



Republic of Poland

National Reform Programme for 2005-2008

to implement the Lisbon Strategy

Adopted by the Council of Ministers on 27 December 2005

Warsaw, 28 December 2005





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INTRODUCTION

The Role of the National Reform Programme

The Lisbon Strategy (LS) is a multi-year programme of reforms and structural changes which aims, over a period ending in 2010, to turn the EU into the most competitive economy in the world. 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 the 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 the necessary correlation between actions carried out in the context of economic, employment and cohesion policies.

The National Reform Programme is a document presenting the actions which the Polish Government intends to undertake in the period of 2005-2008, in order to implement the fundamental objectives of the renewed Lisbon Strategy. The NRP is based on the Action Programme of the Prime Minister Kazimierz Marcinkiewicz's Government, entitled "*Solidarity State*" ("*Solidarne Państwo*"), that defines the economic strategy for Poland. The main objectives indicated in the programme are restoring the ability of the Polish economy to create jobs, and, through fast economic growth, to regain the balance of public finances and defuse 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 enabling such economic growth will be: dynamic export and domestic investment projects (supported by structural funds and the Cohesion Fund) and foreign inward investment for which Poland is to open up fully. Achieving 5% economic growth shall require investment around USD 10 billion per year. In order to improve the utilization of sums allocated to Poland from EU funds and to minimize the risk of losing them, the organization and management of the EU funds will be improved. A single centre has been set up, to co-ordinate the programming and management of developmental programmes, co-financed by structural funds. The investment projects in infrastructure and housing are expected to intensify. This, in turn, is expected to translate into an increased number of jobs and a reduction in unemployment. The investment in human capital and increased outlays on science, research and development, as well as on innovations, will facilitate the implementation of the programme aimed at creating a knowledge-based society, capable of meeting both the demographic and competitive challenges in an increasingly globalised world economy.

High economic growth is the basis for gradual removal of obstacles to development resulting from negative structural features in the economy, as well as the foundation for job creation, although this will not solve all the problems. To eliminate the obstacles hampering development, intervention actions by the state are necessary, focused on stimulating and reinforcing the growth tendencies. The emphasis should therefore be on setting such rules for business activities, which result in the lowering of transaction costs, and relieving entrepreneurs from unnecessary bureaucratic and administrative burdens. These measures are reflected in the National Reform Programme for 2005-2008 and they

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



should strengthen the competitiveness of the economy and ensure the required level of social cohesion.

The Objectives of the National Reform Programme and its Priorities

The National Reform Programme takes account of the goals defined in the socioeconomic agenda of the new Government entitled “*Solidarity State*” and the goals defined in the National Development Plan for 2004-2006, because of the time framework involved. The NRP acknowledges the key challenges faced by the Polish economy; namely: increasing its competitiveness and productivity, eliminating the barriers hampering the development of entrepreneurship, improving the basic infrastructure (of transport, telecommunications and housing), improving the quality of public institutions (such as administration and justice), and lessening the fiscal burden levied on those pursuing business activities.

Only success in the above-defined areas can enable the attainment of **the principal objective of the NRP**, namely:

Retaining the high pace of economic growth and stimulating 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 macroeconomic and budgetary policy area:

1. Consolidating public finance and improving public finance management.

In the microeconomic and structural policy area:

2. Developing entrepreneurship.
3. Increased innovation of companies.
4. Infrastructure development and upgrading and ensuring competitive conditions in network sectors.

In the labour market policy area:

5. Job creation and retention and reducing unemployment.
6. Improving adaptability of employees and companies through investment in human capital.

Implementation of the NRP

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



AREAS, PRIORITIES AND ACTIONS

Macroeconomic and Budgetary Policy Area

In 2004, the GDP growth was 5.3%, while in 2005 it is estimated at around 3.3%. To ensure long-term economic growth, it is required, among other instruments, to use public finance as a key instrument underpinning the structural transformation of the economy. It is then necessary to increase the effectiveness of public expenses and change their structure towards the directions that determine progress and the foundations of long-term growth.

