale of the project, financial capacity, and willingness of cooperation between potential partners.
Municipal waste management in Poland as an example of the implementation of public tasks

4.1. Introduction

The dynamic growth of consumption leads to increasing amounts of municipal waste. Municipal waste is defined as waste generated by households, with the exception of the end of life vehicles, as well as waste not containing hazardous components, generated by other waste producers, which, because of its nature or composition, is similar to waste from households. The sources of municipal waste are:

- households;
- objects of infrastructure (public buildings, trade and services, etc.).

The growing amount of municipal waste contributes to the creation of many problems in all countries around the world. Prevention of excessive production, rational utilization and, ultimately, safe disposal are one of the most important challenges facing modern societies and economies. We should bear in mind that both the quantity and morphological composition of municipal waste to a large extent depend on the place of its creation and, above all, on the wealth of the local community. The amount of municipal waste collected per

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capita very clearly depends on the economic condition of individual local economies or regions\textsuperscript{106}. Therefore, the amount of municipal waste and waste streams constitute an indicator of the level of socio-economic changes taking place in individual regions.

Municipal waste management falls within the area of special interest of the European Union, which translates into legal, organizational, and financial frameworks for conducting this economy, both in the Community and in Poland.

4.2. Legal basis for the functioning of municipal waste management in Poland and in the European Union

Efficient waste management is the goal of environmental actions of the European Union. The first legislation on waste management emerged in the European Community in the 1970s, and over the past years, these regulations were constantly tightened. As a result, quantitative targets were established and a series of technical and procedural standards were issued.

The environmental policy of the European Union is based on the conviction that economic growth, social progress, and environmental protection equally contribute to improving the quality of life. What is more, they are interlinked. Therefore, we should ensure that they are balanced in such a way so as to allow for sustainable development in Europe and around the world, in other words – a development that will also allow future generations to enjoy the benefits of the high quality of life\textsuperscript{107}.

When analyzing the problem of municipal waste in the EU, it should be noted that the production of excessive amounts of municipal waste, next to the problem of climate change, loss of biodiversity,

\begin{footnotesize}
\begin{itemize}
\item\textsuperscript{106} Ibidem, p. 10.
\end{itemize}
\end{footnotesize}
threats to human health resulting from environmental pollution, and the use of natural resources, is one of the most important challenges in the field of environmental protection\textsuperscript{108}.

Municipal waste management is therefore a priority of the environmental policy of the European Union, where great importance is attached to the successive implementation and improvement of the rules governing the EU strategy of waste management. These principles include, in particular\textsuperscript{109}:

\begin{itemize}
\item prevention of waste generation (measures preventing and reducing the production of waste – recycling or landfilling should be used only when it is not possible to prevent the production of waste);
\item recycling of waste (used when it is impossible to prevent the production of waste – waste should be recovered or disposed of in such a way so as to not pose a threat to human health and the environment);
\item maximal limitation of landfilling (landfilling of municipal waste should be used as a last resort);
\item remediation activities (taking action aimed at restoring degraded areas to their optimal state);
\item safe transport of waste (increasing the security of transport of municipal waste while reducing the risks associated with moving waste).
\end{itemize}

The EU policy on environmental protection is to enable the achievement of the following objectives:\textsuperscript{110}

\begin{itemize}
\item “... preserving, protecting and improving the quality of the environment;
\item protecting human health;
\item prudent and rational utilization of natural resources;
\end{itemize}

\textsuperscript{108} Ibidem.

\textsuperscript{109} J. Klatka, Gospodarowanie odpadami komunalnymi, Wolters Kluwer Polska, Warsaw 2012, p. 16.

promoting measures at international level to deal with regional or worldwide environmental problems, in particular dealing with climate changes”.

The realization of these objectives and strategic goals requires the adoption of a number of structural, organizational, financial and legal solutions\(^{111}\). These solutions are particularly reflected in the practice of municipal waste management – this problem still remains unsolved in many regions of the European Union.

