

Alina Zrobek-Rozanska¹, Maria Trojanek², Sabina Zrobek³

LOCAL AUTHORITIES' ACTIVITIES AIMING AT ATTRACTING PRIVATE INVESTMENTS: EFFECTS, BARRIERS AND OPPORTUNITIES

The aim of the paper is to analyze determining factors and assess effects of activities undertaken by local authorities aiming at creating attractive location for private investments. The study covered selected Polish communes divided into the groups of urban, urban-rural and rural communes. The analysis was conducted with the use of agglomerative clustering analysis and comparative methods. The authors assessed effects, described barriers and introduced proposals how to improve the efficiency of local authorities' activities.

Keywords: local authorities; private investments; cluster analysis.

Аліна Зробек-Розанська, Марія Троянек, Сабіна Зробек

ДІЯЛЬНІСТЬ МІСЦЕВОЇ ВЛАДИ ЩОДО ЗАЛУЧЕННЯ ПРИВАТНИХ ІНВЕСТИЦІЙ: ВПЛИВИ, БАР'ЄРИ ТА МОЖЛИВОСТІ

У статті проаналізовано чинники, що визначають та оцінюють вплив діяльності органів місцевої влади щодо залучення приватних інвестицій. Польські гміни (територіальні одиниці) у дослідженні поділено на міські, напівміські та сільські. При аналізі даних використано методи порівняльного аналізу та агломеративної кластеризації. Оцінено вплив зусиль місцевої влади по залученню інвестицій, описано бар'єри у цій діяльності та внесено пропозиції щодо підвищення ефективності місцевого самоуправління у даній сфері.

Ключові слова: органи місцевого самоврядування; приватні інвестиції; кластерний аналіз.

Табл. 1. Літ. 25.

Алина Зробек-Розанска, Мария Троянек, Сабина Зробек

ДЕЯТЕЛЬНОСТЬ МЕСТНЫХ ВЛАСТЕЙ ПО ПРИВЛЕЧЕНИЮ ЧАСТНЫХ ИНВЕСТИЦИЙ: ВЛИЯНИЯ, БАРЬЕРЫ И ВОЗМОЖНОСТИ

В статье проанализированы факторы, определяющие и оценивающие влияние деятельности местных властей по привлечению частных инвестиций. Польские гмины (территориальные единицы) в исследовании разделены на городские, полугородские и сельские. При анализе данных использованы методы сравнительного анализа и агломеративной кластеризации. Оценено влияние усилий местных властей по привлечению инвестиций, описаны барьеры в данной деятельности и внесены предложения по повышению эффективности местного самоуправления в этой сфере.

Ключевые слова: органы местного самоуправления; частные инвестиции; кластерный анализ.

1. Introduction

Social and economic development means a process, initiated by newly emerged social needs. It can also be described as directed changes occurring in a given area, initiated by the activities undertaken by private entrepreneurs. Development can be measured in many scales, however, development on each level is determined by positive changes occurring on the local level. In Poland, the local level is identified by the smallest territorial unit – commune (gmina), managed by local authorities.

¹ PhD, University of Warmia and Mazury in Olsztyn, Poland.

² Professor, Poznan University of Economics, Poland.

³ Professor, University of Warmia and Mazury in Olsztyn, Poland.

Local authorities undertake their activities to satisfy the needs of local community, improve their living conditions, assure optimal use of local resources and protect natural environment. Although these needs vary and evolve with changing conditions, having stable job, coherent with education, skills and qualifications seems to be the permanent needs. Working and earning money enables self-financing and realizing aspirations. Workers can be characterized by different education levels, qualifications or wage expectations but they are relatively immobile. Thus, different people apply for a job in the same region. Therefore, satisfying various needs concerning job and income in the local area, delimited by commuting distance, requires the existence of various units offering different workplaces.

Workplaces can be created in two ways:

1) as the effect of administrative decisions and financed from state budget, i.e. public administration, education, healthcare, social assistance etc.

2) by private sector, i.e. within trade, industry, service etc.

The second way is more common. For example, in Poland the majority of workplaces is created by private entrepreneurs – 64% of all workplaces (Zatrudnienie i wynagrodzenia..., 2013). Private companies are established in places, where entrepreneurs can optimally take advantage of a particular location. Thus, the problem of unemployment usually does not concern the regions attractive for investments⁴, while in other regions the lack of adequate workplaces is long-term. In the latter case, local authorities should transform the development conditions into development factors. Suggested activities can be classified from different points of view (Trojanek, 1994):

- subject – investment activities, such as land development (infrastructural investment); and non-investment activities, such as administrating, organizing, informing and promoting;

- scope – universal activities, directed to all investors; or selective, adjusted to some groups (specific kind of activity or important for realization of local development strategy);

- effect – activities leading to: creating workplaces, increasing flow of income into commune's budget or achieving other priority goals;

- character of influence – activities attracting or discouraging investment (if the results are undesirable);

- base of influence – authoritative activities, meaning legally based orders and prohibitions; and non-authoritative activities: indirect influence, incentives, persuasion etc.

