



Republic of Poland

**National Reform Programme
for 2005-2008
to implement the Lisbon Strategy**

Adopted by the Council of Ministers on 27 December 2005



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The Role of the National Reform Programme

The Lisbon Strategy (LS) is a multi-year programme of reforms and structural changes which aims to turn the EU into the most competitive economy in the world by 2010. In order to make the Lisbon Strategy more dynamic, and to achieve prompter and better implementation of its priorities, the Member States have undertaken to draft three-year National Reform Programmes (NRPs), and in so doing have stressed their joint responsibility for the success of LS implementation at a national level.

The scope and structure of the Polish NRP has been based on the Integrated Guidelines Package (IGP) for 2005-2008¹ presented by the European Commission, *i.e.* a combination of *Broad Economic Policy Guidelines* (BEPGs) and *Employment Guidelines* (EGs) in a single document. The integrated guidelines focus on two basic areas: economic growth and employment, and cover three key aspects: macroeconomics, microeconomics and the labour market.

Under the comprehensive approach to economic competitiveness envisaged by the renewed Lisbon Strategy, efforts should be made to achieve synergies between all the policies and actions undertaken nationally. In particular, that means necessary correlation of actions carried out in the context of economic, employment and cohesion policies.

The National Reform Programme is a document presenting the measures the Polish Government intends to take in the period of 2005-2008, with a view to the fundamental objectives of the renewed Lisbon Strategy being achieved. The NRP is based on the Action Programme of Polish Government under Prime Minister Kazimierz Marcinkiewicz, entitled "*Solidarity State*" ("*Solidarne Państwo*"), which sets out the economic strategy for Poland. The main objectives indicated in the programme are the restoration of a capacity of the Polish economy to create jobs, as well as, through rapid economic growth, the regaining of balance in public finances and the defusing of social tensions.

The Foundations of Socioeconomic Development

In the coming years, the basis for Poland's socioeconomic development must be a high pace of economic growth, of at least 5% GDP annually. The factors allowing for such economic growth will be: dynamic export and domestic investment projects (supported by the Structural Funds and the Cohesion Fund), as well as foreign investment to which Poland is to be fully opened up. The attainment of 5% economic growth will necessitate investment of around USD 10 billionn per year. The organization and management of EU funds will be improved, with a view to the utilization of the sums allocated to Poland from EU funds being improved, and the risk of these funds being lost minimised. A single centre has been set up to co-ordinate the programming and management of developmental programmes co-financed by the Structural Funds. Investment in infrastructure and housing is expected to grow, the anticipated result of this being an increase in the number of jobs and a reduction in unemployment. Investment in human capital will be combined with increased outlays on science, research and development and innovation to facilitate implementation of a programme aimed at creating a knowledge-based society that may meet both the demographic and the competitive challenges an increasingly globalised world economy poses.

A high level of economic growth is the basis for the gradual removal of the obstacles to development generated by negative structural features in the economy, and it also constitutes a foundation for job creation, if one that will not of itself solve all problems. The elimination of obstacles hampering development requires intervention from the State that focuses on the stimulation and reinforcement of growth tendencies. The emphasis should therefore be on putting in place of such rules for business activity that will result in lowered transaction costs, and a sparing of entrepreneurs from unnecessary bureaucratic and administrative burdens. These measures find reflection in the National Reform Programme for 2005-2008 and should both raise the level of competitiveness of the economy and secure the required level of social cohesion.

¹ Growth and employment – Integrated Guidelines for 2005-2008, COM(2005) 141, Brussels, 12 April 2005 (the final version thereof having been adopted by the European Council at the summit held on 16-17 June 2005).

The Objectives of the National Reform Programme and its Priorities

The National Reform Programme takes account of objectives set out in the aforementioned socioeconomic agenda of the new Government entitled “*Solidarity State*”, as well as the objectives provided for in the National Development Plan for 2004-2006, on account of the time frame involved. The NRP acknowledges the key challenges faced by the Polish economy in increasing competitiveness and productivity, eliminating barriers that hamper the development of entrepreneurship, improving the basic infrastructure (in transport, telecommunications and housing), improving the quality of public institutions (as in administration and justice), and lessening the fiscal burden imposed upon those pursuing business activity.

Only success in the above-defined areas can allow for attainment of **the principal objective of the NRP**, which is:

To maintain a high level of economic growth favouring the creation of new jobs while respecting the principles of sustainable development.

With the objectives in the area of socioeconomic development, as well as the guidelines from the European Commission, both addressed to all the EU Member States (*Integrated Guidelines*) and formulated particularly with Poland in mind, the following are deemed to be **the priorities under the Polish National Reform Programme**:

In the area of macroeconomic and budgetary policy:

1. The consolidation and improved management of public finances.

In the area of microeconomic and structural policy:

2. The development entrepreneurship.
3. Increased innovativeness of enterprises.
4. The development and modernisation of infrastructure and the securing of conditions for competition in the network sectors.

In the area of labour market policy:

5. The creation and maintenance of new jobs opportunities and a reduction in the level of unemployment.
6. The improved adaptability of employees and enterprises through investment in human capital.

Implementation of the NRP

The Minister of Economy is in charge of developing the National Reform Programme, and also acts as the coordinator of the Lisbon process in Poland. The said Minister shall be responsible for NRP implementation, coordination and monitoring, as well as for the submission to the Council of Ministers of annual information on implementation progress.

AREAS, PRIORITIES AND MEASURES

The area of macroeconomic and budgetary policy

As of 2004, GDP growth was 5.3%, while in 2005 it was estimated at 3.3%. The safeguarding of long-term economic growth requires that, among other instruments applied, public finance is a key instrument underpinning the structural transformation of the economy. It is thus necessary for the effectiveness of public expenditure to be raised, as well as the structure thereof changed – in the directions determining progress and the putting in place of long-term growth.

Poland's public finances (in particular the level and structure of public expenditure) remain in a state that could jeopardise cohesive and effective macroeconomic policy. The ratio of **the deficit in the central and regional/local-government sector institutions** to GDP in the period 2000-2003 increased from 1.5% to 4.8%. In 2004, the ratio of the finance sector deficit in central and regional/local-government institutions to GDP was successfully reduced to 3.9 %².

A consequence of such a large deficit is an increased level of **debt in central and regional/local-government sector institutions** between 2001 and 2003. In the period 2000-2003 the debt *vis à vis* GDP increased from 36.9% to 45.3%. In 2004, the level of debt stood at 43.6% of GDP. The fast growth of the finance sector's deficit of central and regional/local-government institutions in recent years is effectively stifling freedom to shape economic policy in the fiscal area. Although Polish debt *vis à vis* GDP is relatively low compared with that in other EU Member States (e.g. Germany 66.4%, Belgium 95.7%, EU-25 63.4%), the servicing of that debt places a heavy burden on the State budget³.

The deficit of Poland's public finance sector is partly structural in nature and is associated with the consequences of the transformation process. It is a product of the existing structure of expenditure from the State budget, which is dominated by expenses determined by law (71.3% in 2004), as regards public-debt servicing, grants to *gminas*, and the support of such special-purpose funds as the Social Insurance Fund (FUS) and the Agricultural Social Insurance Fund (KRUS), which in turn relate to the dominant role of social transfers in the Polish system of public finance. The necessity to cover such expenses is defined by statute and/or obligations otherwise formulated in legal terms. This reduces the pool of budget resources that might otherwise be allocated to such pro-development goals as infrastructural investment, research and development, raising the quality of public services, or active policies for the labour market.

There is also a need to change the rules as regards the granting of **State aid**, and for this to be directed towards horizontal goals at the same time as an overall reduction in amounts of State aid takes place. A characteristic feature of the Polish economy at its present stage of development is the on-going restructuring process. Remedial processes in the mining, steel and shipbuilding sectors intensified in 2003, with the result that sectoral aid amounted to around 71% of all aid granted. Since Poland acceded to the EU, activities related to the granting of public aid have been entirely subject to EU regulations. As of 2004⁴, the level of State aid stood at PLN 8.8 billion, the equivalent of 1% of GDP, cf. 0.44% of GDP in the EU-25. Approximately 50.5% of the total State aid granted (outside transport and agriculture) was spent on horizontal goals, while around 32% went on sectoral assistance. So far, State aid has been focused on large State-owned companies. Direction towards horizontal goals plus alignment with regional and local schemes will support more effective capital allocation.

At 3.5% in 2004, the average annual **inflation rate** was higher than in the previous two years, and also higher than in most EU Member States (the 2004 average for the EU-25 was 2.1%). Rising inflation in the year was mainly due to the impact of the accession (increased food prices and rates of indirect taxes) and fuel price increases (a record surge in oil prices). Nonetheless, the Polish

² Fiscal notification of the Central Statistical Office, September 2005.

³ Euro-indicators, news release, 26 September 2005.

⁴ Pursuant to the "Report on State Aid in Poland granted to businesses in 2004", Office of Competition and Consumer Protection, December 2005.

inflation rate has been falling steadily: from 10.1% in 2000 to 0.8% in 2003. After growing in 2004, it has again fallen steadily. It is estimated that the average annual inflation rate for 2005 will be 2.2%.

2004 and 2005 saw the Polish currency strengthen considerably against both the euro and the dollar, in particular after Poland's accession to the EU in May 2004. The shaping of the **exchange rate** has taken place in line with such trends in the economy as dynamic GDP growth and increased labour efficiency, an absence of tensions associated with the financing of the negative balance on the current account balance of payments (4.1% of GDP in 2004, and ca. 1.6% of GDP as estimated for the end of 2005), which was fully covered by the inflow of long-term capital, EU aid funds and short-term capital, as well as higher interest rates. The uncertainties surrounding the introduction of reform into public finance have combined with high public debt to encourage depreciation of the Polish zloty.

As a member of the European Union, Poland faces the challenge of meeting the fiscal and monetary convergence criteria conditioning Poland's participation within the euro zone. If these criteria are to be met, the state of public finances must be improved and the Exchange-Rate Mechanism (ERM II) participated in for at least 2 years. In general, this is a complex and multi-tier process, under which a string of procedural requirements must be met. In 2004, Poland failed to meet the convergence criteria, as the budget deficit was too large as compared with GDP, as were inflation, interest rates and exchange rate fluctuations. Only the central and local government sector debt to GDP ratio was within the convergence limits (below 60% of GDP). Economic developments in 2005 suggest that the year's-end inflation forecast will meet the convergence requirements. The framework for stabilising public finances envisages a so-called *budgetary anchor*, i.e. a budget deficit fixed at the level of PLN 30 billion per year throughout the four-year term of the Polish Parliament which, with the assumed level of economic growth (in GDP terms) means a lowering of the deficit/GDP ratio.

The present Government assumes continued reform of public finances, their consolidation and multi-year planning exercises creating better opportunities for EU structural funding to be used (the possibility of funds being accumulated towards the co-financing and pre-financing of projects).

Priority 1. The consolidation and improved management of public finances

1.1. Optimising access to benefits leading to early employee deactivation

Current status: One of the goals of social insurance system reform (implemented since 1999), and in its context a new retirement pension system, is to gradually optimise the duration of employees' professional activity. To attain that goal via the assumptions underpinning the new system, the early retirement entitlements enjoyed to-date will be abandoned from 1 January 2008. From then on, Poland will in principle have just a single universal retirement age of 65 years for men and 60 for women. However, for persons working in particularly difficult conditions or those performing special work, an interim system will be developed for 'bridging retirement pensions'.