The current status of public finance in Poland, in particular the level and structure of public expenditure, could still jeopardise a cohesive and effective macroeconomic policy. The ratio of **the deficit in central and regional/local self-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 self-government institutions to GDP was successfully reduced to 3.9 %².

A consequence of such a high deficit is an increase in **the debt in central and regional/local self-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 debt level stood at 43.6% of GDP. The fast growth of the finance sector deficit of central and regional/local self-government institutions in recent years is effectively stifling the freedom in shaping economic policy in the fiscal area. Although Polish debt *vis à vis* GDP compared with other EU Member States is relatively low (e.g. Germany 66.4%, Belgium 95.7%, EU-25 average 63.4%), servicing that debt places a heavy burden on the state budget³.

The deficit of the public finance sector in Poland is partly structural in nature and is associated with the consequences of the transformation process. It is a product of the existing state budget expenditure structure, dominated by expenses determined under law (71.3% in 2004), related to public debt servicing, grants to communes, support of special-purpose funds, in particular the Social Insurance Fund (FUS) and the Agricultural Social Insurance Fund (KRUS), which in turn is related to the dominant role of social transfers in the Polish system of public finance. The necessity to cover such expenses is defined by statutes and obligations formulated in legal terms. This reduces the pool of the budget resources which might be allocated to pro-development goals: infrastructure investment, research and development, improving the quality of public services, or active policies for the labour market.

It is also necessary to change the rules for granting **state aid** and directing it towards horizontal goals, with a simultaneous reduction in the general level of state aid. A characteristic feature of the Polish economy at its present stage of development is the on-going restructuring processes. In 2003, remedial processes intensified in the mining, steel and shipbuilding sectors, and as a result the sectoral aid, amounted to around 71% of the total aid granted. Since Poland acceded to the EU, activities related to granting public aid have been subject entirely to EU regulations. In 2004⁴, state aid stood at PLN 8.8 billion, i.e. 1% of GDP, against 0.44% of GDP in the EU-25. Approximately 50.5% of the total state aid granted (excluding transport and agriculture) was spent on horizontal goals while around 32% on sectoral assistance. So far, state aid has been focused on large state-owned companies. Directing it towards horizontal goals as well as aligning it with regional and local schemes will support more effective capital allocation.

In 2004, the annual average **inflation rate** was 3.5% and higher than in the previous two years, and also higher than in most EU countries (in the EU-25, in 2004 the average inflation rate was 2.1%). Inflation growth in 2004 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

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

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

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



Polish inflation rate has been consistently declining: from 10.1% in 2000 down to 0.8% in 2003. After growing in 2004, it has again been systematically dropping. It is estimated that in 2005 the annual average inflation will be 2.2%.

In 2004 and 2005, the Polish currency considerably strengthened its position against both the euro and the dollar, and in particular since May 2004, i.e. after Poland's accession to the EU. Shaping the **exchange rate** has been influenced by the following trends in the economy: a dynamic GDP growth and increased labour efficiency, absence of tensions associated with the financing of the negative balance on the current account balance of payments (4.1% GDP in 2004, and ca. 1.6% GDP – 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 the public finance reform and high public debt have acted towards the depreciation of the Polish zloty.

As a member of the European Union, Poland faces the challenge of meeting the fiscal and monetary convergence criteria, which condition Poland's participation in the euro zone. In order to meet these criteria, the public finances must be improved and at least 2 years of participation in the Exchange-Rate Mechanism (ERM II) is required. Generally, that 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: the budget deficit was too high as compared to GDP, as were inflation, interest rates and exchange rate fluctuations. Only the government and local self-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 lowering the deficit/GDP ratio.

The present Government assumes continued reform of public finances, their consolidation and multi-year planning exercises in order to create better opportunities for utilising EU structural funds (possibility of accumulating funds towards co-financing and pre-financing projects).

