



Małopolska Economic Observatory

Regional Policy
Department
Marshal Office
of the Małopolska Region

Investment climate in Małopolska

Summary



HUMAN CAPITAL
NATIONAL COHESION STRATEGY



Małopolska
KRAKÓW Region

EUROPEAN UNION
EUROPEAN
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Summary of the final report

Research aim

The aim of the report was to provide a complex assessment of the investment climate in Małopolska evaluated on the local (municipality) level, allowing for a formulation of conclusions and recommendations for the Management Board of the Małopolska Region. Investment climate is understood in the report as a set of external and internal factors exerting influence on a given region which may impact on investment decisions. Different features (elements) of investment climate (so-called microclimates) and activities undertaken by the units of the territorial self-government aimed at increasing the investment attractiveness of Małopolska and improvement of their service provided to investors were assessed within the conceptual framework of the research.

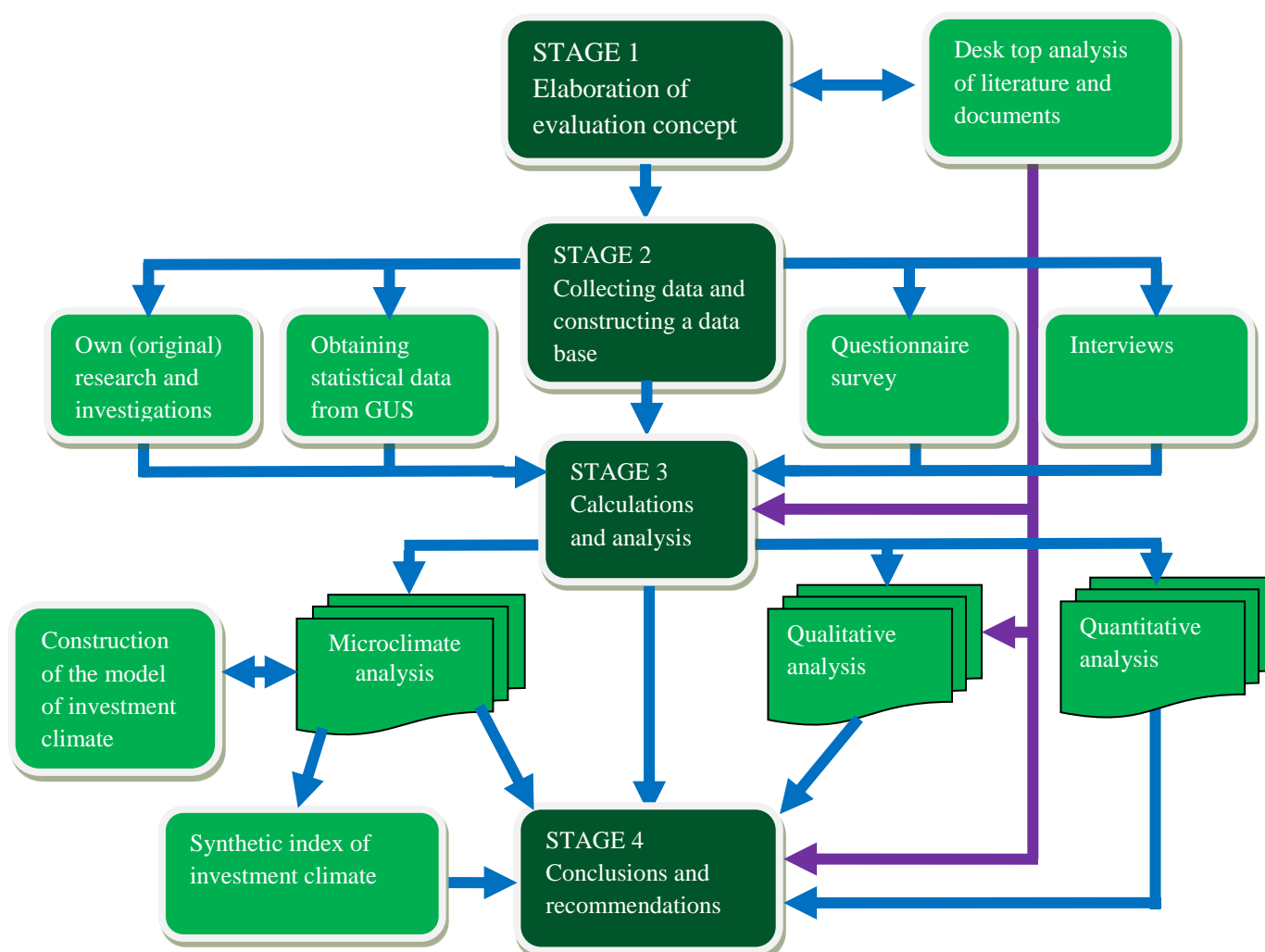


Fig. 1. Research study diagram

Methods and data sources

While conducting research many quantitative and qualitative methods were used. From a quantitative perspective the main method based on diverse sources was the multicriteria spatial analysis. Specific features of which the investment climate is composed were singled out and evaluated. They were then translated into synthetic indicators (Fig. 1). Qualitative analysis was based on information obtained during interviews and from questionnaires. Questionnaire survey covered 90 municipalities, i.e. half of such territorial units in Małopolska. Moreover, 87 in-depth interviews were conducted with persons managing municipalities in Małopolska (N=21), foreign and domestic investors active in the municipalities in question (N=31 and 25 respectively), and business supporting institutions (N=10). The results of a parallel evaluation project carried out in the region on “Foreign investors in Małopolska in 2011” were also taken into account.

Investment attractiveness of the Małopolska region

Małopolska is among five most attractive regions for investment in Poland. Still its attractiveness is visibly weaker than that of the three leading regions: Mazovia, Silesia and Lower Silesia and the region is only slightly ahead of Wielkopolska region with respect to investment attractiveness (IBnGR, 2011). In recent five years Małopolska strengthened its competitive advantages in terms of resources and labour costs as well as activities directed at investors (especially investment offers). Attractiveness of the region for activities considered sophisticated and advanced technologically improved. In addition, thanks to structural diversity of its economy and weak dependency on foreign demand, Małopolska is still relatively immune to negative external impulses. Main factors and barriers of the region’s attractiveness are presented in tab. 1.