Liberal principles of granting family pensions are also a factor contributing to early deactivation on the labour market. For example, such pensions may be drawn by widows and widowers aged 50. As a result, persons entitled to family pensions tend to discontinue their professional activities sooner.

An additional, non-insurance benefit allowing for early withdrawal from the labour market is pre-retirement benefit. The Government will strive to apply the policy of active ageing.

Yet another factor resulting in the deactivation of employees is the shorter period of female employment activity. The retirement age limit, 5 years shorter than among men, will in the future result in lower retirement benefits for women, since the new system is based around a close link between the level of the retirement pension and the total size of premiums paid in over the whole period of professional activity.

The proposals for the introduction of new solutions aimed at equalising the retirement age for women and men and making it more flexible will be submitted to the Polish public for their consideration.

Implementation instruments:

- **institutional/organisational:** optimising the list of types of work in special conditions and in a special capacity; starting from 2008, introducing 'bridging retirement pensions' for persons eligible under the new list; introducing compensation (increasing initial capital) for other people; preparing the Social Insurance Institution (ZUS) for benefit payments; creating a Fund of Bridging Retirement Pensions; completing the retirement pension reform (promoting voluntary saving towards retirement, making the Individual Pension Accounts and Employee Retirement Schemes less bureaucratic); developing the target concept for payments from the 2nd pillar of the retirement pension scheme; preparing a public debate on the procedures for gradual introduction of increased flexibility of retirement age, allowing for a smoother transition from professional activity to the drawing of a retirement pension; organising public debate on a change in the age at which widows and widowers are authorised to draw family pensions, in conjunction with a system for professional activation of those widows and widowers who are not active professionally;

- **legislative:** amending the *Act on retirement and other pensions from the Social Insurance Fund (FUS)*; adopting an act on bridging retirement pensions and compensation for persons working in special conditions and in a special capacity (including miners); amending the *Act on pre-retirement benefits*; drafting a new act on life retirement pension acquired from funds accumulated in open retirement pension schemes.

Expected effects: Increased professional activity (including among women). Fewer discrepancies between levels of retirement pensions for men and women, lower subsidies from the budget to the social insurance system (after the interim stage, during which spending might grow). Increased revenue from taxes.

1.2. Improving the farmers' social insurance system

Current status: Individual farmers, their families and household members are insured via the Farmers' Social Insurance System (KRUS), and pay lower contributions than those paid by persons insured under the general system. The contributions are equal for all those insured, regardless of income.

As a result, all farmers enjoy equally subsidised benefits. The organisational and financial structure of the KRUS and the funds it manages is complicated and requires simplification. As the KRUS is only financed from contributions to a very limited extent, most spending on the retirement and other pensions for farmers is covered by subsidies from the State budget.

Work will continue to improve the system, in particular to make it more robust, in order to cover persons, for whom agriculture is the basic source of income. Premiums will be differentiated according to the levels of income obtained from farms. The Government will aim to remove the disproportions which exist between farmers' benefits and those granted under the general rules.

Implementation instruments:

- **institutional/organisational:** differentiating farmers' contributions in relation to farm income, and – in consequence – developing and implementing institutional changes; changing the principles for granting and defining the measure of benefits to farmers; simplifying financial management of the KRUS; implementing an advanced IT system at the KRUS; granting the status of legal person to the KRUS;

- **legislative:** preparing and adopting an *Act on farmers' social insurance*.

Expected effects: Further tightening up of the farmers' social insurance system. Changes in the organizational structure of the KRUS and the funds managed by it. Introduction of differentiated premiums for retirement and disability pensions for farmers. Maintenance of the current system of budget subsidies to the KRUS until the changes differentiating premiums have been introduced.

1.3. Reform of the system of disability pensions

Current status: State expenditure on financing the disability pension system that is very high (particularly when compared with other countries) necessitates further reform. The numbers drawing pensions on the basis of their being unfit for work has been in gradual decline since 1999, though there are still more such pensioners in Poland than in other countries. A large number of beneficiaries currently enjoy pensions granted for an unlimited period. Moreover, the principles by which the level of pensions related to incapacity to work are defined remain unharmonised with those defining retirement pensions under the new system. Incapacity pensions should be in correct proportion with the new retirement benefits. However, the size of a disability pension is calculated in the same way as the amount of the retirement pension under the old system.

Implementation instruments:

- **institutional/organisational:** introducing a new formula to define pension levels that is correlated with the principles by which the level of retirement benefits under the new system is determined; extending the system of prevention and pre-pension rehabilitation; new operational principles for training-related pensions supplemented by training and re-training; intensified co-operation with public and private labour-market institutions with a view to pensioners being brought back on to the labour market; introducing control check-ups for persons formally declared as permanently unfit to work;

- **legislative:** amending the Acts *on retirement and on other pensions from the Social Security Fund*.

Expected effects: better targeting of pension benefits and reduced spending on the Social Security Fund FUS. Increased professional activity of pensioners. Uniform operating principles in the pensions and retirement benefits systems as regards the defining of benefit levels.

1.4. Continuation of the healthcare system reform

Current status: A number of autonomous units providing public healthcare (spzozs) are deeply in debt. Ministry of Health data show total liabilities of the spzozs at the level of PLN 6.1 billion as of the end of September 2005, this nevertheless representing the first ever reduction from the level in the preceding quarter (by 2.5%). Moreover, 45% of all units and around 25% of those employing more than 50 staff have not reported their liabilities due. Consequences of the debt include difficulties operating on the healthcare service market, depreciation of infrastructure, restricted access to costly medical technologies and citizen's impaired access to healthcare services. Pursuant to the Act of 15 April 2005 *on State aid and the restructuring of public healthcare units* (Official Journal of Laws No. 78, item 684) around 80% of indebted hospitals and outpatient units have submitted applications for the initiation of restructuring procedures, some of these having been granted a loan from the National Economy Bank. 303 units were subsidised to the tune of PLN 200 m.

Implementation instruments:

- **institutional/organisational:** strengthening the supervisory function of the Minister of Health and Voivods (provincial governors) over healthcare units, introducing a coordinating role for governors when it comes to assuring the continuity of healthcare services in their provinces; improving operational efficiency in healthcare units by permitting mergers without prior liquidation procedure, introducing changes in the forms of subsidies granted to spzozs, introducing open financial management of public ZOZs (financing transparency); introducing a basic benefit package of guaranteed healthcare services that will allow for supplementation of the universal health insurance system with additional insurance schemes, and – in the further future – with alternative health insurance schemes; reviewing the effects of the Act *on State aid and the restructuring of public healthcare units*; reinforcing audits of spending on medication through the implementation of full monitoring of medical consultation by the National Health Fund; developing a national health account.

- **legislative:** amending the Act *on healthcare units*, drafting a comprehensive act on systemic solutions in healthcare.

Expected effects: A higher level of healthcare services and more efficient use of public healthcare resources. Rationalisation of the operational costs of medical units. Increased transparency as regards financial transfers in the healthcare sector.

1.5. Rationalising public expenditure on administration and increasing control over public resources which are at the disposal of earmarked funds and State agencies

Current status: Public administration in Poland is ineffective, expensive and corruption-prone. Special-purpose funds and State agencies excluded from the State budget regime have a considerable proportion of public resources at their disposal. Their finances are subject to control and audit procedures, yet there is no verification in place as regards the effectiveness of their spending. The Public Finance Act of 30 June 2005 (signed into law by the President of the Republic of Poland on 13 December 2005) contains regulations concerning, for example, State special-purpose funds, allowing for tighter control of the flow of public resources and improving the effectiveness of their spending.

Implementation instruments:

- **institutional/organisational:** simplifying the structure of the administration, eliminating duplication of competences and tasks, merging institutions performing similar tasks; reviewing the special-purpose funds and State agencies on the basis of a more-detailed analysis of the effectiveness of the tasks they perform and the impact of their operations on the State budget, and, depending on the results thereof – the possible liquidation, merging, inclusion within the State budget or transfer of tasks of special-purpose funds and their resources to local-government units; implementing the “Inexpensive and Effective State” Programme.

- **legislative:** amending relevant laws that regulate operations in public administration, as well as those of funds and agencies, giving effect to the new Public Finance Act.

Expected effects: Significant savings for the budget, the creation of an inexpensive, effective and citizen-friendly administration, the consolidation of public finances at central and local government levels. A lesser flow of public resources outside parliamentary control and improved effectiveness of spending.

1.6. Further decentralisation of public expenditure

Current status: There is some inconsistency between task decentralisation and financial decentralisation between the central level of government and local government. Currently, the incomes of territorial self-government units (tsu) comprise their own incomes and general subsidies, as well as special-purpose grants from the State budget. Despite the increased importance of tsu own incomes in recent years (for instance due to changes in the scope of tsu participation in income from taxes, both on natural and legal persons), the other income items still play an important part.

Implementation instruments:

- **institutional/organisational:** developing an outline for further decentralisation of public spending in relation to task allocation, including through limiting of the competences of the central government administration in the regions and devolving of tasks as regards ‘providing administration’ to the local government, while keeping the governor in charge of supervision-inspection administration and control of the legal order; turning the tasks currently devolved as tasks of the governmental administration into the own tasks of relevant local governmental units and the making of relevant changes as regards the own incomes of local government units (more share in the incomes from basic taxes);

- **legislative:** amending the *Act on incomes of local government units*, amending the Public Finance Act.

Expected effects: An increased share of local government units’ own income and a limiting of grants and subsidies from the State budget. Enhanced capacity for the absorption of EU funds. Increased incomes of local government units. Greater autonomy of tsu as regards the shaping and implementation of development policies at local and regional levels, through the free use of sufficiently large own resources.

1.7. Implementing a system of long-term budgetary planning

Current status: A three-year fiscal scenario is shown in the Convergence Programme, updated on an annual basis. Yet the basis for budgetary planning in Poland is the annual period. A form of long-term planning has been provided for in the Public Finance Act. Projects going beyond one year are defined as multi-annual programmes in an annex to the Budget Act. Another instrument taken into account in defining limits of long-term liabilities and expenditure of the State budget with a view to facilitating the use of EU funds, is a decision on providing financial assistance in project implementation, introduced by Ordinance of the Council of Ministers dated 26 July 2005 on guidelines concerning expenditure incurred from the State budget on programmes and projects implemented with the participation of non-returnable resources from the European Union budget and foreign sources (Official Journal of Laws No. 140, item 1174).

Implementation instruments:

- **institutional/organisational:** annual update of the Convergence Programme including a 3-year fiscal forecast accounting for expenses that may be covered, projected as part of long-term programmes;
- **legislative:** the Budget Act, amending the Act *on the National Development Plan*.

Expected effects: Improved effectiveness of the use of public resources (national and EU funds). An increased role for strategic planning in public finance. Better funding of multi-annual programmes.

1.8. Adopting EU standards (ESA'95) as regards statistics and forecasts in the public finance sector

Current status: As an EU member, Poland is obliged to present statistical data and forecasts for the public finance sector in compliance with the ESA'95 standards uniform in all EU Member States. In its appraisal of the Convergence Programme of May 2004 and the November 2004 update thereof, the European Commission ascertained that data on incomes and expenditure in the sector were not fully consistent with the aforementioned standards. A problem, principally concerning the ESA'95 methodology, lies in the classification applied to Open Retirement Funds (OFEs). In 1999, Poland reformed its system of retirement pension insurance. As a result of that reform, retirement obligations earlier accruing outside the balance sheet began to appear in the national balance of accounts because of the transfer of a certain part of the premiums to the OFEs. Just before the accession of Poland to the EU, on 2 March 2004, Eurostat took a decision whereby OFEs were excluded, for statistical purposes, from the social insurance system. Poland does not accept this decision, deeming OFEs a part of the social insurance system. The ESA'95 methodology, which was developed in the early 1990s, does not provide for the existence of capital pension funds. Eurostat's decision leads to an utterly unjustified elevation of the deficit of the social insurance sector, thus 'penalizing' those countries which resolved to introduce the reform of retirement benefit schemes aimed at long-term stability of public finances. For the aforementioned reasons, it is necessary to re-open the debate with the aim of changing the position of the European Union and its institutions.