Priority 1. Consolidation of public finance and improvement of public finance management

1.1. Optimizing access to benefits leading to early employee deactivation

Current status: One of the goals of the reform (implemented since 1999), of the social insurance system, and in its context, a new retirement pension system, is to gradually optimize the time of employee professional activity. To attain that goal, according to the assumptions underpinning the new system, from 1 January 2008, the early retirement entitlements enjoyed to-date will be abandoned. From then, in principle, just a single universal retirement age will exist in Poland, 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. Such pensions may be drawn by, for example, 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 benefits. 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 that of men will result in future in lower retirement benefits for women, since the new system links closely the level of retirement pension and the total amount of premiums paid in over the whole period of professional activity.



Introducing new solutions aimed at equalising the retirement age for women and men and making it more flexible will be submitted to the public dialogue in Poland.

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 the 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 in the retirement age, allowing for a smoother transition from professional activity to drawing the retirement pension; organising public debate on changing the age authorising widows and widowers 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 women). Fewer discrepancies between the levels of retirement pensions for men and women, lower subsidies from the budget to the social insurance system (after the interim stage, where spending might grow). More revenue from taxes.

1.2. Improving farmers’ social insurance system

Current status: Individual farmers, their families and household members are insured in 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 the income.

As a result, all the 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 to a very limited extent financed from contributions, most spending on retirement and other pensions of farmers is covered by subsidies from the state budget.

Work will continue on improving the system, in particular on making it more robust, in order to cover the persons for whom agriculture is the basic source on which they depend for their livelihood. The premiums will be differentiated in line with the levels of income obtained from farms. The Government will aim at removing disproportions which exist between farmers’ benefits and those granted under the general rules.

Implementation instruments:

- **institutional/organisational:** differentiation of farmers’ contributions depending on the farm income, and – as the consequence to the former – developing and implementing institutional changes; changing the principles of granting and defining the measure of the benefits for farmers; simplification of the KRUS financial management; implementation of an advanced IT system at the KRUS; granting legal person’s status 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 towards retirement and other pensions for farmers. Maintaining the currently used system of budget subsidies to the KRUS till the changes differentiating the premiums have been introduced.



1.3. Reform of the disability pension system

Current status: The very high (particularly when compared with other countries) state expenditure on financing the disability pension system necessitates further reform in that area. The number of persons drawing pensions as unfit to work has been gradually declining since 1999, although the number of such pensioners is still higher than in other countries. Currently, a large number of the beneficiaries enjoy pensions granted for an unlimited time. Also, the principles of defining the level of pensions related to incapacity to work are not harmonised with the principles of defining retirement pensions under the new system. Incapacity pensions should be in correct proportion to the level of new retirement benefits. However, the pension amount is calculated in the same way as that adopted in the old retirement pension system.

Implementation instruments:

- **institutional/organisational:** introducing a new formula for defining pension levels, correlated with the principles of defining the level of retirement benefits under the new system; extending the system of pre-pension prevention and rehabilitation; new operational principles for training-related pensions, supplemented with a training and re-training; intensified co-operation with public and private labour market institutions aimed at bringing pensioners back to the labour market; introducing control check-ups for persons formally declared as permanently unfit to work;

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

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

1.4. Continuation of the healthcare system reform

Current status: The indebtedness of a number of autonomous public healthcare providing units (SPZOZs) is high. According to data from the Ministry of Health, the total amount of due liabilities of SPZOZs amounted to PLN 6.1 billion, as of the end of September 2005, representing the first ever reduction from the level of the preceding quarter (by 2.5%). Moreover, 45% of all the units and around 25 % as regards the units employing more than 50 staff have not reported liabilities due. The high debt results in: difficulties in operation on the healthcare service market, infrastructure depreciation, restricted access to costly medical technologies and less accessibility of healthcare services for citizens. Pursuant to the Act of 15 April 2005 on state aid and restructuring of public healthcare providing units (*Journal of Laws* – No. 78, item 684) around 80% of indebted hospitals and outpatient units have submitted applications for initiating restructuring procedures, some of them have been granted a borrowing from the National Economy Bank. 303 units have been subsidised with PLN 200 million.