Tab. 1. Factors and barriers of investment attractiveness in the Małopolska region

Main factors and strengths in terms of investment attractiveness	Main barriers to investment attractiveness
<ul style="list-style-type: none">• high level of human capital (favourable demographic situation, high level of educational attainment, accessibility of qualified workforce),• good transport accessibility of Krakow and western parts of the region (proximity of two international airports, links to Western Europe thanks to A4 motorway),• Krakow as a very attractive city to live, one of the showcases of Poland,• strong landscape and natural attractiveness of the	<ul style="list-style-type: none">• few attractive parcels of land for investment (high fragmentation of plots, low supply of them), conflicts with other functions (dispersion of settlements, suburbanization and urban sprawl, protected areas),• weak and very weak transport accessibility of eastern and south-eastern parts of the region,• strong and fast increasing attractiveness of other areas in Poland, including regions neighbouring Małopolska, competition for investment



<p>region (largest number of national and landscape parks in Poland, numerous spas),</p> <ul style="list-style-type: none">• large internal market (including the nearby Katowice conurbation),• broad external links (resulting among others from the historical migration from the region),• high level of social cohesion,• strong local entrepreneurship,• strong engagement of regional institutions in enhancing investment climate,• coordinating services to investors on the regional level (the Business in Małopolska Centre - CeBiM),• accumulated “knowledge capital” in terms of pro-investment activities,• presence of well known global firms who invested in Małopolska,• presence of prestigious and leading universities and research institutes.	<p>(Silesian region and Podkarpackie region),</p> <ul style="list-style-type: none">• uncontrolled suburbanisation, which in the longer perspective will lead to the degradation of attractive landscapes and generate significant transport difficulties (improvement of external accessibility will be counterbalanced by growing transport problems in urban centres),• perception of Małopolska among external investors hardly includes the economic dimension,• lack of coordination of pro-investment policy within the metropolitan area of Krakow (KOM).
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A significant intensification of pro-investment related activities in the region was observed in comparison to the state of affairs diagnosed in the previous edition of such research (Domański and Jarczewski 2006). The number of municipalities which foresaw implementation of diverse types of pro-investment related initiatives in their strategic documents doubled. The surface of areas offered for investment also doubled.