Implementation instruments:

- **institutional/organisational:** continuation of work by the inter-ministerial Team for Statistics in the sector of central and local government institutions, which is in charge of implementing the ESA'95 methodology;
- **legislative:** should the aforementioned Team find this necessary, amendment of relevant acts of law.

Expected effects: Correct application of the ESA'95 standards in developing statistical data and forecasts for the public finance sector.

1.9. IT development in public finance

Current status: An IT system for State budget management is being developed, with a view to this supporting the budgetary process, *i.e.* State budget planning, execution and reporting, as implemented by State budgetary units and the Ministry of Finance.

Implementation instruments:

- **institutional/organisational:** integrating collaboration between State budgetary units at various levels; implementing the system in all budgetary units;
- **legislative:** providing the legal framework required for the operation of the system.

Expected effects: Improving the system for public finance management as regards the State budget.

1.10. Further introduction of compulsory internal audit of public institutions' current expenses

Current status: The Act of 27 July 2001 *amending the Public Finance Act, the Act on the organisation and operating methods of the Council of Ministers and the ministers' scope of work, the Act on divisions in governmental administration and the Act on the Civil Service* (Journal of Laws No. 102, item 1116) all introduced internal audit of expenditure incurred by units in the public finance sector. The new Public Finance Act adopted by the Sejm of the Republic of Poland on 30 June 2005 (signed by the President of the Republic of Poland on 13 December 2005) introduces a single definition of internal audit, compatible with international standards, as well as extending the list of units in the public finance sector subject to compulsory internal audit and the full scope of the coordination of financial control engaged in by the Minister of Finance, as assisted by the Inspector General for Internal Audit.

Implementation instruments:

- **institutional/organisational:** establishment of sections in charge of internal audit in successive units of the public finance sector; coordination of financial control and internal audit carried out by the Minister of Finance assisted by the Inspector General for Internal Audit and an organisational section created for that purpose within the Ministry of Finance;
- **legislative:** Public Finance Act of 30 June 2005.

Expected effects: Rationalisation of expenditure by units of the public finance sector. More comprehensive evaluation and better operating efficiency of public finance sector units. Increased control over the raising and spending of public resources, and better management of public property.

1.11. Directing State aid towards horizontal goals

Current status: Despite the growth in the share of resources directed towards horizontal goals (to 50.5% of the total in 2004), including through regional aid, a large portion of State aid is channelled to sectors in the process of being restructured. The level of State aid for R&D, environmental protection, the development of SMEs and training remains relatively low.

Implementation instruments:

- **institutional/organisational:** developing and implementing effective systems for the granting, coordinating and monitoring of State aid; creating databases on State aid granted and aid programmes being implemented; directing Treasury and National Economy Bank guarantees and sureties covering the most important objectives of government policy, *i.e.* innovation, housing, road and highway construction, the development of infrastructure, absorption of EU funds, capital funds;
- **legislative:** amending acts of law regulating the granting of State aid (in compliance with the standards adopted at Community level); acts of law introducing aid programmes.

Expected effects: A reduced scale of State aid, in particular for restructuring, with simultaneously increased aid for horizontal and regional goals. Reduced budget expenditure overall. Improved allocation of public resources and effectiveness of usage.

The area of microeconomic and structural policy

Priority 2. The development of entrepreneurship

A characteristic feature of the Polish economy, as in those of the EU-15, is the domination of microenterprises employing up to 9 persons (they constitute 95% of all enterprises registered in Poland). The share of small (10-49 employee) companies is in turn 4%, and that of medium-sized ones (with 50-249 employees) just 0.8%. That leaves the 0.1% of all companies that are large business entities (of 250 and more employees). In the EU-15, microenterprises are 92.4% of all companies, small enterprises 6.5%, medium-sized enterprises 0.9% and large ones 0.2%. However, Polish companies operate in an environment that is less favourable, and they are also much weaker than those operating in the EU-15, in terms of capital, scale of activity and added value generated.

Some recent changes have taken place where **the environment in which entrepreneurs operate** is concerned. The introduction of provisions of the Act of 2 July 2004 *on freedom of enterprise* (Official Journal of Laws No. 173, item 1807, with further amendments) was a vital step towards facilitating business activity. The business **registration process** has been simplified and accelerated, thus improving the service available to entrepreneurs. As regards employee recruitment and dismissal, **new regulations in the Labour Code** have been introduced – on both the flexible organisation of working time and the restricting of labour costs. The bureaucratic burden has also been reduced (*e.g.* with electronic communication now acceptable in the process of public procurement, thereby facilitating faster and simpler operations and reducing the volume of paper documentation).

Persistent **barriers** are nevertheless still in place, making it difficult to conduct business operations. One of the more serious barriers to development, particularly of small and medium-sized enterprises, is difficult **access to capital**. Often, banks perceive the investments of the SME sector as risky projects, inconvenient to handle, and burdened with a relatively high cost of client verification and monitoring as compared with the profit generated. Entrepreneurs in turn give up on loans on account of what they regard as cumbersome banking procedures and a lack of suitable securities on property.

The development of entrepreneurship may also be stifled by inefficient functioning of **the judicial system** reflecting a backlog of cases. Imperfect law and a lack of diligence in business operations (resulting *i.a.* in delayed transfers of payments due or complete failure to repay debts) force businesspeople to make frequent recourse to the courts.

Financial trouble, in particular on the part of small and medium-sized enterprises, generates barriers to **investment** processes. Entrepreneurs perceive the undertaking of investment projects as a high-risk activity, with a long implementation time and excessive administrative costs. Leaving aside the financial burden, other vital issues here are: the lack of spatial development plans and updated maps, unregulated ownership status as regards real estate and protracted waiting times for the issue of building permits.

While Poland's performance as regards **export** has recently been a very good one, the value for export per capita is characteristically rather low, while a relatively fragmented range of goods is involved. Apart from those enumerated in the preceding paragraphs, other barriers cited by entrepreneurs as specifically hampering export are the insufficiency of information regarding foreign markets, as well as prospective contracting parties and their credibility.

The efforts to stimulate the development of entrepreneurship foreseen by the NRP are based on two pillars. The first of these encompasses certain mechanisms creating a better environment for the founding of new businesses, providing an improved institutional context for business, or seeking to raise the efficiency of public administration, while the second includes measures to facilitate entrepreneurs' access to capital.

2.1. Improving the quality of regulations

Current status: Binding legal provisions are often ambiguous and interpreted in a non-uniform manner by the administration, thereby disturbing the functioning of markets and undermining the competitiveness of Polish companies. The conditions in which entrepreneurs operate should be thus improved, both nationally and at European Community level. The objective is being pursued through simplification and improvement of regulations and the development of a more favourable institutional environment as regards business. Since 2001, a system of regulation impact assessment (RIA) has been operating in Poland. Actions are being taken to develop a system to measure, and as necessary eliminate, regulatory burden, including administrative load (pilot programmes concern the application of the Dutch *Standard Cost Model*), as well as to simplify domestic law (e.g. the *Act on freedom of enterprise*).

Implementation instruments:

- **institutional/organisational:** identifying priority acts of law in need of simplification; introducing systems to measure and eliminate regulatory burden, and to assess regulation impact; creating the administrative capacity needed if high-quality RIAs are to be developed;
- **legislative:** amending acts of law selected for simplification.

Expected effects: A reduction of administrative barriers; an improved regulatory environment for business operations, the creation of new companies and more jobs.

2.2. Simplification of administrative procedures and a reduction in the costs of business operations

Current status: There is some progress with the simplification of procedures as regards the commencement with and engagement in business activity. By virtue of the Act of 2 July 2004 *on freedom of enterprise*, the registration process has been shortened and simplified markedly, and the numbers of concessions and permits reduced. Provisions have been introduced to unify the interpretation of tax-related circumstances by different tax offices and to reduce both the numbers and lengths of inspections companies may be subjected to. 1 January 2007 brought the introduction of: a single integrated application for registration which may be submitted electronically, a single number, a single desk at which entrepreneurs will be able to complete all the formalities related to registration, and a reduction in the time businesspeople must wait for entry on to the register. At the same time, the conditions, in which Polish companies – as opposed to those in other Member States – must operate, remain relatively more difficult. Entrepreneurs complain about excessive registration fees or charges levied as mandatory permits, approvals or licenses are obtained, the high costs of notices in *Monitor Sądowy i Gospodarczy* (*The Court and Economic Gazette*), and a lack of transparency to tax procedures.

Implementation instruments:

- **institutional/organisational:** full implementation of the changes provided for in the *Act on freedom of enterprise*; more actions aimed at reducing the number of required concessions and permits; implementation, over the next 5 years, of an electronic platform of services for entrepreneurs (covering, for instance, management of the social insurance process for natural persons taken on by an employer, the settling of legal persons' income tax and VAT, the registration of economic activity, the transfer of statistical data to the Central Statistical Office, the submission of customs declarations, the obtainment of permits and making of payments for using the environment), as well as public procurement management and the settlement of advance payments of income tax of legal persons, the continued reviewing of regulations for features regarded as cumbersome by entrepreneurs, particularly as regards an increase in the efficiency with which EU funds may be obtained.
- **legislative:** full implementation of the *Act on freedom of enterprise* and the amendment of relevant acts of law identified through analysis.

Expected effects: Elimination of administrative barriers related to the starting and conducting of business operations and a reduction in the costs of running a business. Improved conditions for economic activity leading to more entrepreneurship. Favourable regulations and stable law on economic activity also translating into greater interest from foreign investors.

2.3. Improvement of economic jurisdiction

Current status: Phenomena like the extension of the jurisdiction of common courts in economic cases and the growing number of such cases coming to court as the market economy develops have not been matched by appropriate developments regarding staffing and organisation. Nevertheless, 2004 did bring a reduction in the length of procedures in most categories of case, as well as a cutting of the average time entrepreneurs had to wait for settlement. Thus, in procedural economic cases, the waiting time is now around 6 months, while proceedings aimed at issuing an order last 1 month and registry cases 2 weeks. More time is needed for bankruptcy proceedings, as these are very often complicated in both factual and legal terms.

Implementation instruments:

- **institutional/organisational:** simplifying the procedure for pledges to be entered by registration; increasing the accessibility of the legal professions; strengthening the judicial and administrative staff of commercial courts; increasing the number of assistants to judges presiding over economic cases; improving the technical and administrative service; tightening supervision in bankruptcy proceedings; promoting and recommending the benefits of conciliatory jurisdiction (as a more efficient, cheaper and faster service);

- **legislative:** amending the Civil Code, the Code of Civil Procedure, the Penal and Fiscal Code, the Bankruptcy Act, the Act on the Prosecutor's Office, the Act on common courts, and the Act on perpetual registers and mortgages.

Expected effects: Acceleration and cost-reduction in respect of proceedings in commercial cases. Improving the legal certainty of economic relations. Faster elimination from the market of operators resorting to unfair practice.