Implementation instruments:

- **institutional/organisational:** strengthening the controlling function of the Minister for Health and provincial governors over healthcare units, introducing the coordinating role of governors in assuring the continuity of healthcare services in their provinces; improving the operational efficiency in healthcare units through allowing them to merge without prior liquidation procedure, introducing changes in the forms of subsidies passed to SPZOZs, introducing open financial management of public ZOZs (financing transparency); introducing a 'basket' of guaranteed healthcare services which will enable supplementing the universal health insurance system by additional insurance schemes and – in further perspective – by alternative health insurance schemes; reviewing the effects of the act on state aid and restructuring of public healthcare providing units; reinforcing controls 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 providing units, drafting a comprehensive act on systemic solutions of healthcare.



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

1.5. Rationalizing public expenditure and increasing control over public resources which are at the disposal of special-purpose funds and state agencies

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

Implementation instruments:

- **institutional/organisational:** simplifying the structure of administration, eliminating duplication of competences and tasks, merging institutions performing similar tasks; a review of special-purpose funds and state agencies, based on a more detailed analysis of the effectiveness of the tasks performed by them and the impact of the operation of such institutions on the state budget, and, depending on the review results: possible liquidation, merging, inclusion into the state budget or transferring the tasks of special-purpose funds together with the resources to local self-government units; implementation of the programme “Inexpensive and Effective State”

- **legislative:** amending relevant laws regulating the operation of public administration, as well as of funds and agencies, entry into force of the new Public Finance Act.

Expected effects: Significant savings for the budget, creating inexpensive, effective administration, friendly towards citizens, consolidation of public finances at central government and local self-government levels. Less flow of public resources outside the control of the parliament and improved spending effectiveness.

1.6. Further decentralising in public expenditure

Current status: There is some inconsistency between task decentralisation and finance decentralisation between the central level of government and local self-government. Currently, the incomes of local self-government units (LSU) are their own incomes and general subsidies as well as special-purpose grants from the state budget. Despite the increased importance of LSU own incomes in recent years (for instance due to changes in the scope of LSU participation in incomes 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: limiting competences of regional government administration and devolving the tasks of ‘providing administration’ to the local self-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 government administration into own tasks of relevant local self-government units and making relevant changes as regards own incomes of local self-government units (more share in incomes from basic taxes);

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

Expected effects: Increased share of local self-government units’ own income and limiting grants and subsidies from the state budget. More capacity for absorbing EU funds. Increased incomes of local self-government units. More autonomy of local self-government units as regards shaping and



implementing development policies on the 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 annual periods. A form of long-term planning has been provided for in the Public Finance Act. Projects going beyond one year are defined as long-term programmes in an annex to the Budget Act. Another instrument taken into account while defining limits of long-term liabilities and expenditure of the state budget, aimed at facilitating the use of EU funds, is a decision on providing financial assistance in project implementation, introduced by the Council of Ministers ordinance of 26 July 2005 on guidelines concerning expenditure made from the state budget on programmes and projects implemented with the participation of non-returnable resources from the European Union budget and foreign sources (*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:** Budget Act, amending the Act on the National Development Plan.

Expected effects: Improved effectiveness of using public resources (national and from the EU). Increased role of strategic planning in public finance. Better funding of long-term 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 for all the EU Member States. In its appraisal of the Convergence Programme of May 2004 and of its update of November 2004, the European Commission ascertained that data on incomes and expenditure in the sector were not fully consistent with the ESA '95 standards. A problem, principally concerning the ESA '95 methodology is the classification applied to Open Retirement Funds (OFEs). In 1999, Poland reformed its system of retirement pension insurance. As the result of the aforementioned reform, retirement obligations earlier accruing outside the balance sheet began to appear in the national balance of accounts because of the transfer of certain part of the premiums to the OFEs. Just before the accession of Poland to the EU, on 2 March 2004, the Eurostat took a decision under which OFEs were excluded, for statistical purposes, from the social insurance system. Poland does not accept this decision deeming OFEs to be a part of the social insurance system. The ESA '95 methodology which was developed at the early 1990s does not provide for the existence of capital pension funds. The Eurostat's decision leads to utterly unjustified elevation of the deficit of the social insurance sector, thus 'penalizing' these 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 debate with the aim of changing the position of the European Union and its institutions.