The abovementioned activities affect different parts of investments: subject and scope, location, technology (especially in the aspect of using natural resources). They can also have impact on new investment or existing enterprise.

Therefore, attracting private investors through creating advantageous location should be one of the most important goals for local authorities. They can use many tools to support attractiveness of location, from spatial planning to preparation of complex investment offers. However, practical effects are very different and usually

⁴ According to the National Institute for Market Economy (Instytut Badan nad Gospodarka Rynkowa), the most attractive voivodeship for investors (the synthetic index) in 2012 was Slaskie voivodeship (Nowicki, 2012). In the same year, the rate of registered unemployment in this viovodeship was 11,1%, one of the lowest in Poland (Bezrobocie..., 2013).

insufficient because local authorities meet numerous barriers and often do not realize their potential.

The results of the studies on the activities undertaken by local authorities to attract private investments that create new workplaces are important both for practitioners stimulating areas development, as well as for the researchers exploring economics, management, spatial and real estate management, law or sociology.

2. The issue in scientific literature

Investment plays the key role in local and regional development, for which the starting point are local needs and conditions of their realization (Filipiak et al., 2005). Investment decisions are preceded by valuation of effectiveness, including cost-benefit analysis. The decision depends on location, which allows gaining expected profits with the accepted level of risk. Particular locations have different set of advantages and disadvantages, and entrepreneurs choose particular area assuming that better location allows gaining higher profits (Andersson, 2005). Location determines the costs of establishing a company. All conditions, which are incentives (or barriers) for investment in a given area, are called "investment climate" or "investment attractiveness". In both terms the notion is the resultant of many factors within macroeconomic conditions, local economic surroundings, infrastructure and institutional support (Klimat inwestycyjny..., 2006). When macroeconomic conditions depend mainly on activities of state authorities, other factors have local character:

- economic surroundings mean mainly investment offers, transportation accessibility, entrepreneurship and labor market characteristics;
- infrastructure and local authorities' activities;
- institutional support means the activity of local authorities in preparing and promoting investment offers, collaboration with investors, activities of institutions supporting investment initiatives, institutions for business and special economic zones (Klimat inwestycyjny..., 2006).

A number of scientific centers have been conducting studies on the factors shaping investment attractiveness of particular locations. The authors of this article synthesized some of them (In the article authors used results published in following publications: Klimat inwestycyjny..., 2006; World Investment Report, 1998; Gawlikowska-Hueckel, Uminski, 2000; Kalinowski, 2005–2008; Lizinska, 2009; Havrylchyk, Pincet, 2006; Kind, Osmundsen, Tveteras, 2001; Kalinowski, 1997; Wojtasiewicz, 2006; Domanski, 2006) and listed the following set of location factors valid for local conditions:

- transportation accessibility,
- labor accessibility,
- local market characteristics,
- distance to the nearest city,
- presence of business units with foreign capital,
- facilities for investors.

Investment offers must be coherent with the local development strategy (Zrobek-Rozanska, 2010) because attracting investors should lead to creating workplaces for commune's inhabitants. Therefore, managing area within the frames of a commune is shaped by the need of functionality and limited by the requirements concerning spatial order maintenance and natural environment protection. Applying

local economic policy is strictly connected with local spatial policy, which is generally equal to managing real estate within the commune's borders. Thus, it is worth citing the definition of real estate management published by two internationally known authors: Land management and administration is a multiaspect process and includes such elements as regulating real estate development, land use and protection, deriving income from sale, lease and taxes as well as settling disputes regarding the rights to real estates and the principles of their use (Dale and Mc Laughlin, 1999).

3. Defining the problem and the method

The authors of this paper underline that local authorities should undertake activities aiming at improving the quality of living conditions for their communities. Location-related conditions can be improved by the realization of spatial policy coherent with development strategy. To evaluate the effects of these activities, the authors conducted studies in all communes within the borders of Warminsko-Mazurskie voivodeship (North-Eastern part of Poland). To minimize the effect of factors independent from local authorities, the communes were divided into groups by the location factor. Initially, the study covered all communes (116 units) and the data were collected from Regional Data Bank, Statistical Office in Olsztyn, publications from Warminsko-Mazurska Special Economic Zone and own studies. As a result of essential and statistical verification, the authors described distinguishing features characterizing units in respect of investment location factors. The set of characteristics included both qualitative and quantitative attributes. When an attribute was immeasurable, the authors used marks and symbols. The data were made comparable with the standardization method. 2 units presented attributes with abnormal values (2 biggest cities in the voivodeship), thus they were removed from the list of the studied units. Moreover, the authors noticed that the values of attributes were coherent with the type of commune (urban, urban-rural, rural) and made the first classification, then rejected the attributes with low variation index (lower than 0,1) and with high linear correlation. Gathering communes into sets of similar units was conducted by means of cluster analysis according to the following attributes (Table 1)