2.4. Completion of the main privatisation processes

Current status: Privatisation-orientated measures taken in recent years have changed the structure of the Polish economy considerably. However, the State Treasury remains the owner of a large proportion of the property of various economic operators. The potential resources of State property to be privatised are located mainly in such sectors as: power, gas, fuels and oil, pharmaceuticals, defence, hard coal mining, transport, shipbuilding and printing.

Implementation instruments:

- **institutional/organisational:** privatisation procedures.

- **legislative:**

Expected effects: Closer alignment of the ownership structure in the Polish economy with that of other EU Member States. Increasing effectiveness of management and competitiveness of business operators on the Single Market, as well as external markets. Increased operational efficiency of proprietary supervision. Development of the capital market.

2.5. Completing the process of ownership transformation in the State-owned enterprises operating under the Act of 25 September 1981 on State-owned enterprises

Current status: As of 31 December 2004, REGON (the register of entities operating in the national economy) listed 1306 State-owned enterprises, and the National Court Register 853 – for which the functions of founding body are performed by the Minister of the Treasury or other ministers and governors. Most of those companies are under liquidation or declared bankrupt. Only 390 enterprises are engaged in economic activity.

Implementation instruments:

- **institutional/organisational:** commercialisation of State-owned enterprises with a view to their being privatised or municipalised;

- **legislative:** amending the Act on commercialisation and privatisation.

Expected effects: Stimulated entrepreneurship. Increased effectiveness of management and competitiveness of business operators on the EU internal market and external markets. Increased operational effectiveness of proprietary supervision.

2.6. Financial strengthening of loan, guarantee and capital funds

Current status: The existing system of funds is too weak and incomplete. As of 2004, there were 74 loan funds and 61 loan guarantee funds in operation in Poland, with total capital of PLN 438 million and 187 million, respectively. What remain absent are venture capital funds investing in small projects (at rates of up to EUR 2 million per project).

Implementation instruments:

- **institutional/organisational:** Apart from the Polish Agency for Enterprise Development and the National Economy Bank, already performing tasks in this area, a National Capital Fund is to be developed as a 'fund of venture capital funds'.

- **legislative:** notification of regulations on the granting of State aid concerning the operation of the system of funds.

Expected effects: Facilitating SMEs' access to sources of financing, in this way sustaining their faster growth and improved competitiveness. The creation of new companies and capital strengthening of the existing local and regional loan and guarantee funds, as well as the establishment of venture capital funds investing in enterprises at an early stage in their development, including seed-capital and start-up funds.

2.7. Simplification of the investment process in construction

Current status: The key barriers to the investment process in construction reflect the absence of valid local spatial development plans, inconsistent regulations concerning spatial development and construction and the absence of a current spatial policy at national level. Potential investors perceive it as particularly cumbersome to comply with the regulations by obtaining a string of permits and opinions that lengthen the entire investment process. As many *gminas* lack valid local spatial development plans, potential investors, and also the local authorities themselves, find it harder to decide on implementing their investment projects.

Implementation instruments:

- **institutional/organisational:** developing a model by which to plan the development of the country and a spatial planning model; formulating a State spatial policy in an Outline of National Spatial Development and a State policy towards towns and cities; identifying the acts of law requiring amendment (and also simplification) with a view to the selected model being implemented;

- **legislative:** adopting new acts of law and amending a number of existing ones selected after analysis.

Expected effects: Simplifying the investment process in construction. Increasing the level of social, economic and spatial cohesion.

2.8. Supporting the scheme for the promotion of the Polish economy and the system of services for exporters

Current status: Each year, Polish public administration implements a number of initiatives aimed at promoting foreign direct investment (FDI) in Poland, and Polish exports. Specialised agencies are also working towards an increased flow of foreign direct investment into Poland, as well as the creation of a positive image of the country in the world. Although the last two years have brought an improvement as regards trade (a clearly visible decrease in the negative balances of trade and payments), the structurally-conditioned high level of imports, indispensable in the modernising of the economy, is not sufficiently balanced by export. There are no leading export products. Thus far, Poland has also failed to create a strong national brand. Promotional support is needed for tourism, an important sector of the economy.

Implementation instruments:

- **institutional/organisational:** institutional strengthening of Poland's economic promotion scheme; effective utilisation of various sources of funding and coordination of economic promotion-related actions; changes in the principles governing the operations of the Polish Information and Foreign Investment Agency;

- **legislative:** an Act on the economic promotion agency.

Expected effects: Further growth in export production. An improvement in Poland's image and growing recognition of Polish products on international markets. The development of tourism. A greater inflow of foreign investment and a faster productivity growth in the Polish economy.

Priority 3. Increased innovativeness of enterprises

The level of **innovation** of Polish enterprises remains too low. The innovation index reflecting the share of innovative enterprises in industry in 2003 was 39.3% (for enterprises with more than 49 employees making any investment outlays in the given year). In EU countries, the average value for the index was ca. 51%. The maintenance of such a situation over the long term will bring down the competitive position of Polish companies in the future.

At the same time, there remain barriers making it difficult for entrepreneurs (in particular SMEs) to introduce innovative solutions. These are primarily the high costs of developing and implementing innovations – which considerably exceed the capital capacity of most entrepreneurs, as well as poorly-developed infrastructure for the commercialisation of science and technology, which makes investment in new technologies and the founding of firms based on such technologies too risky a venture.

The level of innovation in companies is to a great extent determined by the size and structure of outlays on innovative undertakings. The said outlays on innovations were 12.0% greater in 2003 than 2002, though the structure has not changed significantly for a number of years. The dominant share remains that accounted for by investment outlays (on buildings, constructions, plant and equipment) – 78.9% of the total, while R&D expenditure was low – at just 11.1%.

Innovative processes in the company environment are measured in a way similar to that applied to such processes in enterprises themselves. Basic indicators in this regard include: the share of GDP taken by gross R&D operational outlays, the balance of payments in the technological area, foreign trade in high-technology goods of the economy of the country and the number of patent applications. In Poland, the relevant values are markedly unfavourable as compared with those in most EU-25 and OECD countries.

Expenditure on R&D in the national economy against GDP remained at a low level as of the period 1995-2003 and was indeed decreasing (1995: 0.65%, 2003: 0.56%). In 2004, the ratio improved slightly to 0.58%. In OECD countries (as of 2002) the comparable figure was 2.28%, while that for the EU-25 stood at 1.83%. It is assumed that the ratio in Poland will reach 1.65% by the year 2008.

An important indicator of the trend as regards innovative processes is the number of patent applications per 10,000 inhabitants – the so-called inventiveness coefficient. In Poland, that index declined steadily from 1.4 in 1989 to 0.6 in 1996, remaining at a similar level up to the present. On average, the OECD countries have a value of 6.0, and the EU-15 a value of 2.6 (in 1998).

There is no well-developed institutional infrastructure to support innovativeness and technology transfer to enterprises. The existing initiatives aimed at creating such institutions (research and technology parks, clusters) are mostly at early stages of development. Yet a cohesive concept for the development of such institutions that would also incorporate modalities of the local socio-economic environment is still lacking. Another important effect in the development of institutional infrastructure should be obtained through the setting-up of investment parks.

The government has as its objective a significant increase in expenditure on R&D, as well as the creation of such institutional mechanisms that will encourage enterprises to spend more on research and innovation, and assist in the transfer of technologies to companies. In parallel, regulatory actions will be taken with a view to the supply of applicable solutions from science being

increased. The private sector must be the driving force behind increased innovation in the economy, while the role of the State will rather be to support it, through suitable regulatory measures. Only to a lesser extent will it become involved in financial transfers.

3.1. Development of the innovation market and of the institutional environment facilitating cooperation between the R&D area and the economy

Current status: The private sector is insufficiently engaged in R&D and its funding. High costs and considerable risks hinder commitment to this type of action. Regulations are also lacking when it comes to public-private financing in the R&D field. In Poland, the ties between the R&D area and science on the one hand, and the economy on the other, are weak. The kind of effective institutional environment that would facilitate cooperation between these two sides is still lacking.

Implementation instruments:

- **institutional/organisational:** supporting public-private financing for the development of a private market of R&D services; supporting the creation of new innovative companies ; assisting in the financing of innovative projects through higher risk capital funds, also using the National Capital Fund; budgetary support for scientific research and development work carried out by enterprises; linking of the financing of applied research and R&D with the utilisation of their results in enterprises; developing a network of bridging institutions in the area of the transfer of technology to enterprises, supporting the development of science-and-technology parks, clusters and investment parks; supporting the implementation of regional innovation strategies;

- **legislative:** implementing the Act of 29 July 2005 *on certain forms of support for innovation activities* (Official Journal of Laws of 2005, No. 179, item 1484) introducing economic-financial instruments including tax deductions, technological loans, direct budgetary support, supporting company participation in R&D financing; implementing the Act of 8 October 2004 *on the principles of financing science* (Official Journal of Laws No 238, item 2390, with further amendments) and the Act of 28 July 2005 *on public-private partnerships* (Official Journal of Laws of 2005, No. 169, item 1420). Introducing legal provisions to allow for the implementation of the investment park concept.

Expected effects: Increased scope of R&D financing by the private sector. Increased innovativeness of enterprises. Facilitated absorption of innovative solutions and the results of R&D work by enterprises. Increased R&D transfer to the economy.

3.2. Support for the research and development area

Current status: Outlays on R&D in Poland are very low, with around two-thirds of what is spent deriving from the State budget. A number of research and development units remain unstructured, their effectiveness low and their linkage to the business community very limited. The potential of Polish scientists as regards international cooperation, in particular participation in European projects and research programmes is also still to be utilised.

Implementation instruments:

- **institutional/organisational:** restructuring R&D units, particularly through consolidation and ownership transformation; implementing State policy towards science (in particular the Foresight Programme) oriented towards the development of research and technology in areas ensuring fast economic growth; supporting international research and development cooperation and promoting the participation of entrepreneurs in European programmes and initiatives; investment in R&D infrastructure to serve work by research units that generates economic benefits; development of training and consultancy as regards large research projects, investment processes and intellectual property rights;

- **legislative:** increasing expenditure on research and development work in the next Budget Acts, amending the Act *on research and development units*, implementing the Act of 8 October 2004 *on the principles of financing science* (Official Journal of Laws of 2004, No. 238, item 2390, with subsequent amendments) and the Act of 29 July 2005 *on certain forms of support for innovation activities* (Official Journal of Laws of 2005, No. 179, item 1484).

Expected effects: Better adjustment of the R&D field to the needs of entrepreneurs. Increase in the level of productivity of the Polish economy.

3.3. Development of information and communication technologies in the economy and administration

Current status: The current level of use of information technologies in administration (*e-government*), business (*e-business*), education (*e-learning*) and the healthcare sector (*e-health*) is much lower than the average for the EU-15 and the new Member States. The level of development of the public services provided electronically is one of Europe's lowest (EU-15 – 68%, Poland – 35%).

Implementation Instruments:

- **institutional/organisational:** implementing IT-based systems to support decision-making processes in the economy and administration; upgrading telecommunications infrastructure and developing infrastructure for broadband Internet access at national and regional levels; propagating the use of electronic communications in the economy, administration and healthcare;

- **legislative:** adjusting legislative measures to the fast development of advanced information technologies; implementing the Act of 17 February 2005 *on IT support for the operations of the entities performing public tasks* (Official Journal of Laws of 2005, No. 64, item 565), which provides for a State IT Development Plan, giving the Minister with responsibility for ICT a tool for the coordination and control of projects in implementation, and introduces an interoperability framework for teleinformation systems, creating conditions stimulating ICT development in Poland; implementing in full the amended Tax Law; adapting to European standards as regards ICT and *e-health*.