The main obligations associated with waste management and imposed on the Member States by EU legislation can be summarized in the following groups\(^{112}\):
- “... preparation of planning documents;
- issuance of administrative decisions;
- achievement of specific levels (collection, recovery, including recycling, reduction of the amount of biodegradable waste deposited in landfills);
- meeting the requirements for the construction and operation of waste management installations;
- meeting the requirements for handling waste;
- control over compliance;
- preparation of reports for the European Commission”.

- waste generated per capita is in absolute decline. Recycling and re-use of waste are economically attractive options for public and private actors due to widespread separate collection


and the development of functional markets for secondary raw materials;
– more materials, including materials having a significant impact on the environment and critical raw materials, are recycled;
– waste legislation is fully implemented;
– illegal shipments of waste have been eradicated;
– energy recovery is limited to non-recyclable materials, landfilling is virtually eliminated and high quality recycling is ensured”.113

The Landfill Directive contains a legal requirement for Member States to progressively reduce the percentage of biodegradable municipal waste disposed of in landfills. The percentage reductions are based on a baseline calculated at 1995 levels. Subject to derogations applicable to a number of Member States in both Western Europe and the CEE, the targets specified in Article 5 of the Landfill Directive are what Member States must achieve or have achieved:
– reduction of 75% by 2006;
– reduction of 50% by 2009;
– reduction of 35% by 2016114.

Article 5 of the Landfill Directive provided that Members States which in 1995 disposed of more than 80% of their collected municipal solid waste (MSW) in landfills, could postpone the attainment of the above targets by a period not exceeding four years. Bulgaria, the Czech Republic, Poland, Romania, Slovakia and Slovenia landfilled more than 80% of MSW in 1995 and hence made use of the four year derogation period.

113 Communication from the Commission to the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions Roadmap to a Resource Efficient Europe, COM/2011/0571 final, p. 7.
The main motive for the implementation of the Waste Framework Directive was striving to establish community standards for the protection of human health and the environment against harmful effects caused by collection, transport, disposal, storage, and landfilling of waste, and at the same time supporting the recovery of waste and the use of recovered materials in order to preserve natural resources. This is the reason for the provisions of the Framework Directive, which acts as a general regulation (*lex generalis*) in the European law of waste management\textsuperscript{115}.

The Framework Directive imposes on Members States the obligation to draw up waste management plans and waste prevention programs. What is more, Member States are obliged, by 2015, to establish systems of separate collection of waste, at least for paper, metal, plastic and glass. In addition, by 2020, Member States should ensure that:

- a minimum of 50% of municipal waste, at least paper, metal, plastic and glass, is subjected to preparation for re-use and recycling;
- a minimum of 70% of construction, non-hazardous waste is subjected to preparation for re-use, recycling and other recovery methods.

Another important directive is the European Parliament and Council Directive 94/62/EC of 20 December 1994 on packaging and packaging waste (the so-called Packaging Directive). The Packaging Directive sets targets for recovery and recycling of packaging and packaging waste. By 2008 (or later, if derogation was granted), the Member States were to achieve:

- recovery (including by incineration with energy recovery) of at least 60% of packaging waste weight, and;
- recycling of at least 55%–80% of packaging waste weight.

\textsuperscript{115} A. Wasilewski, Podstawowe zasady gospodarki odpadami, Europejski Przegląd Sądowy, August 2008, pp. 4–5.
The following recycling targets apply to individual packaging waste streams:
- glass – 60%;
- paper – 60%;
- metals – 50%;
- plastics – 22.5%;
- wood – 15%.

The waste legislation and policy of the EU Member States shall apply as a priority order in the waste management hierarchy (see Figure 4.1). This “waste management hierarchy” requires waste prevention to be prioritized and promoted, and disposal (mainly landfilling) to have the lowest priority and to be minimized\(^\text{116}\). According to the European hierarchy of waste management, prevention of excessive production should be used first. When there is no possibility to reduce the production of waste, its rational utilization and safe disposal (last resort) should be strived for. It should also be noted that, in the hierarchy of ecological preferences, disposal, as an environmentally friendly method of managing waste, is always placed lower than its re-use.