Table 1. Attributes used in the cluster analysis

| Symbol | Diagnostic attribute | Value |
|--------|---|---------------------------------|
| x1 | Access to country and voivodeship roads | 1 - weak, 2 - average, 3 - good |
| x2 | Rate of unemployment | Decimal fraction |
| x3 | Concentration of people in productive age | Person per square kilometer |
| x4 | CIT(corporate income tax) per private unit | Zloty |
| x5 | Distance from the city > 50 ths inhabitants | km |
| x6 | Companies with foreign capital | Number of units |
| x7 | Special Economic Zone | T - yes, N - no |

Source: Developed by the authors.

In the course of cluster analysis, successive merges of n units into particular groups were made. As a result, a complete hierarchy of clusters was created. Eventually, the authors identified the sets of similar units in respect of assumed location factors and could separate the effects of local authorities' activities. The detailed analysis of the 12 selected communes was carried out. The authors analyzed the development strategies of local units, and then conducted a questionnaire study. The questionnaire comprised several questions concerning the direction of economic

development, spatial planning, level of preparing and realizing investment offers and effects of managing communes' real estate stock during 9 years (2000–2008).

4. Key results of the research

1. The most effective in attracting private investment were local authorities that promoted the development of service and tourist sector. Efficiency was significantly supported by adequate arrangements in local spatial development plans – more land assigned for commercial activities led to the increased number of enterprises and the decreased unemployment. Significant effects were also caused by offering and promoting land prepared and developed for investments coherent with the communes' development strategy.

2. The most important development barrier for communes appeared to be weak initiative of local authorities. Although in strategic documents concerning the analyzed areas proper directions of economic development were described, the majority of local authorities attempted to maintain the existing economic profile and were against investments in industries. Moreover, the representatives of local authorities underlined the impossibility of developing land for investments and infrastructure. The main reason here was the lack of financial resources, even for own input in projects co-financed from the European Union funds. A significant barrier was also the insufficient area covered by spatial plans allowing investing in particular areas, limiting or forbidding building activity in other zones, thus preventing investors from choosing particular locations for business premises.

5. Conclusions and further recommendations

In Poland, local authorities must cope with many problems, one of which is insufficient scale of local entrepreneurship. Thus, they need guidelines how to fulfill their "mission" effectively, that means – how to improve living conditions for commune inhabitants. The first step is to define the reason of the unsatisfying level of welfare – it is usually structural unemployment resulting from insufficient private investments. In the market economy authorities are not able to solve this problem in arbitrary way, but they can support the creation of new workplaces by shaping attractive conditions for investing in local areas. Because each company needs location (premises), special attention is drawn to the range of activities and determination of local authorities in the field of land management. Proper management poses an opportunity for development, while improper actions may hinder it.

An important part of local authorities' activities is spatial planning, which in practice can be introduced in two ways – local spatial development plan can cover the entire commune or its part. Both ways can bring expected results, but only when the plan has a pro-investment character, that means land is destined for economic activities. If it does not, the act becomes a development barrier, as investors have to apply for the so-called decisions on conditions of building and land development. For investors, it entails time-consuming and expensive activities with hiring many specialists, which prolongs investment process and increases the investments costs.

Development strategy might be a useful document under the condition that guidelines concerning the directions of local development are taken into consideration. The lack of convergence between policy lines (which investors are aware of) and actual activities may cause information chaos and discourage entrepreneurs from establishing companies in the area.

Rational management of land owned by the commune, including buying, selling, renting, leasing and consulting, seems to be the chance for supporting local economy. Studies revealed that local authorities did not take full advantage of it, as the turnover of real estate was inconsiderable and there was a lack of attractive investment offers. The active local policy in this area included only selling residential flats with discounts (from 50 to 99% off the market value). Successful in attracting investors were those communes that prepared offers for investors from few different business sectors. Moreover, offers for investors from the tourist sector must be supported by other activities increasing the total touristic attractiveness of the region. It should be also noticed, that today's local communities must be aware of the fact, that effective real estate management system is very complicated and covers many areas and activities. Therefore, local authorities should hire licensed real estate managers who will not only administer real estate, but also make decisions on economically efficient management. The increasing role is subscribed to successful and well-designed information system on real estate, especially in decision-making processes concerning current and future development of areas (Williamson, 2007). Thus, the educational system should encompass programmes which will prepare not only decision-makers, but real estate managers, agents and property valuers for providing proper advice affecting important investment decisions of real estate market owners and investors. Real estate education should be characterised by two approaches, which depend on how real estate is perceived: whether as a capital investment or as a fixed asset — land and buildings (Zrobek, Grzesik, 2013).