In the past three years on the regional level a significant qualitative change in the organization of the system of services to investors in the region took place due to establishing of the Business in Małopolska Centre (CeBiM). CeBiM is a unique initiative in Poland as a body which integrates the activities of three regional level institutions responsible for pro-investment activities: Małopolska Regional Development Agency (MARR), Krakow Technology Park (KPT) and Marshal's Office of the Małopolska Region (UMWM).

Presently the main aim of the region should be ensuring the stability of this institution and undertaking efforts towards further enhancement of its activities. CeBiM should also be the main agency helping to develop knowledge and skills of local government representatives engaged in attracting investors.

Among other activities undertaken by regional institutions providing co-financing for establishing and developing economic activity zones (EAZ) using EU funds (Action 4.3 within MROP) should be considered as most important. This initiative is very valuable as it is directly aimed at overcoming the main barrier to attracting new investments in the region, namely insufficient amount and surface of investment land. Activities of the Małopolska Economic Observatory (MEO) should also be mentioned, especially a report on “Level of services to investors in Małopolska” commissioned by it. One of its important outcomes was

the elaboration of a manual “Standards of investor services in Małopolska”. In addition, Regional Labour Office (WUP) in Krakow implemented a programme entitled “Investor: partnership for providing services to investors in need of employees and outplacement services”. Although the results of this project were very differentiated spatially, it has without a doubt contributed to the growth of awareness and knowledge on pro-investment activities among representatives of the local administration in the region. Sustainability of achieved results may though be a certain problem.

As follows, in the past five years public institutions in the Małopolska region have created a significant institutional capital and gathered very useful knowledge on pro-investment activities which places the region among leaders with respect to such knowledge and activities in Poland. The developed institutional potential in terms of investor service should however still be strengthened and made more efficient, while good practices should be efficiently disseminated.

Diversification of investment climate in the region

The analysis of investment climate and individual microclimates which make it up allowed for a detailed and multifaceted analysis of internal differentiation within the region. Differences exist both on the supralocal level – between particular sub-regions of the Małopolska region – and on the local level. Most differences on the sub-regional level pertain to conditions, i.e. they are given and difficult to change in a short period of time. These conditions are linked with the features of the settlement network, size of the economic and demographic potential and the “human factor”, i.e. attitudes, qualifications and competences (skills) of residents, public servants and entrepreneurs. Transport accessibility is of key importance due to sizeable financial means spent on infrastructure needed to change it. Differences in investment climate on the local level are on the other hand mainly linked with the intensity and character of pro-investment oriented activities undertaken by local governments, supply of infrastructure created by them and “soft factors” attracting and maintaining investors in a given location.

A favourable mix of “hard” and “soft” factors of localization, i.e. features of the labour market, transport accessibility, proximity of a large city (customers, quality of life, availability of business services) makes the municipalities of the Krakow Metropolitan Area (KOM) most attractive to investors. They also tend to improve their competitive position with respect to investment attractiveness. This pertains especially to Krakow and its suburban

zone, especially municipalities located nearby the airport and the motorway, attractive from residential point of view (Krakow-Częstochowa Upland, Wielickie Foothills). Oświęcim and Chrzanów counties maintain a stable, good investment climate. Weakest investment climate was noted (apart from county seats and selected municipalities) in the Tarnów, Nowy Sącz and Nowy Targ subregions, although it should also be underlined that the last of the subregions mentioned significantly improved in comparison to the earlier edition of the evaluation. Its strong functional links with Krakow are among main reasons for its progress (fig. 2).