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Acting in accordance with the proposed hierarchy is a way to achieve a number of socio-economic benefits. The benefits of reducing waste and reusing things include:

- prevents environmental pollution;
- saves energy;
- saves money (private and public);
- reduces greenhouse gas emissions;
- helps sustain the environment for future generations;
- reduces the amount of waste that will need to be recycled or will need to be sent to incinerators or landfills;
- allows products to be used in different ways.

There are significant differences in the field of waste management between Member States. According to a report published by the Eurostat, the 6 most advanced Member States (Belgium, Denmark, Germany, Austria, Sweden and the Netherlands) landfill less than 3% of municipal waste. On the other hand, the 9 most backward, in terms of municipal waste, Member States landfill more than 75% of municipal waste.

Data relating to waste management in selected EU countries is presented in Tables 4.1, 4.2, 4.3 and 4.4.

Table 4.1. Waste generated (Kilograms per capita).

<table>
<thead>
<tr>
<th>GEO/TIME</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
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</tr>
<tr>
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<td>318</td>
<td>320</td>
<td>308</td>
</tr>
<tr>
<td>Denmark</td>
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<td>741</td>
<td>693</td>
<td>673</td>
<td>718</td>
<td>668</td>
</tr>
<tr>
<td>Germany</td>
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<td>589</td>
<td>592</td>
<td>602</td>
<td>614</td>
<td>611</td>
</tr>
<tr>
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<td>551</td>
<td>542</td>
<td>510</td>
<td>485</td>
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</tr>
<tr>
<td>France</td>
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<td>535</td>
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<td>457</td>
<td>454</td>
<td>430</td>
<td>403</td>
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<td>571</td>
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<tr>
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<td>329</td>
<td>324</td>
<td>335</td>
<td>327</td>
<td>324</td>
</tr>
</tbody>
</table>

The amount of municipal waste collected in Poland per 1 inhabitant/per year/in kg accounts for about half the amount per capita in the richest countries of Europe, e.g., Germany or Denmark. In addition, the way of dealing with collected municipal waste is radically different (see Tables 4.2, 4.3 and 4.4).

**Table 4.2. Total waste treatment (Kilograms per capita).**

<table>
<thead>
<tr>
<th>GEO/TIME</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
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</tr>
<tr>
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<td>303</td>
<td>310</td>
<td>325</td>
<td>312</td>
<td>313</td>
</tr>
</tbody>
</table>


**Table 4.3. Deposit onto or into land (Kilograms per capita).**

<table>
<thead>
<tr>
<th>GEO/TIME</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
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<tr>
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<td>251</td>
<td>250</td>
<td>262</td>
<td>245</td>
<td>240</td>
</tr>
</tbody>
</table>

An innovative direction of dealing with waste management is processing waste into energy. As can be seen from the statistical material, Poland, which in the years 2007–2010 practically did not use municipal waste to produce energy, still has a lot to do in this respect. Transformation of municipal waste into energy in selected countries of the European Union is presented in the table below.

Table 4.4. Incineration/energy recovery (Kilograms per capita).

<table>
<thead>
<tr>
<th>GEO/TIME</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
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<td>0</td>
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</tr>
<tr>
<td>Slovakia</td>
<td>22</td>
<td>29</td>
<td>33</td>
<td>32</td>
<td>34</td>
<td>30</td>
</tr>
</tbody>
</table>


When analyzing the issues of municipal waste, it should be noted that, depending on the type of waste, various methods for management and disposal are recommended. Table 4.5 shows waste typology, source, and policy responses.

Analyses of municipal waste management systems should recognize charging systems. Currently in the economy we find the following options:

- “tax system:
- for any waste type;
- for special purposes (e.g. landfill tax for contaminated site remediation);
- fee system:
– in general (e.g. the municipality sets certain fees and charges residents for residual waste per container, per household, per square meter of living space, …);
– for specific purposes (e.g. bulky waste, integrated disposal fee for refrigerators, fluorescent tubes, packaging, …);
– deposit system:
– for certain waste types (e.g. refillable glass or plastic bottles);
– full cost system (all services covered):
The main cost factors are:
- legislation on waste management (local, regional, international);
- actual collection quantities;
- kind and performance of collection system;
- kind and performance of sorting system;
- kind and performance of recycling services;
- prices for collection, sorting, and recycling services;
- subsidies and penalties in the waste management system;
- prices for treatment services (recovery, landfill);
- revenues from recycled materials;
- cost allocation principles.\textsuperscript{118}

