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

*The aim of the paper is to analyze the determining factors and assess the effects of the activities undertaken by local authorities aiming at creating attractive locations for private investments. The study covered the selected Polish regions 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 the effects, described barriers and offered proposals on how to improve the efficiency of local authorities' activities.*

*Keywords: local authorities; private investments; communes (gminas); Poland.*

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**ДІЯЛЬНІСТЬ МІСЦЕВИХ ОРГАНІВ ВЛАДИ ЩОДО ЗАЛУЧЕННЯ  
ПРИВАТНИХ ІНВЕСТИЦІЙ: ЧИННИКИ ВПЛИВУ, БАР'ЄРИ  
ТА МОЖЛИВОСТІ**

*У статті проаналізовано чинники, що визначають діяльність місцевих органів влади, спрямовану на формування привабливих для приватних інвестицій локацій. Досліджено групу польських районів (гмін), які поділено на міські, змішаного типу та сільські. Кластерний аналіз та порівняльні методи аналізу даних дозволили оцінити чинники впливу, визначити бар'єри в інвестуванні, а також надати ряд пропозицій щодо підвищення ефективності роботи органів місцевого самоврядування у сфері просування приватного інвестування.*

*Ключові слова: місцева влада; приватні інвестиції; райони (гміни); Польща.*

*Табл. 1. Літ. 25.*

Аліна Зробек-Розанская, Мария Троянек, Сабина Зробек  
**ДЕЯТЕЛЬНОСТЬ МЕСТНЫХ ОРГАНОВ ВЛАСТИ  
ПО ПРИВЛЕЧЕНИЮ ЧАСТНЫХ ИНВЕСТИЦИЙ: ФАКТОРЫ  
ВЛИЯНИЯ, БАРЬЕРЫ И ВОЗМОЖНОСТИ**

*В статье проанализированы факторы, определяющие деятельность местных органов власти, направленную на создание привлекательных для частных инвестиций локаций. Исследован ряд польских районов (гмин), которые разделены на городские, смешанного типа и сельские. Кластерный анализ и сравнительные методы анализа данных позволили оценить факторы влияния, определить барьеры в инвестировании, а также разработать ряд предложений по повышению эффективности работы органов местного самоуправления в сфере продвижения частного инвестирования.*

*Ключевые слова: местные власти; частные инвестиции; районы (гмины); Польша.*

### 1. Introduction

Socioeconomic development means a process, which is initiated by newly emerged social needs. It can also be described as directed at changes occurring in a given area, initiated by activities undertaken by private entrepreneurs. Development

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can be measured in many scales, however, development at each level is determined by positive changes occurring on the local level. In Poland, local level is identified by the smallest territorial unit – commune (gmina), which is managed by local authorities.

Local authorities undertake their activities to satisfy the needs of local society, improve their living conditions, assure the 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 need. Working and earning money enables self-financing, allows realizing aspirations and gives specific position in local community. However, 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 security etc.
- 2) by private sector, i.e. within trade, industry, services etc.

The second way is more common. For example, in Poland the majority of workplaces is created by private entrepreneurs – 64% of all (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 investments, while in other regions the lack of adequate workplaces is a long-term problem. In the latter case, local authorities should transform the development conditions into the development factors. Suggested activities can be classified from the different points of view and problems (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 at 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 to 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 investment: subject and scope, location, technology (especially in the aspect of using natural resources). They can also have an impact on new investment or existing enterprises.

Therefore, attracting private investors through creating advantageous locations should be one of the most important goals for local authorities. They can use a number of tools to support attractiveness of location, from spatial planning to preparation

of complex investment offers. However, practical effects are very different and usually insufficient because local authorities meet numerous barriers and often do not realize their potential.

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

## 2. Literature review

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 the valuation of effectiveness, including cost-benefit analysis. The outcome of 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 a particular area assuming that better location allows gaining higher profits (Andersson, 2005). Location determines the costs of establishing the 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 and infrastructure and institutional support (Klimat inwestycyjny..., 2006). While macroeconomic conditions depend mainly on the activities of state authorities, other sets of factors have a 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).

Many scientific centers have been conducting studies on the factors shaping investment attractiveness of particular locations. The authors of this article synthesized some of them and listed the following set of location factors valid for local conditions:

- transportation accessibility,
- labor accessibility,
- local market features,
- 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 proper workplaces for the commune's inhabitants. Therefore, managing area within the commune frames is shaped by 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 commune's borders. Thus, it is worth to cite

the definition of real estate management published by two internationally known authors: "Land management and administration is a multi-aspect 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, 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 societies. 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 the 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 in groups by the location factors. Initially, the study covered all the communes (116) 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. 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 a standardization method. Two units presented attributes with abnormal values (two biggest cities in the voivodeship), thus they were removed from the list of studied units. Moreover, the authors noticed that the values of attributes were coherent with the type of commune (urban, urban-rural, rural) and made first classification, then rejected attributes with low variation index (lower than 0,1) and with high linear correlation. Gathering communes into the sets of similar units was conducted with the use of cluster analysis method according to the following attributes:

**Table 1. Attributes used in the cluster analysis**

Symbol	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 sets of similar units in respect of assumed location factors and could separate the effects of local authorities' activities. A detailed analysis on the 12 selected communes was carried out. The authors analyzed the development strategies of the 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 the 9 years (2000–2008).

#### 4. Key results of the research

1. The most effective in attracting private investment were those 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 number of unemployed. Significant effects caused also offering and promoting land prepared and developed for investments coherent with commune's development strategy guidelines.

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 the industry sector. 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 the projects cofinanced from the European Union funds. A significant barrier was also 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 the insufficient scale of local entrepreneurship. Thus, they need guidelines on 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 wealth – it is usually structural unemployment resulting from insufficient level of private investments. In the market economy authorities are not able to solve this problem in arbitral way, but they can support creation of new workplaces by shaping attractive conditions for investing in the local area. 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 a lot of time-consuming and expensive activities requiring hiring many specialists, which prolongs investment process and increases the costs of investments.

Development strategy is a useful document under the condition that the guidelines at the directions of local development are taken into consideration. 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 the 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 lack of attractive investment offers. The active local policy in this area included only selling residential flats with discounts (from 50 to 99% off market value). Successful in attracting investors were those communes that prepared offers for investors from several different business sectors. Moreover, offers for investors from the tourist sector must be supported by other activities increasing the total tourism attractiveness of the region. It should be also noticed, that 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. Increased 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 the 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 on property market. 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).

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