Highest values of the synthetic index of investment climate pertain to Krakow and municipalities nearby it. Such a result both confirms and illustrates the metropolization processes taking place since the investment climate – and factors weakly dependent on the activities of the local government – are in many cases directly correlated with the distance from the metropolitan centre.

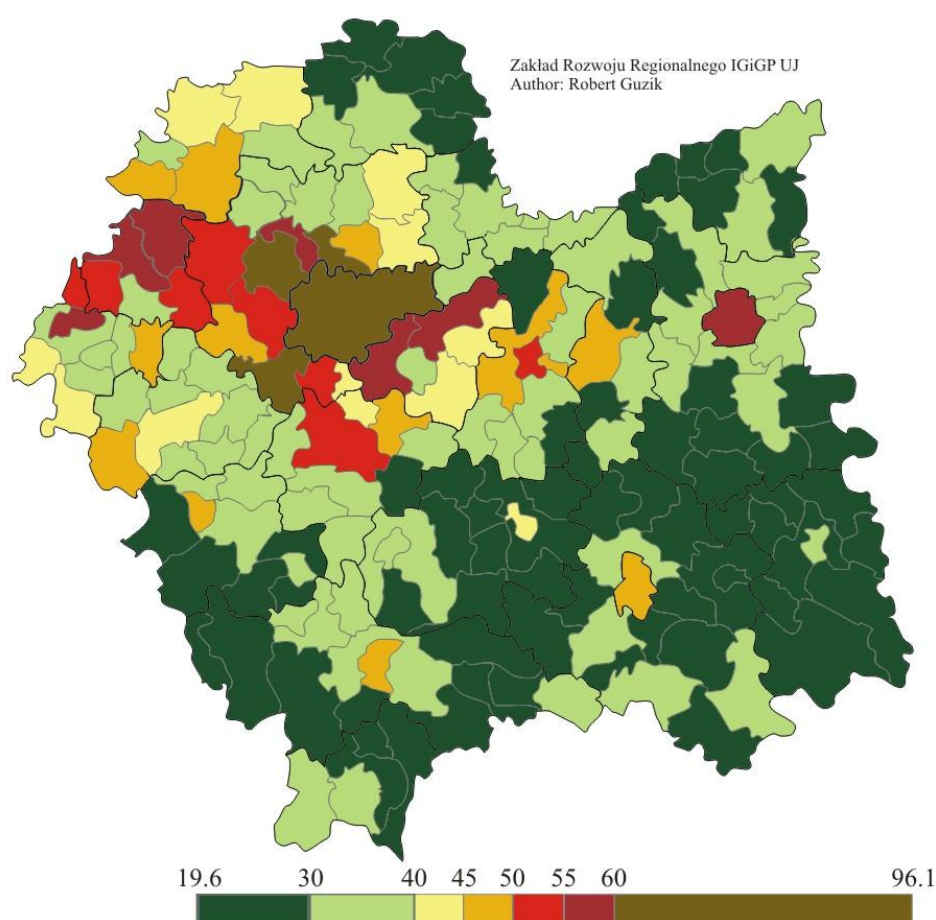


Fig. 2. Investment climate in the Małopolska region – a synthetic index

The decrease in attractiveness as distance grows from the main growth pole is different depending on the direction in geographical space. Good investment climate in the western part of the region is related both to local resources and good accessibility to Krakow and the Katowice conurbation. High values of synthetic index of investment climate also pertain to other leading urban centres of the region. The latter however almost always stand out as „islands” of good investment climate surrounded by less attractive municipalities (Tarnów, Nowy Sącz, Nowy Targ). Unlike Kraków, Tarnów and Nowy Sącz do not create sufficiently strong growth impulses to increase investment attractiveness of rural areas in their vicinity.