The experience of Member States shows that a combination of the following instruments is the best way to improve waste management\textsuperscript{119}:
- fees for landfilling and incineration, or landfilling and incineration ban – the results leave no doubt: landfilling rates and incineration rates decreased in the countries in which they were banned or as a result of higher costs due to the imposition of charges;
- charging systems proportional to the amount of waste discarded proved to be very effective in preventing the production

\textsuperscript{117} H. Koller Financing of Municipal Waste Management – Different Approaches and Examples, 2012.
\textsuperscript{118} Ibidem.
of waste and encouraging citizens to participate in separate waste collection;

– producer responsibility systems enabled several Member States to collect and redistribute the funds necessary to improve separate collection and recycling, but the efficiency and transparency vary greatly between Member States and depend on the sources of waste, so these systems require meticulous planning and monitoring.

4.3. Municipal waste management in Polish municipalities

Poland still remains a backward country among all European Union countries when it comes to municipal waste management. We do not only landfill the most, but we also have the lowest level of energy recovered from waste.\(^{120}\)

All kinds of processes associated with spatial, demographic and economic development lead to the multiplication of threats to human health and the environment. In order to solve these problems, the state submitted its powers to municipalities, making them responsible for meeting the needs of community residents.

The Law on Local Government introduced the self-management system in municipalities, also when it comes to communal hygiene in municipalities. Satisfying the collective needs is the responsibility of the municipality, and these needs include:

– spatial order, real estate management, environmental protection, nature preservation, and water management;

– water supply, sewerage services, removal and treatment of waste water, maintenance of cleanliness and order of sanitation facilities and landfills, disposal of municipal waste;

– municipal greenery and tree plantings.

\(^{120}\) Wysypiska śmieci rosnącym problemem, http://www.egospodarka.pl.
When analyzing the basic principles of waste management in Poland, special attention should be paid to the following law: The Environmental Protection Law of 27 April 2001\textsuperscript{121}, which introduced the following general principles:

- the principle of an integrated approach to environmental protection as a whole (protection of one or more environment elements should be carried out with regard to the protection of other elements);
- the principle of prevention (the one who pursues activities that might adversely affect the environment is obliged to prevent this negative impact);
- the precautionary principle (the one who undertakes activities whose environmental impact is not yet fully recognized must, guided by caution, take all possible preventive measures);
- the polluter pays principle (the one who causes harm to the environment, in particular by its pollution, bears the costs of removing the effects of pollution, just as the one who may cause damage to the environment, in particular by its pollution, bears the costs of pollution prevention);
- the principle of citizen access to information on the environment and its protection;
- the principle of taking into account the requirements of environmental protection and sustainable development when developing policies, strategies, plans and programs;
- the right of citizens to participate in proceedings aimed at issuing a decision in the field of environmental protection or at adopting a project of a policy, strategy, plan or program, including those related to waste management;
- the principle that a decision taken in violation of environmental regulations is void;
- the principle that the users of the environment and environmental authorities are obliged to use reference methodologies,

\textsuperscript{121} The Environmental Protection Law of 27 April 2001 (Journal of Laws No.62, item 627, as amended.)
if such methodologies have been determined on the basis of laws, but if an obligation to use reference methodology has been implemented on the basis of laws, it is permitted to use other methodologies, provided that the results obtained are proven to be equivalent.

Municipal waste forms an essential part of the waste generated in a municipality. Among this waste special attention is paid to, next to hazardous waste, biodegradable waste and selective municipal collection, because the task of a municipality is to create conditions for the functioning of selective collection and recovery of waste. The following conditions are required for this to happen:

- restricting landfilling of biodegradable municipal waste;
- separating hazardous waste from municipal waste;
- achieving recovery and recycling of packaging waste.