Implementation instruments:

- **institutional/organisational:** continuation of work by a inter-ministerial Team for Statistics in the sector of central and local self-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: Currently, an IT system is being developed for state budget management, aimed at supporting the budgetary process, i.e. state budget planning, execution and reporting 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 the budgetary units;
- **legislative:** providing a 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 current expenses of public institutions

Current status: The Act of 27 July 2001 amending the Public Finance Act, the Act on organisation and operational method of the Council of Ministers and the ministers' scope of work, the Act on government administration divisions and the Act on civil service (*Journal of Laws* No. 102, item 1116) introduced internal audit of expenditure of public finance sector units. 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 extends the list of units in the public finance sector subject to compulsory internal audit and a full scope of coordination of financial control carried out by the Minister of Finance 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: Increased rationalisation of expenditure by units of the public finance sector. More comprehensive evaluation and better operational efficiency of public finance sector units. Increased control over 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 (50.5% in 2004) and as part of regional aid, a large portion of state aid is channelled to sectors in the process of restructuring. The level of state aid for R&D, environmental protection, development of SMEs and training remains relatively low.

Implementation instruments:

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

Expected effects: Reduced scale of state aid, in particular reducing state aid for restructuring while increasing state aid for horizontal goals and regional development. Reducing budget expenditure. Improved allocation of public resources and effectiveness of their usage.



Microeconomic and Structural Policy Area

Priority 2. Developing entrepreneurship

A characteristic feature of Polish companies, as is the case of EU-15, is the domination of microenterprises, employing up to 9 persons (95% of all the companies in Poland). The share of small companies (10-49 employees) stands at 4%, medium-sized ones (50-249 employees) around 0.8%, while large business entities (250 and more employees) 0.1%. In the EU-15, microenterprises account for 92.4%, small enterprises 6.5%, medium-sized enterprises 0.9%, while large ones account for 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, both in terms of capital as well as the scale of activity and the added value they generate.

In the environment where the entrepreneurs operate some positive changes have taken place recently. The introduction of the provisions of the Act of 2 July 2004 on freedom of enterprise (Journal of Laws No 173, item 1807, with further amendments) was a vital step towards facilitating business activity. The businesses' **registration process** has been simplified and accelerated, thus improving entrepreneurs' servicing. As regards employee recruitment and dismissal, **new regulations in the Labour Code** have been introduced, concerning flexible organisation of working time, and restricting labour costs. Also, bureaucratic burden has been reduced (e.g. in the process of public procurement electronic communication is accepted, facilitating faster and simpler operations and reducing the volume of paper documentation).

Still, there are persistent **barriers** 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 investment of the SME sector as risky projects, inconvenient to handle, burdened with relatively high cost of client verification and monitoring as compared with the profit generated. Entrepreneurs give up on loans because of cumbersome, in their opinion, banking procedures and lack of suitable securities on property.

Also, entrepreneurship development is stifled by the inefficient functioning of **the judiciary system** caused by its backlog. Imperfect law and lack of diligence in conducting business operations (for instance, delaying payments due, failure to pay off debt) force entrepreneurs to frequently recourse to courts.

Financial trouble, in particular of small and medium-sized enterprises, generate barriers for **investment** processes. According to entrepreneurs, undertaking investment projects involves high risk, a long time of implementation, and excessive administrative costs. Other vital issues here, apart from the financial burden, are: lack of spatial development plans and updated maps, unregulated ownership status as regards real estate, or protracted waiting for the issue of construction permits.

Although recently Poland has shown a very good performance **in export**, the country features a relatively low value of export per capita and a relatively fragmented range of goods. Apart from those enumerated in the preceding paragraphs, some other barriers hampering export are, as indicated by entrepreneurs, insufficient information on foreign markets as well as on prospective contracting parties and their credibility.

Stimulating entrepreneurship development as included in the NRP is based on two pillars: first, certain mechanisms creating better environment for establishing new businesses, and providing improved institutional context for business, as well as those aimed at improved efficiency of public administration, and second, introducing mechanisms facilitating entrepreneurs' access to capital.