Expected effects: Lower transaction costs in the economy and enhanced efficiency of public administration. Improved utilisation of resources in healthcare and a reduction in costs. Less information exclusion. The development of modern telemedicine technologies and increased technological awareness of citizens through the development of telecommunications infrastructure and broadband Internet access.

3.4. Facilitating the use of eco-technologies, supporting energy efficiency and cogeneration

Current status: As material-, energy- and water-intensive technologies are still rather widely used in Poland, the effectiveness of environmental resources management is on the low side. Notable among the barriers impeding the full use of the potential eco-technologies offer is the limited capacity of companies to finance costs and risks as regards eco-innovation, as well as insufficient outlays on research and development in that field.

Implementation instruments:

- **institutional/organisational:** implementing the National Environmental Technology Action Plan (ETAP); wider use of risk-financing instruments in the area of eco-innovation; applying environmental criteria in public procurement; creating a database of eco-technologies; conducting information campaigns concerning the advisability and profitability of using the most energy-efficient goods; supporting the development of local district heating systems with cogeneration being afforded preferential treatment;

- **legislative:** amending the Energy Act, implementing the Act *on public-private partnerships*.

Expected effects: The increased competitiveness of enterprises owing to higher level of their innovativeness, including the transfer of environmentally friendly solutions in terms of technology, products and organisation. Expansion of the market for eco-technologies. Introduction of goods featuring the highest classes of energy efficiency on to the market and for use. The development of industry serving the needs of innovative technologies. Lessening of the economy's negative impact on the environment.

Priority 4. The development and modernisation of infrastructure and the securing of conditions for competition in the network sectors

The condition of Poland's **infrastructure** continues to remain a major barrier to economic development. The existing layout of the transport network in Poland lacks a developed grid of motorways, express roads and fast train routes as well as developed and comprehensive systems of public transport – a serious obstacle to the movement of persons, goods and services, a contributor to the slowdown in economic development and a constraint upon territorial cohesion at both the national and Community levels. The existing road network does not meet European standards.

There is a total of 1446 km of **roads** on which the allowable axle load is 11.5 t/axle (as of the end of 2004). This represents just 8% of all the national roads. By the end of 2004, 552 km of motorways and 106 km of expressways had been commissioned, while 20 ring roads had been built. At present, 288 km of motorways have been completed, along with 197 km of expressways and 19 ring roads under construction. Furthermore, it is estimated that 30% of national roads require immediate repair, while another 30% will qualify for repair in the coming years. Poor road infrastructure hampers international transport, limits the opportunities for attracting foreign capital and reduces the mobility of the workforce.

The condition of **railway infrastructure** is also bad, making the transport of goods by rail a time-consuming business that impairs competitiveness vis-à-vis road transport. The track along about 35% of Polish railways qualifies for replacement, the maximum allowable speed along over 9000 km of line (almost half of the entire network) being limited to 60 km/h.

The public transport system needs support if its market share is to be maintained or expanded, and the mobility of the labour force increased.

There is a need to improve the **infrastructure of sea ports and airports**, in order to increase the competitiveness of the corresponding means of transport and alleviate their impact on the environment.

The overall **housing** situation in Poland is far from satisfactory. It has an adverse effect on the comfort of the conditions in which people live, serves as a break on demographic processes and contributes to the low level of labour-force mobility. The persistent sectoral barriers still include: a limited supply of land for housing developments (lacking local plans and a shortage of land with infrastructure for development), a poor state of repair and a great backlog where necessary repairs are concerned, a low percentage of social housing in the housing resources at the disposal of *gminas*, a significant disproportion between the purchasing power of potential buyers and the (relatively high) prices of flats. A large proportion of households face barriers limiting their access to housing loans (high-costs bank loans and a lack of suitable collateral to secure them). The legislative solutions pursued to date with respect to the housing sector have often lacked the necessary comprehensiveness, notwithstanding the many positive effects that legislative changes and the operating support mechanisms have ushered in. In 2004, a pilot programme of financial support for *gminas* was introduced with the aim of creating resources of social housing, yet comprehensive solutions are still lacking. After 10 years of another National Housing Fund-supported programme involving community housing projects for letting within the community, the annual supply of residential space generated does not exceed 10,000 flats. Where fully-owned flats are concerned, the financing-support instruments based on mortgage loans that were extended to households in 2002 (as interest-rate breaks or housing loans with fixed interest rates) have proven insufficient to elicit demand for the said loans. The Government thus intends to take comprehensive action to support the housing sector.

To maintain **effective competition in network sectors** it will be necessary to continue with liberalisation in the power industry, transport, telecommunications and postal services. It is indispensable that conditions for the start-up of competitive operators on these markets be created, while there is at the same time a gradual decrease in the direct influence of State bodies on the companies operating in these sectors.

The process creating a **liberal market in the energy sector** has aimed to continue activities as regards market restructuring and technological and organisational modernisation, seeking in this way to fulfil European Union requirements. A competitive **electricity market** is developing on the

basis of the existing market model, with regulated access to the grid (*i.e.* through the application of TPA – Third Party Access). The implementation of a competitive electricity market has entailed creation of a balancing market managed by an independent energy transmission operator spun off from the Polish Power Grid (*Polskie Sieci Elektroenergetyczne* S.A.) Capital Group. An exchange managed by *Towarowa Gielda Energii* S.A. has been launched, while market liberalisation in the **gas sector** has resulted in the decoupling of gas distribution companies and a distribution system operator from the Polish Oil and Gas Company (*Polskie Górnictwo Naftowe i Gazownictwo* S.A.)

Foremost among the stumbling blocks to the liberalisation of the energy markets are the long-term contracts for capacity and electricity purchase concluded between the Polish Power Grid Company (*Polskie Sieci Elektroenergetyczne* (PSE) S.A.) and power generators, as well as the gas purchase contracts entered into with similar ‘take or pay’ obligations where the gas sector is concerned. Such long-term contracts constrain the functioning of market mechanisms throughout the energy sector.

The **telecommunications market** liberalisation and improved competitiveness of the relevant Polish market are priorities enshrined in the Telecommunications Act of 16 July 2004 (Official Journal of Laws of 2004, No. 171, item 1800, with subsequent amendments). This Act defines, *i.a.*, the rules underpinning the provisioning and overseeing of telecommunications services, the rights and obligations of telecommunications companies, users and end-users, the conditions under which networks and services may be provided and markets regulated, the conditions as regards the provision of general services and the protection of service users, conditions governing the allocation and numbering of frequencies and conditions as regards data processing in telecommunications and the protection therein of secrecy. The price levels are regulated by the market, though to a certain extent also by the President of the Office of Telecommunications and Post Regulation (URTiP) and the President of the Office of Competition and Consumer Protection (UOKiK).

An important step towards liberalisation of the **postal services** market has been taken. The range of services reserved for the public operator decreased on the day of Poland’s accession to the European Union. The weight limit of shipments falling within the exclusive competence of the “Polish Post” enterprise (*Poczta Polska*) was lowered from 500 g to 350 g, and the price limit went down from five to three times the fee specified in the Polish Post’s price list for a standard letter falling within the lowest weight category sent First Class. A weight limit greater than that in force in other Member States under Directive 97/67/EC follows from an Accession Treaty transition period for Poland which remains in effect until the end of 2005.

The number of operators other than *Poczta Polska* providing mail services increased considerably from 80 (on 30 June 2004) to 97 (30 June 2005). Simplified procedures as regards the licenses for the provision of mail services (which limit the range of activities made subject to license and required if new operators are to obtain entry on to the postal operators register) have encouraged new operators to launch businesses. These changes became operative with the entry into force of the Act *on the freedom of enterprise*.

Infrastructure

4.1. Creating a modern transport network (roads, local public transport, railways, airports, seaports)

Current status: The lack of a comprehensively-developed network of motorways, express roads, fast train links, public transport systems of desirable quality, well-developed airport and seaport infrastructure (coupled with airport hinterland infrastructure linked with road and railway networks) is currently a very serious barrier to the development of the Polish economy. While the harmful environmental and health impacts of transport (through vehicular emissions, noise and congestion) are on the increase, the spatial potential for new infrastructural projects is on the decline with more and more areas becoming subject to special nature conservation measures.

Implementation instruments:

- **institutional/organisational:** the implementation of road and railway projects, as well as seaport access infrastructure projects, co-financed from EU funds under transport programmes, and the implementation of comprehensive public transport systems infrastructure under regional development programmes; Poland's participation in the Uniform European Air Space Programme; improvement of the model regarding aviation infrastructure management, the building of cooperation with local authorities; the bringing of all existing safety bodies for the different types of transport within a single, coherent structure managing the integrated transport safety system in Poland; the drawing up of a programme for the development of a network of airports and the ground infrastructure thereof (including airports serving the Warsaw conurbation and regional airports); the optimising of the transport system from the point of view of the external costs borne by the economy and the society;

- **legislative:** improving the regulatory framework in the air transport sector with a view to market needs being met; clarifying the legal status of airports co-used with the military; implementing legal solutions ensuring the provision of appropriate financing for rail infrastructure investment from public funds; implementing mechanisms allowing costs of the maintenance, repair and upgrading of rail infrastructure to be covered from public funds; adopting an act on the integrated transport safety system harmonising Polish legislation with Community law and other international regulations.

Expected effects: Better cohesion between the national and the European transport systems. Lower costs of transport fleet and lesser wear of rolling stock. Better quality transport carrying more passengers and a greater volume of freight. A lessening of the harmful impact of transport on the environment.

4.2. Restructuring and ownership transformation of the fuels and energy sector

Current status: The Polish fuels and energy sector remains highly diversified within its sub-sectors: from one-company dominance in the gas sector to highly de-monopolized structures in the liquid fuels sector (as regards trade and distribution) or power sector.

Implementation instruments:

- **institutional/organisational:** the legislative decoupling of distribution system operators in the power and gas sectors; the capital consolidation of enterprises operating in the sector; privatisation of companies with the exception of transmission operators; employment restructuring to match production needs and ensure improved work efficiency and effectiveness in mining and power companies;

- **legislative:** implementing the EC market directives.

Expected effects: through restructuring in the fuels and energy sectors, the obtainment of such a structure of operators as can ensure efficient operation of the fuels and energy markets, such that the operators are also capable of competing with foreign companies.

4.3. Supporting the construction and upgrading of energy infrastructure

Current status: The quality and configuration of the existing energy infrastructure and its cross-border connections do not ensure effective operation of the markets for electricity and natural gas, and do not allow Poland to take advantage of its location by serving as a transit country for fuel deliveries to other EU countries. The low level of effectiveness of primary energy use, as well as of energy production and consumption, result in high energy-intensiveness of economic and social domains, while the structure to the energy resources consumed has an adverse impact in increasing pollution emissions.

Implementation instruments:

- **institutional/organisational:** assistance from public funds for the implementation and carrying out of selected infrastructure projects;

- **legislative:** adopting the laws and implementing regulations necessary if tasks are to be carried out.

Expected effects: An increase in the country's transmission capacity and that of transboundary connections. Increased effectiveness of energy production, transmission and use, as well as the use

of renewable resources. More rational use of energy resources. A curbing of pollution emissions and a reduction in social costs.