Poland witnesses a steady growth of interest in waste management, both in terms of technology minimizing the amount of waste and technologies associated with the disposal and economic exploitation of waste. This is associated with a number of reasons, including the need to comply with international obligations.

An expression of the upcoming changes is the Act of 1 July 2011 on maintaining cleanliness and order in municipalities, as well as other Acts. The abovementioned Act amended 9 other Acts, and the most significant changes occurred in the Act of 13 September 1996 on maintaining cleanliness and order in municipalities and in the Act of 27 April 2001 on waste.

In Poland, in 2010, 10330.40 thousand tons of municipal waste were collected (compared to 2004 this is an increase of approximately 5%). The largest amounts of municipal waste [thousand tons] were collected in the Silesian Voivodeship (1 551.67), the Masovian Voivodeship (1 398.76) and the Greater Poland Voivodeship (1044.82), while the smallest amounts in the Świętokrzyskie

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Voivodeship (199.00), the Opole Voivodeship (268.39) and the Podlaskie Voivodeship (274.93). In the years 2004–2014, the most dynamic changes were recorded in the Masovian Voivodeship, where there was a significant loss in the amount of waste collected, and in the Silesian Voivodeship, where the amount of waste collected grew rapidly, especially between the years 2010 and 2014 (increase of 200.24 thousand tons) (Table 4.6).

Table 4.6. Total waste collected per year in thousand tons.

<table>
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<tr>
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</table>

The regulatory changes radically affected the percentage of the population covered by municipal waste collection. Currently, all residents of the country are covered by the system of municipal waste collection (see Table 4.7).

Table 4.7. Percentage of population covered by municipal waste collection [%].

<table>
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The total weight of separately collected waste increased from approximately 243.37 thousand tons in 2004 to approximately 2049.00 thousand tons in 2014. In 2014, 411.00 thousand tons of glass were collected separately for the purpose of recycling (20.1% of the total waste collected separately). The amount of separately collected paper and cardboard amounted to 240.48 thousand tons (11.7% of the total waste collected separately). The amount of
biodegradable waste collected stood at 583.67 thousand tons (28.48% of the total waste collected separately) and plastics amounted to 314.18 thousand tons (15.33% of the total waste collected separately) (see Table 4.8).

Table 4.8. Total waste collected separately in the years 2004–2014 (thousand tons).

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<td>137.45</td>
<td>364.72</td>
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<td>70.76</td>
<td>73.63</td>
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</table>


The share of separately collected waste in the total amount of collected municipal waste increased from 2.5% in 2004 to 19.8% in 2014. In the case of municipal waste collected separately in households, the percentage of waste collected separately compared to the total amount of waste increased even more, by 18.7% (from 2.5% in 2004 to 21.2% in 2014).
2004 to 21.2% in 2014). This positive tendency was observed in all Polish provinces (see Table 4.9).

**Table 4.9.** Waste collected separately in relation to total waste – waste from households.

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When analyzing the issues of waste management, particular attention should be paid to issues related to the collection and processing of mixed waste\(^{124}\). As the analysis of the statistical material shows, in the years 2006–2014 both the amount of mixed waste collected within a year and the share of waste deposited in landfills in the amount of collected mixed waste were decreasing systematically. These favorable trends were recorded in all provinces (see Table 4.10).

\(^{124}\) Mixed municipal waste is defined as waste collected during the year, without waste collected separately and selected from dry fraction.
Table 4.10. Mixed waste collected per year: total per capita, and the share of waste deposited in landfills in the amount of collected mixed waste.

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<th>Per capita – total</th>
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<tr>
<td>Warmian-Masurian Voivodeship</td>
<td>226.8</td>
<td>228.0</td>
</tr>
</tbody>
</table>

Due to the decreasing amount of municipal waste deposited in landfills and the need to adapt municipal landfills to the technical and organizational requirements under the law, the number of active landfills has been declining systematically for several years. At the end of 2014, 394 landfills receiving municipal waste were active. These landfills occupied a total area of over 1972 hectares\textsuperscript{125}.

Table 4.11. Wild landfills – existing – as of 31 December.