Peripherally located rural municipalities and urban-rural municipalities surrounding small towns are also characterized by low values of the synthetic index of investment climate. The main reasons for it are their weak transport accessibility, low level of business services and weak entrepreneurship coupled with insufficient infrastructural endowment. Most of them are also neither particularly attractive from a residential point of view (apart from municipalities in the mountains) nor strong in terms of human capital (education).

Changes in investment climate in 2006-2012

In the period 2006-2012 most indices underwent significant improvement (e.g. education, household equipment, transport accessibility, pro-investment oriented activities of local authorities). A positive process observed in 2006-2012 is the decreasing gap between the best and the worst municipality in the region while at the same time both minimum and maximum lowest and highest values in the region increased: the index for Krakow increased by 3.6, the index for a commune at the end of the ranking to 9.4, the average for all municipalities in the region went up to 4.4. The observed changes confirm the ongoing process of spatial metropolization in the region. Municipalities noting most significant progress are concentrated in the north and west of Krakow (fig. 3).

Attractiveness of some areas, especially Krakow, is so strong that the city attracts significant investors even without a visible encouragement of municipal authorities. In areas of high investment attractiveness the economic potential alone may be a strong enough factor to draw external capital. Making use of favourable factors of attractiveness in the majority of the municipalities in the region due to pro-investment activities of local authorities is however a indispensable to attract external investors.

Factors of attractiveness weakly correlated with the activities of the local authorities may be important but not decisive with respect to attracting investors as proved by the fact that municipalities characterized by a significantly different index of investment climate are located at the same distance from Krakow, Tarnów or Nowy Sącz. The main differentiating factor is in this case the activity and involvement of local governments.

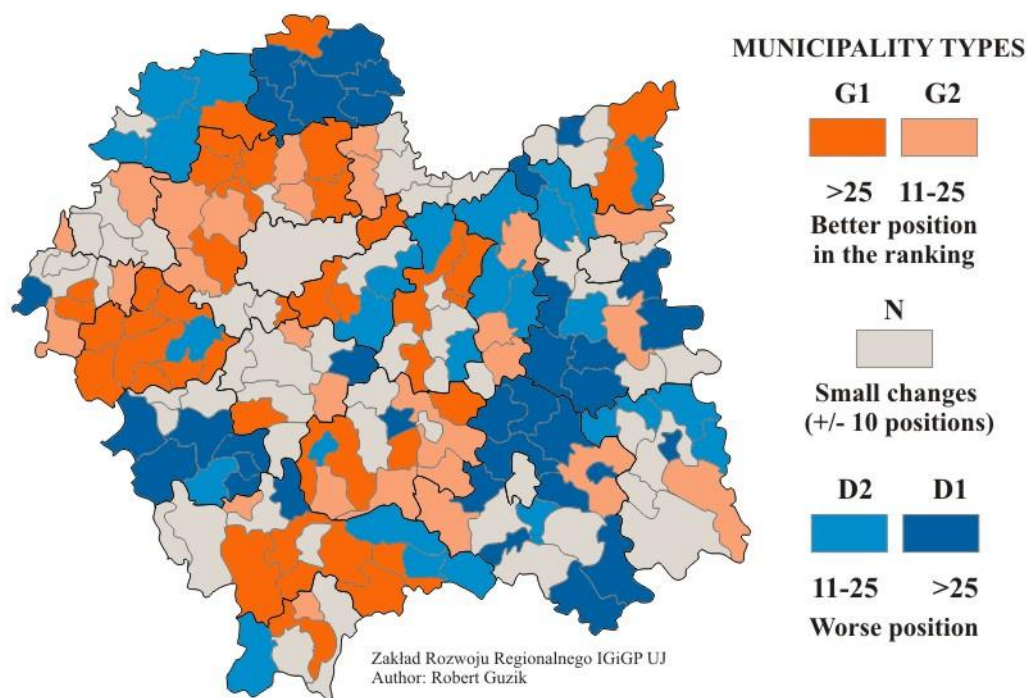


Fig. 3. Changes in the ranking of municipalities with respect to the value of synthetic index of investment climate 2006-2012