4.4. Support for the development of renewable energy sources

Current status: The increase in the use of renewable energy sources (RES) is supported mainly through legislative measures, e.g. preferences conferred upon the sale of energy produced from RES. The results of these actions are not sufficient to allow targets as regards the share of these sources in primary energy and electricity generation to be reached. Where primary energy consumption in Poland in 2003 was concerned, the share taken by renewable energy was of 1.6%, compared with the EU-15 average of 13.7%. There are plans to increase the share in Poland to 7.5% by 2010, in accordance with 'The State Energy Policy to the Year 2025', adopted by the Council of Ministers on 4 January 2005.

Implementation instruments:

- **institutional/organisational:** implementation of a trading scheme for energy certificates of origin; support for the use of biomass, water and wind energy; an increase in the use of bio-components in the liquid fuels market.

- **legislative:** implementing EU directives, implementing 'A Strategy for the Development of Renewable Energy', adopted by the Council of Ministers in 2000.

Expected effects: the development of agricultural production, employment growth, the development of industry and services meeting the needs of renewable energy. Lower emissions of pollutants, notably greenhouse gases, and a more rational use of natural resources.

4.5. Improved affordability of housing to members of communities; construction and upgrading of sanitation infrastructure

Current status: Among other things, underdeveloped housing results in lower living standards, limited mobility in the labour market and a widening gap in unemployment rates from one voivodship to another. It thus contributes to the consolidation of poverty and social exclusion, while enhancing current negative demographic tendencies in the long term.

The low index for wastewater treatment plant services per capita, the presence of many rogue waste dumps, erratic waste management and problems as regards the quality and quantity of water supply all result in a level of sanitation in Poland that is low overall.

Implementation instruments:

- **institutional/organisational:** support for the development of flats for rent that are affordable to middle-income-level groups (including flats under ownership arrangements), the repair and quality enhancement of the existing housing resources; lower costs of flat exchanges; the creation of an effective system of housing financing, i.a. through actions increasing access to housing loans and the importance of the securitisation⁵⁾ of mortgage assets and developing a secondary market for mortgage debt, as well as supporting the creation of a pool of social housing (council flats); the development of a housing benefits system; the extending of support to households as they seek flats of their own; support for housing investment undertaken jointly by government at the level of a voivodship and of a *gmina*, creating pools of developed plots of land for housing purposes by communes, supporting the activities ensuring the supply of good quality water, wastewater treatment, waste disposal, safe sanitary conditions for leisure activities.

- **legislative:** amending the respective acts of law, drafting and enacting new laws implementing the governmental programme on community housing projects, and on the system supporting local authorities in the creation of resources of social housing.

Expected effects: Better living conditions for families and greater mobility of the population. Reduced social exclusion as regards housing.

⁵ Securitisation – refinancing of a specific category of assets on the capital market through the issuance of securities secured by the debtor's assets.

4.6. More widespread use and development of Public-Private Partnerships (PPPs)

Current status: To date, only pilot projects have been implemented under the PPP system, particularly in the transport sector (over the construction and operation of sections of motorway).

On 7 October 2005, the Act of 28 July 2005 *on public-private partnerships* (Official Journal of Laws of 2005, No. 169, item 1420), hereinafter referred to as the “PPP Act”, went into effect.

The PPP Act aims to remove barriers regarding the role and functions of administration in implementing public tasks with the participation of a private partner. The Act authorizes public and private operators to enter into cooperation agreements on PPP with a view to public tasks being discharged. A further aim is to prevent the emergence of situations whereby PPP projects might become political instruments or come under political pressures.

The more widespread use of PPPs should effect a change in the philosophy that underpins the financing of public tasks.

Implementation instruments:

- **institutional/organisational:** The creation of a system to promote good practices and models for PPP projects, as well as a raising of levels of knowledge within public institutions when it comes to the preparation and evaluation of PPP projects, the setting up of PPP project monitoring and overseeing mechanisms;

- **legislative:** implementing the *Act on public-private partnerships* and the implementing regulations thereto.

Expected effects: The potential benefits accruing to the public sector from the more widespread application of PPPs have to do with private partners’ assuming the responsibility for financing the implementation of public tasks. This is an effective way of raising capital, particularly when public financing is insufficient.

At the same time, PPPs should also enhance the absorption of EU assistance (assuming the situation applying in other EU Member States holds good for Poland). The public partner applying for EU support should be able to indicate the contribution of the private investor as the required co-financing of a project. Hence the strains imposed upon both local government budgets and the central budget could be alleviated.

The long terms with which PPP agreements are mostly associated should also have beneficial effects as regards the introduction of long-term financial planning.

Liberalisation of network markets

4.7. Introduction of competitive markets for electricity and natural gas

Current status: The process of eliminating barriers to the development of competitive electricity and gas markets is currently ongoing, in line with EU energy policy. The restructuring programme for the long-term contracts for the purchase of power and electricity concluded between PSE S.A. (the Polish Power Grid Company) and electricity generators is being implemented and operational principles of the balancing market are being adjusted to the conditions of the competitive market.

Implementation instruments:

- **institutional/organisational:** the creation of an institutional system by which to implement measures removing barriers as regards long-term contracts for the sale of power and electricity; administrative decisions made by the President of the Energy Regulatory Office.

- **legislative:** in line with accords and the outcome of notifications from the European Commission.

Expected effects: A cost reduction in energy-sector operations and enhanced energy efficiency in all areas of energy production, transmission and use. A rationalisation of pricing.

4.8. Liberalisation of rail transport

Current status: Where the liberalisation of rail transport is concerned, the changes introduced by Rail Packages I and II created conditions for the proper operation of rail transport on the market for transport services in Poland. The Office of Rail Transport was established to supervise regulation in this area, and to exercise independent technical supervision over the activities of rail carriers and infrastructure administrators. The Office of Rail Transport as national regulator of the rail market will cooperate with the European Railway Agency (ERA).

In relation to these reforms, rail transport is subject to a licences for the transport of persons and goods as well as the provisioning of traction vehicles, this being granted by the Office of Rail Transport. Licences of this kind for passenger transport are held by 25 carriers, while those for the transport of goods are in the hands of 59 carriers, and those for making traction vehicles accessible in the hands of 38.

Implementation instruments:

- **institutional/organisational:** introduction of instruments financing infrastructure;
- **legislative:** passing Acts *on the Rail Fund* and *on the financing of land transport infrastructure*, amending the Act *on Rail Transport*, amending the Act *on the commercialisation, restructuring and privatisation of the 'Polskie Koleje Państwowe' (Polish State Rail) State-owned enterprise*.

Expected effects: Increased competition. Enhanced competitiveness of rail transport. Lower service prices.

4.9. Creating conditions for effective competition on the telecommunications market

Current status: The EU legal regulations concerning electronic telecommunications have been implemented through the adoption of the Telecommunications Act of 16 July 2005. The Act provides the legal grounds for effective regulation of the telecommunications market by the President of the Office of Telecommunications and Post Regulation.

Implementation instruments:

- **institutional/organisational:** a strengthening of the role of the regulatory body (the target solution being to integrate regulation of media and telecommunications in one new regulatory authority), the improvement of regulatory instruments;
- **legislative:** amending the existing legal regulations; new legislative solutions.

Expected effects: Increased competition. Lower service prices.

4.10. Transition from analogue to digital radio and television broadcasting

Current status: In May 2005, the Council of Ministers adopted *The Strategy for the transition from analogue to digital broadcasting in ground-based television*. Currently being implemented, the schedule set out in the *Strategy* is aimed at the gradual introduction of digital broadcasting in ground-based television and the phasing-out of analogue broadcasting. The cessation of analogue broadcasting is planned for some time up to the end of 2014. Also planned is an analysis of the feasibility of digital radio broadcasting being introduced in Poland.

Implementation instruments:

- **institutional/organisational:** the establishment of an inter-ministry team for the introduction of digital broadcasting and TV in Poland;
- **legislative:** amending the existing legal regulations; new legislative solutions.

Expected effects: Higher broadcasting quality and wider range of programming offered. Availability of additional services.

4.11. Development of the postal service market

Current status: Following the Copenhagen negotiations, the scope of activity restricted for the public operator in Poland will be decreased as of 1 January 2006, within the shipment weight range to 50 g and within the price range to 2.5 times the fee charged by the operator for First Class shipment within the smallest weight range. Full liberalisation of postal services is planned to begin on 1 January 2009.

Implementation instruments:

- **institutional/organisational:** commercialisation of the Polish Post Public Utility Company “Poczta Polska”;

- **legislative:** amending the *Act on the Polish Post State Public Utility Company* and the *Act on the commercialisation and privatisation of enterprises*.

Expected effects: Increased competitiveness. Better service quality.

The area of labour market policy

Priority 5. The creation and maintenance of new job opportunities and a reduction in the level of unemployment

The Polish labour market remains particularly unfavourable, compared to that prevailing in other European Union Member States. The unemployment rate (19% on average in 2004, and 18.1% in the second quarter of 2005, according to BAEL) is at twice the EU average level, while indicators for professional activity and employment remain low in the 15-64 age group (at 64.2 % and 51.9 %, respectively). High unemployment leads to aggravated social exclusion and passivity, while some social groups are particularly vulnerable to it (*e.g.* the long-term unemployed, the poorly-educated and the disabled). It is assumed that the unemployment rate will be reduced to 14.6% by 2008.

Unemployment particularly affects **young people** (15-24 year-olds) entering the labour market. Many secondary school-leavers and university or higher-education graduates have problems finding their first job due to the generally-difficult situation on the market and their own lack of professional experience. Joblessness is also more common among **older people** (aged 50-64) who have already, by and large, left the job market as a result of a deactivation policy contributing to lower professional activity indicators in this group, especially as regards poorly-educated people with limited skills. The activity of women on the labour market is also insufficient due, among other things, to the lack of proper organisational and legal solutions that would allow them to combine their jobs with other obligations.

Rural areas and less-developed areas are a challenge for the employment policy in Poland, as a bad situation on the labour market can be attributed to many factors, such as poor-quality infrastructure and human capital, and the limited scale of economic activity.

The situation on the labour market is also conditioned by existing solutions as regards **labour law**. Polish regulations generally follow modern standards, including ones that favour greater diversity to forms of employment, though flexibility in forms of taking on people is still perceived as a factor threatening job security.

There is definitely room for improvement in regard to the range and effectiveness of **active labour market policies**, as well as the lack of appropriate monitoring and assessment the target range and the actual effectiveness of such activities.

One barrier to faster growth in employment in Poland relates to high non-wage **labour costs** resulting, most of all, from large social insurance contributions charged on salaries and wages.

Economic development in Poland in recent years has mostly been connected with rapidly increasing productivity. Technological changes and restructuring processes in the economy are bringing changes to the structure of the **demand for labour**, necessitating adjustments on the supply side –

i.e. an ongoing development of qualifications, and the creation and promotion of new, flexible forms of employment. These are the only measures that can reduce the level of structural unemployment.

It must be emphasized that the activities indicated are addressed under Priority 2, *Developing entrepreneurship* and Priority 4 *Infrastructure development*. The issue of a reform in the social insurance system which is to contribute to people being retained in employment and to a reduction in passivity in the 'immobile' age group is addressed by activities under Priority 1 *Consolidation of public finance and improvement of public finance management*.

5.1. Reduction in the charges imposed on employees with the lowest income

Current status: Compared with OECD countries in general, Poland has relatively high non-wage labour costs, placing the country among the States in which the charges imposed on hired labour are high. At the same time, effective tax progression (*i.e.* that after non-wage costs and social insurance contributions are taken into account) is lower in Poland than in any other OECD Member State – joint tax charges being almost flat. This leads to a relatively high taxation of the labour of the least productive, *i.e.* those who usually find themselves in a very difficult situation on the job market due to their age, education or health condition.