<table>
<thead>
<tr>
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<td>134</td>
<td>125</td>
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<td>42</td>
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<td>34</td>
</tr>
</tbody>
</table>


The growing number of wild landfills is still a serious problem of waste management in Poland, because this practice is the reason for damage to the environment and adversely affects the aesthetics of

\textsuperscript{125} Local Data Bank, www.stat.gov.pl.
the environment. By the end of 2013 there were 2791 wild landfills in Poland\textsuperscript{126}. It should also be noted that in recent years there has been no significant progress in solving the problem of wild landfills (see Table 4.11).

Waste in Poland is still treated as trash and unnecessary ballast that should be gotten rid of. The best solution is storing waste in landfills away from the city, without much concern for environmental aspects. Meanwhile, modern methods make it possible to not only eliminate the harmful effects of waste on the environment, but also to gain significant economic benefits\textsuperscript{127}.

The model of municipal waste management currently functioning in Poland is incompatible with EU’s waste hierarchy, according to which landfilling is the least desirable method. It is also incompatible with EU’s targets for the reduction of biodegradable municipal waste transferred to landfills. That is why Poland is still seeking an effective model for municipal waste management. Undoubtedly, an interesting solution is the introduction of integrated waste management.

4.4. Integrated waste management in the light of the Act on maintaining cleanliness and order in municipalities – recommendations

Integrated waste management primarily means a cogeneration waste incineration plant or a gasification plant. These are modern solutions organizing waste management in cities. The amended Act on maintaining cleanliness and order in municipalities creates a so-called quasi-market that prefers the cheapest collection and processing of municipal waste. Modern solutions, unfortunately, generate investment expenditures. These expenditures, in accordance with cost analysis, should be returned to the investor in the form of depreciation.

\textsuperscript{126} Local Data Bank, www.stat.gov.pl.
\textsuperscript{127} Wysypiska śmieci rosnącym problemem, http://www.egospodarka.pl.
The Regional Municipal Waste Processing Installation (RIPOK – Polish abbreviation) can produce heat and electricity in cogeneration that, when sold to the grid, increase revenues. In the optimistic scenario, it is expected that these revenues will cover the costs to such an extent that it will be possible to reduce the rate of fees for waste collection. The Act, however, does not favor these solutions.

According to Minister Ostapiuk from the Ministry of the Environment, it was impossible to provide the country with the right amount of Regional Municipal Waste Processing Installations (RIPOK) (including the modern ones – author’s note). Local tensions emerged. There are regions where there are too many of these installations – the Lesser Poland Voivodeship, and regions where there are not enough of them – the Masovian Voivodeship. Interestingly, the most difficult and unfavorable situation prevails in the regions where there are too many of these installations. The race for waste locally leads to an unreasonable decrease in prices and decline in the quality of services. Even more reasons for not using modern and integrated solutions. The Minister signaled earlier that a part of the mechanical-biological system will have to disappear from the market if it will not change its profile and will continue to process waste to “waste” – only qualified in another way. In addition, the reporting system is broken. The Ministry wants to simplify reporting procedures associated with waste management. But we are still trailing behind, which worries experts. In particular the issue of achieving the objectives is affected. In accordance with the national program, in 2013 municipalities should have achieved the level of 12% recovery and recycling. By 2020, we should recover and recycle 50% of plastics, metals, paper and glass. Until then, also the biodegradable waste mass transferred to landfills should be significantly reduced.

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Politicians and experts differ in their assessments of the present condition and the future of the national waste management system. According to E. Górnicki, they are silent when it comes to one particular issue. This issue deals with the need to repair the economic engine, the Act on maintaining cleanliness and order in municipalities, and the effects that are caused by the public fee system. This issue is invisible to both decision makers and reviewers. It is a system of flat-rate fees that comes straight from the planned economy. It is a pity that this subject is missing in the discussions and debates summarizing the second anniversary of waste reforms\textsuperscript{131}.