References:

- Andersson, D.E.* (2005). The Spatial Nature of Entrepreneurship. The Quarterly Journal of Austrian Economics, Vol. 8, No 2/2005, p. 21–30.
- Bezrobocie w woj. śląskim. Urząd Statystyczny w Katowicach, Katowice, 2013.
- Bluestone, B., Chose, M.B.* (2008). The Property Tax and the Fortunes of Older Industrial Cities, Land Lines, Lincoln Institute of Land Policy.
- Dale P., Mc Laughlin I.D.* (1999). Land Administration Systems. Oxford University Press.
- Domanski, B.* (ed., 2006). Inwestycje zagraniczne w Małopolsce 1989–2005, UMWM, Kraków.
- Domanski, B., Jarczewski, W.* (ed., 2006). Klimat inwestycyjny w województwie małopolskim, Urząd Marszałkowski woj. małopolskiego, Kraków, pp. 7–12.
- Filipiak, B., Kogut, M., Szewczyk, A., Ziolo, M.* (2005). Rozwój lokalny i regionalny. Uwarunkowania, finanse, procedury, Wydawnictwo Fundacji na rzecz Uniwersytetu Szczecińskiego, Szczecin.
- Gawlikowska-Hueckel, K., Uminski, S.* (2000). Ocena konkurencyjności województw, IBnGR, Gdansk.
- Havrylchuk, O., Pincet, S.* (2006). FDI in China: Reward or Remedy, CEPii Working Paper, No 2006–14.
- Jarczewski, W.* (2007). Pozyskiwanie inwestorów do gmin, Wolters Kluwer Polska, Warszawa, p. 51.
- Kalinowski, T.* (ed., 1997). Czynniki lokalizacji przedsiębiorstw w woj. śląskim i gdańskim. Wyniki badań ankietowych, PARP S.A. w Słupsku, Gdansk.
- Kalinowski, T.* (ed., 2005–2008). Atrakcyjność inwestycyjna województw i podregionów Polski, IBnGR, Gdansk (reports).
- Kind, H.J., Osmundsen, P., Tveteras, R.* (2001). Critical Factors in Transnational Oil Companies Localisation Decisions – Clusters and Portfolio Optimisation, SNF-Project No 7220, Bergen.
- Lizinska, W.* (2009). Ocena atrakcyjności inwestycyjnej woj. warmińsko-mazurskiego i sposoby jej poprawy w opinii władz lokalnych, Prace Naukowe Uniwersytetu Ekonomicznego we Wrocławiu, #39.
- Nowicki, M.* (ed., 2012). Atrakcyjność inwestycyjna województw i podregionów Polski 2012, Gdansk, p. 65.
- Trojanek, M.* (1994). Oddziaływanie władzy lokalnej na efektywność przedsięwzięć inwestycyjnych, Akademia Ekonomiczna, Poznań.

- Ustawa o gospodarce nieruchomościami. Journal of laws, No 206/2004, poz. 2109.
- Ustawa o samorządzie gminnym. No 142/2001, poz. 1591.
- Williamson, I. (2007). Global Challenges of Land Administration and Sustainable Development. <http://www.csdila.unimelb.edu.au/publication/conferences/Global%20Challenges%20for%20Land%20Administration%20and%20Sustainable%20Development.pdf>.
- Wojtasiewicz, L. (ed., 2006). Rola zagranicznych inwestorów bezpośrednich w gospodarce Wielkopolski, CBGR, Poznań.
- World Investment Report (1998). Trends and Determinants. UNCTAD, New York and Geneva.
- Zatrudnienie i wynagrodzenia w gospodarce narodowej w I półroczu 2013 r., GUS, Warszawa, 2013.
- Zrobek, S., Grzesik, C. (2013). Modern challenges facing the valuation profession and allied university education in Poland. Real Estate Management and Valuation, Vol. 21, No 1, pp. 14–18.
- Zrobek, S., Zrobek-Rozanska, A. (2010). Szanse regionalnego wzrostu gospodarczego na tle strategii zaopatrzeniowo – handlowej przedsiębiorstw z udziałem kapitału zagranicznego (na przykładzie woj. warmińsko-mazurskiego), Acta Scientiarum Polonorum – Oeconomia, #9(1), pp. 149–156.
- Zrobek-Rozanska A. (2010). Gospodarowanie nieruchomościami w gminie jako element zarządzania strategicznego. Studia i Materiały Towarzystwa Naukowego Nieruchomości, Vol.18, No 2, p. 173–178.

Стаття надійшла до редакції 17.11.2013.