The ratio between the minimum wage and the average wage level is moderate, fluctuating at around 35-36%. The Act of 1 July 2005 *amending the Act on the minimum wage for labour and other acts* (Official Journal of Laws of 2005, No. 157, item 1314) introduced important changes to the method by which the minimum wage is established. As a result, an increase in the minimum wage to about 50% of the average wage should be expected in the long term.

Implementation instruments:

- institutional/organisational:

- legislative: introducing an instrument that would lower taxation on persons with the lowest income, *i.e.* that not exceeding 50% of the average wage; correcting amendments to the Act of 1 July 2005 *amending the Act on the minimum wage for labour and other acts*.

Expected effects: An increase in the net income of employees in the lowest wage bracket, without concomitant increases in the charges borne by employers. A higher level of professional activity (labour supply) and employment in this group.

5.2. Implementation of new organisational and financial solutions to increase access to labour-market services provided for the benefit of the unemployed, job-seekers and employers

Current status: Poland has 16 Provincial Labour Offices, over 350 County (*Powiat*) Labour Offices and several dozens branches of these offices. These labour offices have a total of nearly 18,000 employees. Moreover, to a varied extent and degree a number of other institutions are involved in activities for the jobless and job-seekers, such as: employment agencies, community information centres, academic career offices, many contact points in *gminas*, and family assistance centres. There is insufficient coordination and use made of the potential of these institutions.

Implementation instruments:

- institutional/organisational: the application of identical service standards by offices; the introduction of a clear division of competences and coordination between individual labour market institutions; the outsourcing of services to institutions other than public employment services working on local job markets (in *gminas*, on housing estates and in cities); linking the financing of labour market institutions with their relevant performance;

- legislative: amending the Act *on employment promotion and labour market institutions*.

Expected effects: More opportunities for a larger group of interested people to use labour-market services. Better organisation of the labour-market institutions and implementation of such cooperation principles as will bring greater benefit to the labour market and its participants.

5.3. An increased range and quality of services provided by county-level (*powiat*) and provincial labour offices

Current status: The staff potential at public employment services and the scope for their effective work are both unsatisfactory. As of the end of 2004, there were, on average, 1850 unemployed persons per employment agent in Poland (the corresponding figure in other EU Member States is 300 unemployed per job-placement agent). The educational level of public employment service employees is also unsatisfactory (fewer than 50% having higher education). The above factors have markedly limited the range of services public employment services can offer. After Poland's accession to the EU, units of the EURES network began to operate on the Polish market.

Implementation instruments:

- **institutional/organisational:** an increase in the importance of job-placement and consulting in the activity of employment services, a development of the range of services from which job-seekers and employers may benefit, improved cooperation between labour offices and secondary schools, a raising of qualifications among the staff at labour offices, monitoring of the effectiveness of services provided, an expansion of the offer by the services tailored to individual needs;
- **legislative:** amending the *Act on employment promotion and labour market institutions*.

Expected effects: Improved operation of public employment services and a greater effectiveness of the services offered thereby, particularly as regards job placement and professional counselling.

5.4. Better information about the labour market

Current status: With a view to raise the effectiveness of labour-market policies, a system to monitor professions in deficit and excess is being implemented. The system by which the demand for jobs is forecast is also being improved. Additionally, a proposal for a National System of Labour Market Monitoring comprehensive database ('data warehouse') has been developed, along with the necessary data-storage software. At the same time, administrative data sources concerning the labour market are demonstrably insufficient, making it impossible to carry out thorough analyses of the situation on lower aggregation levels.

Implementation instruments:

- **institutional/organisational:** further development of information systems in public-employment services, and their integration with the Ministry of Labour and Social Policy and Social Insurance Institution information systems, as well as with the Education Information System (SIO) with a view to aggregate data (on different aggregation levels) being obtained, as well as non-traceable data about the unemployed, as well as working and inactive individuals, and graduates;
- **legislative:** improving legal regulations as regards public statistics.

Expected effects: higher precision in measuring the effectiveness of policies concerning labour markets, and accurate identification of higher-risk groups. Periodic determination of the directions to, and intensity of, changes occurring in structure as regards profession and qualifications on the regional and national labour markets. Improved management of human capital through information on employment opportunities. Better targeting of resources and the tailoring of active policies concerning labour markets to the needs of local and regional job markets.

5.5. Activation of the members of groups particularly underprivileged on the labour market

Current status: One of the primary characteristics of Polish unemployment concerns the large share of people with low professional qualifications (persons holding vocational school certificates or even lower qualifications amounted to 66.9 % of those unemployed). Young, poorly-educated people who have problems entering the job market also form a large group of jobless people. Moreover, over half of the unemployed have been seeking work for over 12 months from the moment of registration

at a labour office. The Act on *employment promotion and labour market institutions*⁶ defines, among other things, the unemployed up to 25 years of age, as well as long-term unemployed persons and jobless people over 50 and without any professional qualifications, as persons in a special situation on the job market, and hence as addressees of special labour-market employment programmes. One problem is that these programmes are too often addressed to people who could find work without the assistance of employment services (at the expense of those with lesser chances of finding employment).

Implementation instruments:

- **institutional/organisational:** emphasis on the implementation of programmes of professional activation for people particularly at risk of unemployment, also with the participation of NGOs operating within local job markets, monitoring the effectiveness of their actions, the development of community employment, the establishment of Centres of Community Integration.

- **legislative:** continuing work on the Act on *community cooperatives*.

Expected effects: increased participation in active labour-market policies of people who are unemployed in the long-term or who are particularly vulnerable to structural unemployment. Better targeting of public employment service activities.

5.6. Professional activation of the disabled

Current status: assistance for the disabled in Poland above all targets employers whose additional costs incurred by employing the disabled are reimbursed, while the level of reimbursement varies, depending on the employer's status.

Implementation instruments:

- **institutional/organisational:** legislative changes aimed at rationalising the operation of sheltered enterprises employing disabled persons and increasing employment of the disabled persons who are particularly disadvantaged on the job market; the introduction of a general rule that there be compensation to offset the higher employment costs of the disabled both for the open and sheltered labour markets from public funds, with the exclusion of the employers obliged to make payments to the State Fund for the Rehabilitation of Disabled Persons ('PFRON') in order to increase the numbers of disabled people in employment, especially on the open job market.

- **legislative:** passing a new Act on *support for employment and the professional and social rehabilitation of disabled persons*.

Expected effects: An equal level of assistance for disabled employees regardless of the status of their employer.

Priority 6. The improved adaptability of employees and enterprises through investment in human capital.

The quality of **human capital** in Poland (understood as the level of education and skills) is low when set against that in other EU countries. In 2004, it was still the case that about 55% of people aged 15 and over held vocational education only, while just 12% had had a higher education. At the same time, the number of secondary school graduates is increasing and more and more of these young people do decide to continue with their education at university. In the period 1995-2004, the numbers of university students more than doubled. However, only something below 12% of the entire number of university students choose technical and information-science faculties (in the academic year 2003/2004, 9% of all students studied at technical and engineering departments and 3% of all students pursued studies in the information sciences).

⁶ Article 49 (1).

The share of people aged 25-64 in lifelong learning is one of the lowest in the European Union (on average 5.0% in 2004, according to BAEL). Those who participate in different forms of training in Poland usually already have a high level of education and a job. The people who are most vulnerable to unemployment (*i.e.* those with limited professional qualifications, and older people), do not commit themselves much to raising or changing their professional qualifications.

In Poland (unlike in the majority of EU countries), there is a steady increase in the number of people of productive age, and a very slow increase in the population of post-productive age. This is a consequence of the entry into reproductive age in recent years of the generation born in the baby-boom years of the late 1970s and early 1980s. In turn, those born during the post-war boom have not yet reached retirement age. However, a complete turnaround is to be expected in coming years. It is estimated that the number of people of productive age (15-64) will keep increasing until 2010 when it reaches a peak at about 27.3 million people (*cf.* 26.7 million at present). Only after 2010 will the demographic changes become a factor curbing unemployment and contributing to an increase in the employment rate. At the same time, the proportion of the population that is of post-productive age (65 plus) – as dependent on the productive-age population (aged 15-64) will rise from 18.9 % in 2006 to 20.9 % in 2013.

The traditional model of employment with full-time unlimited work contracts is not conducive to solving the present and future problems on the job market, either. Just a small percentage of people employed in Poland have work contracts involving non-standard work arrangements. Such a situation is principally due to economic factors. The solutions that are needed will make unconventional forms of employment (self-employment, part-time, paid activity regulated under civil law contracts, teleworking) more attractive and accessible to a larger group of people.

Government activities will concentrate on two areas: increasing the flexibility of employment, and initiatives to increase the resources and quality of human capital.

6.1. Increasing the flexibility and diversification of employment forms and work organisation

Current status: The recent amendments to the Labour Code in Poland (2002-2004) have enabled a more flexible approach to be taken to working time and hence provide for diversified forms of employment. At the same time, flexible forms are still less popular in Poland than elsewhere in the world.

Implementation instruments:

- **institutional/organisational:** the dissemination of information on the opportunities for various forms of employment; the application of such flexible forms.

- **legislative:** the existing legislative solutions provide for the application of flexible employment forms and the implementation of new forms of work organisation; more changes will be introduced together with legislative changes (the new Labour Code).

Expected effects: Higher professional, spatial and trans-border mobility of employed persons and job-seekers.

6.2. Investing in human capital

Current status: The educational level of society does not meet the needs of the knowledge-based economy. There are too few people who have completed secondary or higher education. The level of qualifications and general competence of prospective employees is in many cases insufficient for them to either find employment or become self-employed. What is more, the qualification structure does not match the needs of the labour market. This indicates that the educational offer in this regard is unsatisfactory. The indicator for the participation of adult Poles in lifelong learning is also very low, this in general being due to the fact that people in employment do not perceive the need to raise their qualifications. Very few of those who have low-level qualifications, who live in rural areas or who are older or disabled participate in lifelong learning. Over 50% of employers, particularly from small enterprises, do not invest in employee training. Moreover, training for the unemployed is of limited effectiveness.

Implementation instruments:

- **institutional/organisational:** the development and implementation of a cross-sectoral “Lifelong Learning Strategy”, in particular as regards systemic solutions to the quality and effectiveness of teaching and training (considering key competences in teaching and testing standards, in the training and upgrading of the qualifications of teachers and trainers and in the evaluation of teaching and training; the development of a system of accreditation for lifelong learning institutions; the creation of a system for the validation and certification of qualifications obtained outside the educational system), the matching of programmes of education and professional development and their contents to job-market needs, on the basis of professional qualification standards, and their constant updating; better information on lifelong learning and a promotion of the idea, as well as enhanced cooperation with social partners; implementation of solutions supporting the development of distance learning (e-learning) and the development of professional counselling with a view to barriers to accessing education being removed, especially as these relate to poverty or disability; the creation of a national qualification system and framework to facilitate comparison between levels of professional and general qualifications of workers from different Members States of the EU.

- **legislative:** implementing legal solutions that favour an increase in demand for educational services and increase adult participation in lifelong learning, as well as solutions aimed at improving the quality of education and training: amending the *Act on the promotion of employment and labour market institutions*.

Expected effects: Better quality of education and professional training and, as a result, better preparation of school graduates and trainees for employment and self-employment. An increase in the number of adults (in particular from ‘risk’ groups) participating in lifelong learning.