We need a thorough reconstruction of the economic mechanism of municipal waste management. We should consider going back to the idea of the law on municipal waste management proposed by prof. J. Mikuła, the former Deputy Minister of Regional Development, which takes into account the mechanism of a civil fee. One of the elements of this concept, discussed in 2008, was the division of tariff charges into a logistic part (collection and transport) and a processing part. The residents and companies of a municipality would know the real costs. It would also be possible to vary the rate of the fee in accordance with the accumulation index, which rewards selective collection at the source, also in high-rise constructions. It would also be possible to consider the requirement associated with the performance of an installation, e.g. by taking into account the degree of production capacity use and costs, which, by definition, would prevent the construction of inefficient and unnecessary installations. We should also consider the city approach – formally incorporate waste management into the system of urban management\textsuperscript{132}. To this end, the issues of waste management should be transferred to the competent ministries dealing with urban infrastructure. Such a solution would prefer modern and integrated installations which, without unnecessary costs of transport and on a constant basis, would process waste into electricity and heat.

\textsuperscript{131} Ibidem, p. 5.
\textsuperscript{132} Ibidem, p. 5.
Conclusions

The transformations in Poland led to more interest in the adaptive processes in the surroundings, including a new dimension of integration processes at various levels. In Poland, the development processes were influenced not only by internal changes, but also by global ones.

The main goal of the global processes was to increase the sphere of influence of various businesses that were changing into multinationals. That caused an increased free flow of capital surplus within the global economy. Therefore, the political transformation in Poland required all those conditions to be taken into consideration in planned development processes that became a common sphere of cooperation in Europe and in the whole world.

It must be emphasized that the political transformations in Poland were complex ones and required a reorganization of the traditional state economy and the adjustment of the general conditions of functioning to those in Europe in particular. This modus operandi also resulted from the planned accession of Poland to the European Union, which made it necessary to implement adaptive processes in a number of areas of negotiation. Under those conditions, the local government changed its status. Local communities became rightful participants in public life, and the institutionalized forms of activities of local government bodies gave those communities extensive decision-making and power rights, also in financial terms.
The public sector changed its rank at the state, regional and local level. It included many issues related to the functioning of local government bodies. The financial economy started playing an important role; it used the finances accumulated in the form of budgets. The budget economy of the state and local government bodies was aimed at the performance of a growing number of tasks, which appeared as a result of the transformation processes. The conducted research shows that the expenses connected with providing public services increased in the analyzed period, although in the new political system it was impossible to remove the infrastructural barriers and limitations.

The transformation processes also caused far-reaching changes in the legal and organizational functioning of various entities and organizational units in the public sector. The financial autonomy and the necessity to perform a certain volume of tasks forced organizational changes that served the introduction of order and discipline into the public finance sector. As a result, the current forms of business activity in the public sector changed considerably. A common solution was to search for a possibility to implement such legal and organizational solutions in those entities which were to be applied only in the real economy in the future. It is mainly about the possibility of establishing capital companies.

A very good example of the changes observed during the transformation processes is municipal waste management in Poland. It underwent the most extensive and spectacular changes in the transformation period. Those changes were visible in the mentality of society, which included a shift in the attitude towards waste, and then in the progress towards serious research and analyses on recycling and managing waste. It should be emphasized that the changes in the discussed area of interest were caused by the implementation of economic and organizational solutions borrowed from countries with more advanced solutions, and were the result of the introduction of typically Polish programs. As a result, the waste management industry became interesting for private companies, which saw a source of profit in it. However, the most important aspect of the reorganization
of municipal waste management included environmental issues, measured by the amount of waste at the disposal sites, the amount of recycled waste, etc.

The system transformation in Poland showed a need for reforms in many areas of social life. The public sector is one of the areas where new management and financial mechanisms may increase the rationality and effectiveness of the use of public resources, both objectively and financially. There is no doubt that in the area of public services great results have been achieved on all competence levels and in a very broad spectrum of services.

Despite the unquestionable positive effects, there is still a need for new development projects and mechanisms for managing social and economic processes that are the domain of entities and units of the public sector. It appears that priority goes to increasing the efficiency of the use of resources and the effort to rationalize the economy, taking into consideration the changing organizational, legal and economic conditions in today’s world.

Krzysztof Jarosiński
Grzegorz Maśloch
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