2.1. Improving the quality of regulations

Current status: The binding legal provisions are often ambiguous and divergently interpreted by the administration, disturb functioning of markets and undermine the competitiveness of Polish companies. The conditions in which entrepreneurs operate should be improved, both nationally and at the Community level. Simplification and improving regulations and the institutional business environment are to serve that purpose. Since 2001, in Poland there has operated a system of regulation impact assessment (IA). Actions are taken aimed at developing a system for measurement and elimination of regulatory burden, including administrative load (pilot programmes concerning the application of the Dutch *Standard Cost Model*), simplifying national law (e.g. the Act on freedom of enterprise).

Implementation instruments:

- **institutional/organisational:** identifying priority acts of law that require simplification; introducing a system for measuring and eliminating regulatory burden, and for regulation impact assessment (RIA); ; creating administrative capacity for developing high-quality IAs;
- **legislative:** amending acts of law selected for simplification.

Expected effects: Reduction of administrative barriers. Improved regulatory environment for business operations, creating new companies and more jobs.

2.2. Simplification of administrative procedures and reduction of costs of business operation

Current status: As regards simplified procedures related to undertaking and conducting business activity, some improvement can be seen. Owing to the Act of 2 July 2004 on freedom of enterprise the registration process has been considerably shortened and simplified, the number of concessions and permits has been reduced, a regulation has been introduced concerning interpretation of tax events binding tax offices as well as the numbers of inspections in companies and their duration have been reduced. From 1 January 2007, the following will be introduced: a single integrated registration application which may be submitted electronically, a single number, a single desk, where entrepreneurs will be able to complete all the formalities related to registration will be set up, and the time of waiting for entry into the register will be shortened. At the same time, the conditions in which Polish companies operate as compared with EU Member States are relatively more difficult. Entrepreneurs complain about too high registration fees, or charges related to the requirement to obtain permits, approvals or licenses, high costs of notices in *Monitor Sądowy i Gospodarczy (Court and Economic Gazette)* as well as lack of transparency in the tax procedures.

Implementation instruments:

- **institutional/organisational:** full implementation of the changes projected 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, settling income tax of legal persons, settling VAT, registering economic activity, transferring statistical data to the Central Statistical Office, submitting customs declarations, obtaining permits and making payments for using the environment, public procurement management as well as settlement of advance payments of income tax of legal persons, continuation of review of regulations for their cumbersome features seen as such by entrepreneurs, particularly improving efficiency of obtaining EU funds.
- **legislative:** full implementation of the Act on freedom of enterprise, amending relevant acts of law selected on the basis of analysis.

Expected effects: Elimination of administrative barriers related to starting and conducting business operations; reducing the costs of running a business. Improved conditions of economic activity leading



to more entrepreneurship; Favourable regulations and stable law on economic activity also translate into more interest from foreign investors.

2.3. Improving economic jurisdiction

Current status: The extension of the jurisdiction of common courts in economic cases and the growing number of cases to be examined by court due to the developing market economy have not been matched by an appropriate development as regards staffing and organisation. In 2004, in most case categories the average duration of proceedings was shortened, as was the time entrepreneurs had to wait for settling the case, e.g. in procedural economic cases the waiting time is around 6 months, in proceedings aimed at issuing an order - 1 month, and in registry cases - 2 weeks. More time is needed in bankruptcy proceedings, as they are very often complicated both in factual and legal terms.

Implementation instruments:

- **institutional/organisational:** simplifying the procedure to enter pledges by registration; more accessibility to legal professions; strengthening judiciary and administrative staff of economic courts; increasing the number of assistants to judges deciding in economic cases; improved technical-administrative service; tightened supervision in bankruptcy proceedings; promotion and recommendation of benefits conciliatory jurisdiction (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 Prosecutor's Office, the Act on common courts, and the Act on perpetual registers and mortgage.

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

2.4. Completing main privatisation processes

Current status: In recent years, as a result of privatisation-oriented measures, the structure of the Polish economy has changed considerably. However, the State Treasury remains still 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: Bringing the ownership structure of the Polish economy closer to that of EU Member States. Increasing effectiveness of management and competitiveness of business operators on the internal EU 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 companies operating under the Act of 25 September 1981 on state-owned enterprises

Current status: On 31 December 2004, the REGON (the register of entities operating in the national economy) held 1306 state-owned companies, while the National Court Register 853 – for which the functions of the 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 companies are engaged in economic activities.