THE IMPLEMENTATION OF THE RENEWED LISBON STRATEGY WITH THE SUPPORT OF INSTRUMENTS OF COHESION POLICY

The National Reform Program (NRP) does not create a separate legal basis upon which instruments for the obtainment of resources from the Structural Funds and Cohesion Fund are programmed. Rather, NRP priorities and measures are supported or supplemented by directions to development provided for in the National Development Plan (NDP) and – in line with the new idea concerning the implementation of the renewed Lisbon Strategy development – by the National Strategic Framework (NSF) as the basis for Structural Fund and Cohesion Fund intervention in Poland. Due to its timeframe, the NDP for 2005-2008 overlaps with both the 2004-2006 NPR and the 2007-2013 NSF.

The 2004-2006 National Development Plan served as the basis for the development of Sectoral Operational Programmes (SOPs) (Human Resources Development SOP, Improvement of the Competitiveness of Enterprises SOP, the Restructuring and Modernisation of the Food Sector and Rural Development SOP, Fisheries and Fish Processing SOP, Transport SOP, the Integrated Regional Operational Programme, the Technical Assistance OP), the Community Initiative programmes (Equal and Interreg), and the Strategy for the use of the Cohesion Fund. The total public funding (both domestic and Community) to be committed to the implementation of the 2004-2006 National Development Plan was of EUR 17,673 million.

Implementation of NRP objectives within the Operational Programmes under the 2004-2006 NDP (as of 31 October 2005)

The Human Resources Development (HRD) SOP

NRP objectives are reflected in most HRD SOP activities and, in particular, in the projects: *strengthening the potential of public employment services, developing the service offer of labour market institutions, supporting the unemployed (including the long-term unemployed), supporting the seriously or moderately disabled on the open labour market, supporting persons at risk of social exclusion, bridging the educational gap between rural areas and cities, promoting the development of lifelong learning, increasing the use of ICT in the educational process, improving educational quality through the accreditation of educational institutions, developing staff for the modern economy, and promoting systemic solutions for adaptation potential and a knowledge-based economy.*

Under the HRD SOP framework the value of all contracts concluded accounts for 56% of the total allocation. The most popular measure is *developing staff for the modern economy*.

The Improvement of the Competitiveness of Enterprises (ICE) SOP

The NRP reforms within the framework of this programme are principally implemented through measures: *strengthening the institutions supporting business activity, affording better access to external sources of financing enterprise investment, creating conditions conducive to business development, strengthening cooperation between R&D and the economy, and developing a system of access to information and on-line public services for entrepreneurs.*

The value of assistance from the IEC SOP for formally-approved projects amounts to 214% of allocations for 2004-2006 and is thus the highest in any of the Operational Programmes. The total value of contracts signed/decisions made amounts to 45.1 % of the total allocation. By the end of September 2005, the resources released amounted to 1.76% of total programme obligations. The most popular are measures under Priority 2. *Direct assistance for enterprises.*

The Transport SOP

As regards this programme and the Strategy for the Use of the Cohesion Fund, NRP priorities are above all implemented through projects in: *railway line reconstruction, improved access to seaport infrastructure, the development of intermodal systems, the construction and reconstruction of motorways, expressways and national roads and improvements in traffic on national-status roads.*

Under the Transport SOP, formally approved project applications amount to more than 134.5% of total programme obligations. The contracts for co-financing that have been signed account for ca. 61.8% of the total allocation, and for almost 265% of the allocation for 2004.

The Integrated Regional Operational Programme (IROP)

The NRP objectives under this programme are implemented, above all, through the following measures: *upgrading and expansion of the regional transport system, public transport development in large conurbations, environmental protection infrastructure, information society infrastructure, development of the skills needed on the regional labour market and lifelong learning opportunities in the regions, professional re-training of those leaving the agricultural sector and/or likely to be affected adversely by restructuring processes, entrepreneurship promotion, regional innovation strategies and knowledge transfer; and degraded urban, rural, post-industrial, post-military and restructured areas.*

The activities covered by the IROP are all associated with the submission by beneficiaries of formally approved applications for support from the European Regional Development Fund (ERDF) and the European Social Fund (ESF). This amounts to 195% of the allocation for the entire programme duration. The total value of contracts signed is equal to 55% of the resources for 2004-2006. About 14.16% of the allocations for 2004 and 3.31% of those for the entire programme duration have been released from the programme accounts.

Continuation of the NRP objectives in the years 2007-2013

The debate over the implementation status and future of the Lisbon Strategy and EU Cohesion Policy has bred a new concept regarding implementation (with more definite drive of the Lisbon Strategy into growth and employment issues plus convergence, competitiveness and territorial cooperation as newly-defined objectives of the Cohesion Policy) as well as new scope for the Structural Funds and Cohesion Fund.

With a view to the renewed Lisbon Strategy being implemented effectively, the European Commission has proposed application of an integrated approach that combines economic and social issues – as reflected in the Integrated Guidelines for Growth and Employment for the years 2005-2008 (IG). These guidelines form the basis for the implementation of the programme of economic, social and structural reforms provided for in the National Reform Programme.

A document complementary to the IG, also developed at Community level, comprises the Community Strategic Guidelines for growth and jobs, 2007-2013 (CSG). These provide the basis for the development at national level of the 2007-2013 National Strategic Reference Framework (NSRF). The draft of this document, approved by the Council of Ministers on 27 September 2005, envisages the commitment of ca. 60% of Community funding towards the implementation of the renewed Lisbon Strategy. Hence, beginning in 2007, the directions to reform envisaged in the NPR as regards macroeconomic, structural and labour-market policies will be supported under national and regional Operational Programmes co-financed by the Structural Funds and Cohesion Fund, and targeting support for the modern economy, human resources and a modern and partnership-based means of exercising power, as well as support for infrastructure and the environment.

On account of the fact that work to prepare the final arrangements for the Operational Programmes and the relevant tables of financing schedules for the years 2007-2013 is still in progress, this sub-chapter can not supply data on the financial allocations for individual measures programmed in the National Reform Programme for 2005-2008.

ANNEX – NRP MEASURES FOR 2005-2008, AS COMPARED WITH EC INTEGRATED GUIDELINES

Integrated Guidelines	Activities provided for in the National Reform Programme for the years 2005-2008
<p>I. <u>Macroeconomic area guidelines</u></p> <p>(1) To secure economic stability for permanent growth</p> <p>(2) To safeguard economic and budgetary sustainability as a basis for employment growth</p>	<p>Priority 1 – <u>The consolidation and improved management of public finances</u></p> <ul style="list-style-type: none"> • Further introduction of compulsory internal audit of public institutions' current expenses • Further decentralisation of public expenditure • Optimising access to benefits leading to early employee deactivation. • Improving the farmers' social insurance system • Reform of the system of disability pensions • Continuation of the healthcare system reform
<p>(3) To promote an efficient allocation of resources for growth and employment</p>	<ul style="list-style-type: none"> • Rationalising public expenditure on administration and increasing control over public resources which are at the disposal of special-purpose funds and State agencies • Directing State aid towards horizontal goals • IT development in public finance • More widespread use and development of Public-Private Partnerships
<p>(4) To ensure that wage developments contribute to macroeconomic stability and growth</p>	<ul style="list-style-type: none"> • Increasing the flexibility and diversification of employment forms and work organisation • Investing in human capital
<p>(5) To promote greater coherence between macroeconomic, structural and employment policies</p>	<ul style="list-style-type: none"> • Implementing a system of long-term budgetary planning • Adopting EU standards (ESA'95) as regards statistics and forecasts in the public finance sector
<p>(6) To contribute to a dynamic and well-functioning Economic and Monetary Union</p>	
<p>II. <u>Microeconomic and structural policy areas</u></p>	<p>Priority 2 – <u>The development of entrepreneurship</u></p> <p>Priority 3 – <u>Increased innovativeness of enterprises</u></p> <p>Priority 4 – <u>The development and modernisation of infrastructure and the securing of conditions for competition in the network sectors</u></p>

(7) To increase and improve investment in R&D, especially that implemented in the private sector	<ul style="list-style-type: none"> • Support for the research and development area
(8) To facilitate all forms of innovation (9) To facilitate the increased production and use of ICT for the creation of an information society	<ul style="list-style-type: none"> • Development of the innovation market and of the institutional environment facilitating cooperation between the R&D area and the economy • Development of information and communication technologies in the economy and administration
(10) To strengthen the competitive advantage of Poland's industrial base	<ul style="list-style-type: none"> • Development of the innovation market and of the institutional environment facilitating cooperation between the R&D area and the economy
(11) To support the sustainable use of resources and strengthen the synergies between environmental protection and growth	<ul style="list-style-type: none"> • Facilitating the use of eco-technologies, supporting energy efficiency and cogeneration
(12) To extend and deepen the Internal Market (13) To ensure open and competitive markets inside and outside Europe and make use of globalisation's benefits	<ul style="list-style-type: none"> • Liberalisation of network markets (in energy, natural gas, rail transport, telecommunications and post) • Directing State aid towards horizontal goals
(14) To create a more competitive environment for economic activity and support private initiative through better legislation	<ul style="list-style-type: none"> • Simplification of administrative procedures and a reduction in the costs of business operations • Improving the quality of regulations • Improvement of economic jurisdiction
(15) To promote a more entrepreneurial culture and create a supportive environment for SMEs	<ul style="list-style-type: none"> • Financial strengthening of the loan, guarantee and capital funds • Supporting the scheme for the promotion of the Polish economy and the system of services for exporters • Simplification of the investment process in construction • Completing the process of ownership transformation in the State-owned enterprises operating under the Act of 25 September 1981 <i>on State-owned enterprises</i>
(16) To expand and improve European infrastructure and complete priority cross-border projects	<ul style="list-style-type: none"> • Creating a modern transport network (roads, local public transport, railways, airports, seaports) • Restructuring and ownership transformation of the fuels and energy sector • Supporting the construction and upgrading of energy infrastructure • Support for the development of renewable energy sources

III. <u>Labour market area</u>	<u>Priority 5 – The creation and maintenance of new job opportunities and a reduction in the level of unemployment</u> <u>Priority 6 – The improved adaptability of employees and enterprises through investment in human capital</u>
(17) To implement employment policies aimed at the achievement of full employment, improved quality and productivity of work, and strengthened social and territorial cohesion	<ul style="list-style-type: none"> • Implementation of new organisational and financial solutions to increase access to labour-market services provided for the benefit of the unemployed, job-seekers and employers
(18) To promote a lifecycle-matching approach to work	<ul style="list-style-type: none"> • Activation of the members of groups particularly underprivileged on the labour market • Increasing the flexibility and diversification of employment forms and work organisation
(19) To ensure integration-friendly markets, to increase the attractiveness of work and to make work profitable for job seekers as well as less advantaged people and the professionally inactive (20) To improve matching of labour market needs	<ul style="list-style-type: none"> • An increased range and quality of services provided by county-level (<i>powiat</i>) and provincial labour offices • Activation of the members of groups particularly underprivileged on the labour market • Professional activation of the disabled • Better information about the labour market • Improved affordability of housing to members of communities; construction and upgrading of sanitation infrastructure
(21) To promote flexibility combined with employment security and reduce labour market segmentation, while taking account of the role of social partners	<ul style="list-style-type: none"> • Increasing the flexibility and diversification of employment forms and work organisation
(22) To introduce a labour-cost structure and mechanisms setting wages, so as to facilitate more employment	<ul style="list-style-type: none"> • Reduction in the charges imposed on employees with the lowest income
(23) To expand and improve investment in human capital (24) To adjust education and training systems to new competence requirements	<ul style="list-style-type: none"> • Investing in human capital