Areas characterized by a too low overall level of attractiveness to external investors or municipalities which lack “specific” attracting factors (e.g. attractive to a given economic branch), despite very strong efforts of local authorities have very limited chances to attract a medium or large foreign investor. As follows, the first step of an effective pro-investment policy in such areas such be supporting local entrepreneurship and most of all creating good conditions to invest for firms which already operate in the area. Such efforts will be more effective in this type of areas rather than spending significant means on attracting large, new external investors.

Forecast of investment climate

In the perspective of 2017 – despite that fact that it is not a long period of time – the climate investment of the region should improve noticeably. Improvement of transport accessibility as well consistent although slower changes in terms of other microclimates are

the main reasons for it. The differentiation in the level of investment climate of particular parts of the region will on the other hand slightly grow as the result of metropolization processes and more intensive social and economic activity in the Krakow Metropolitan Area linked with them. Greatest improvement will take place in terms of following microclimates:

- transport accessibility – thanks to road investments implemented in the region, especially opening of next sections of the A4 motorway towards Rzeszów,
- entrepreneurship – due to strengthening of human capital resources and growth in residents' wealth,
- pro-investment activities of municipalities – thanks to dissemination of good practices, increase of awareness and knowledge of local authorities in the new EU financial perspective of 2014-2020.

Opinions of investors and local authorities on investment climate

Among foreign managers there are no distinct opinions on the Małopolska region. The brand of Krakow is more recognizable although to a lesser extent linked with economics and investment but rather with its image as a historic city with important cultural and tourism functions. By domestic investors Małopolska is perceived as a region favourable to entrepreneurship.

Research results point to shortcomings in the promotion and information activities undertaken such as the lack of coordination among different actors. Participants of interviews and questionnaires however also pointed out that strengthening direct contacts with investors and development of dialogue between the public and the private sector is more important than image campaigns. Professional engagement in elaborating a comprehensive, well thought out and presented, precise information on the investment offer of a given location is of special importance.

Interviews with foreign investors allowed to uncover the motivations and location factors in Małopolska. A favourable mix of “hard” and “soft” location factors such as the features of the labour market, transport accessibility, proximity to a large city (customers, quality of life, accessibility of business services) attracts foreign firms mainly to the Krakow Metropolitan Area.

Many investors expect a proactive policy of local authorities at each stage of investment and conducting activities in a given location. One of main problems experienced by investors is the complicated legal system and excessive bureaucratisation of all procedures. Local governments which help to deal with administrative barriers to commence investments

and continue to help with formalities during their implementation are well assessed and perceived by investors which later leads to subsequent positive effects i.e. attracting further new investors.

Post-investing assistance grows in importance taking into account the growing competition of other regions and the increasing role of re-investments. In the investors' opinion looking after investors and assisting them in the municipalities of Małopolska region is highly differentiated – from absolute indifference to almost servile attitude towards investors.

Fast growing branches of the economy

Analysis of trends in the inflow of greenfield foreign investment Małopolska, interviews with entrepreneurs and business service institutions reveal that ICT, modern business services (BPO centres, SSC and R&D), biotechnology and life science technologies, “silver economy” services and leisure services are among branches with highest potential for growth.

Tab. 2. Future growth branches in particular subregions in Małopolska

Subregion	Future growth branches
Krakow Metropolitan Area	ICT, modern business services, R&D, medium and high technology industry, leisure industries
Western Małopolska	Branches of medium and medium-high technology, leisure services
Nowy Sącz subregion	Leisure services, “silver services”, knowledge intensive services
Podhale subregion	Leisure services, “silver services”
Tarnów subregion	Medium and medium-high technology industrial branches

High technology industries and knowledge intensive services will concentrate especially in Krakow and the Krakow Metropolitan Area (KOM). Western Małopolska and Tarnów subregion are attractive mainly to medium and medium-high technology industries. Leisure services and “silver economy” branches are likely to develop mainly in the Podhale and Nowy Sącz subregions (tab. 2).

Selected recommendations

From the point of view of pro-investment oriented policies, it is important to make use of and improve the existing factors of attractiveness as well as create new ones and liquidate or limit existing barriers. Such activities should focus on three main categories of

development factors: 1) quality of public institutions, 2) skills and qualifications of residents, and 3) technical and social infrastructure (tab. 3).

One of the main tasks of the Regional Government of the Małopolska Region should include further stimulation and promotion of supra-local cooperation in terms of pro-investment oriented activities. Apart from local authorities of particular municipalities, county level authorities should also get involved in the regional system of pro-investment aimed cooperation, at the core of which there are dynamic regional business support institutions.

The weak cooperation between the municipalities of the Krakow Metropolitan Area (KOM) and the imbalance between the promotion of the regional offer between KOM and municipalities located in peripheral areas with respect to the economic core of the region are among greatest challenges identified in the report. The later problem stems mainly from the difficult choice between effectiveness of undertaken activities and the prerogative of evening out development within the region.

Tab. 3. Selected recommendations according to main factors of development

Field	Selected recommendations
Quality of public institutions	<p>Further improvement of the investor service system, among others through decreasing existing administrative barriers.</p> <p>Monitoring investment activities of both local and external investors including gaining an insight into their expectations.</p> <p>Developing cooperation and understanding with institutions with whom such cooperation is indispensable in the investment process.</p> <p>Organising study tours in municipalities which may be regarded as leaders in terms of creating good investment climate. Dissemination of best practices.</p> <p>Elaborating and updating by Małopolska Economic Observatory (MEO) of a standard set of data for municipalities, presenting available most up to date, comprehensive and complete statistical information required by investors.</p> <p>Assistance of regional institutions (MEO, the Business in Małopolska Centre – CeBIM) given to municipalities in terms of market intelligence.</p> <p>Special attention and pressure put on improvement of services of public offices in places where there are many foreigners (e.g. employees speaking fluent English at Social Insurance Institution (ZUS) or Tax Office branches).</p> <p>Strengthening the position and competences of CeBIM.</p> <p>Strong incorporation of the economic and business dimensions in the promotion of the image of Małopolska.</p>
Skills and qualifications of residents	<p>Maintaining and enhancing the position of towns and cities in the region, especially Krakow, as strong centres of higher</p>



	<p>education.</p> <p>Cooperating with institutions of higher education in attracting investors from branches considered as strategic and promising (e.g. bio-technology, IT, chemical industry, engineering and technological majors).</p> <p>Monitoring needs and preferences of economic actors, reacting to emerging needs of entrepreneurs, stress put on development of “soft competences”.</p>
Technical and social infrastructure	<p>Intensification of activities linked with obtaining new investing areas and merging them. Increasing efforts aimed at clarifying legal status of real estate intended for economic activities.</p> <p>Providing organisational and financial support to municipalities in terms of preparing investment offers, especially costly activities such as merging investment plots or endowing them with technical infrastructure (establishing a pertaining priority within the framework of the ROP in the 2014+ EU planning perspective).</p> <p>Introduction of mechanisms strengthening the attractiveness of post-industrial areas (brownfield plots), e.g. by establishing a priority dedicated to such investments in the 2014+ programming perspective.</p> <p>Active lobbying of regional politicians and decision makers (authorities, deputies to the parliament) for the construction of an express way to Nowy Sącz and a modern rail road from Nowy Sącz to Zakopane (Podłęże-Piekiełko-Nowy Sącz-Chabówka).</p> <p>Further activities aimed at improvement of the quality of life of all residents, including development of good quality public spaces, development of public transport in towns and cities, biking paths, regeneration of degraded areas, support given to cultural events and activities linked with local identity, supporting initiatives aimed at non-Polish residents of urban centres.</p>



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