Implementation instruments:



- **institutional/organisational:** commercialisation of state-owned companies aimed at privatising or municipalising them;

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

Expected effects: Stimulating entrepreneurship. Increasing effectiveness of management and competitiveness of business operators on the internal EU market as well as 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. In 2004, in Poland 74 loan funds and 61 loan guarantee funds were in operation, with a total capital of PLN 438 million and PLN 187 million, respectively. Absent are venture capital funds investing in small projects (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 the tasks in that area, a National Capital Fund is being developed, which is 'a fund of venture capital funds'.

- **legislative:** notification of regulations on granting state aid as regards the operation of the system of funds.

Expected effects: Making the access to financing sources easier for SMEs, thus supporting faster growth of that sector and its improved competitiveness, as a result of creating new companies and capital strengthening of the existing local and regional loan and guarantee funds, as well as owing to the establishment of venture capital funds investing in enterprises at an early stage of their development, including *seed-capital* and *start-up* funds.

2.7. Simplification of investment process in construction

Current status: The key barriers to the investment process in construction are a consequence of the absence of valid local spatial development plans, inconsistent regulations concerning spatial development and construction as well as the absence of the current spatial policy of the State. Potential investors perceive it as particularly cumbersome, as required under regulations, to obtain a string of permits and opinions, which lengthens the entire investment process. As many communes lack valid local spatial development plans, potential investors, and also communes themselves, find it harder to decide on implementing their investment projects.

Implementation instruments:

- **institutional/organisational:** developing a model for planning 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) in order to implement the selected model;

- **legislative:** adopting new acts of law and amending a number of the 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 promotion of Polish economy and the system of services for exporters

Current status: Each year, public administration implements a number of initiatives aimed at promoting foreign direct investment (FDI) in Poland and Polish exports. Also specialised agencies work towards increasing the flow of foreign direct investment into Poland and the creation of a



positive image of the country in the world. Although over the last two years the situation has improved as regards trade exchange (a clearly visible decrease in the negative trade and payment balance), the structurally conditioned high import, indispensable for modernising 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 financing sources and coordination of economic promotion-related actions; changes in principles governing the operations of the Polish Information and Foreign Investment Agency;

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

Expected effects: Further growth of export production. Improving Poland's image and making Polish products recognisable on international markets. Development of tourism. Higher inflow of foreign investment and faster productivity growth of the Polish economy.

Priority 3. Increased enterprise innovation

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 and which in a given year made some investment outlay). In the EU countries, the average value of that index was around 51%. Retaining that situation in the long term will bring down the competitive position of Polish companies in the future.

At the same time, barriers persist which make it difficult for entrepreneurs, in particular those small and medium-sized, to introduce innovative solutions. These are primarily high costs of developing and implementing innovations which considerably exceed the capital capacity of most entrepreneurs, as well as poorly developed science and technology commercialisation infrastructure, which makes investment in new technologies and creating new firms based on such technologies too risky a venture.

The level of innovation at companies is determined to a great extent by the size and structure of outlay targeting innovative operations. In Poland, in 2003, such outlay for innovative operations grew against 2002 by 12.0%, yet its structure did not significantly change for a number of years. The dominant share was still that of investment outlay (buildings, constructions, plant and equipment) – 78.9%, while R&D expenditure was low – 11.1%.

Innovative processes in company environment are measured in a way similar to that applied to such processes in enterprises themselves. Basic indicators in that regard include: share of gross R&D operation outlay in GDP, 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 significantly unfavourable as compared with most EU-25 and OECD countries.

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

An important indicator of a trend as regards innovative processes is the number of patent applications per 10 000 inhabitants or the so-called inventiveness coefficient. In Poland, that index was systematically decreasing from 1.4 in 1989 to 0.6 in 1996 and it has remained at that level until now. On average, for OECD countries it was 6.0, and for the EU-15 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 of developing such institutions, incorporating also the modalities of local socio-economic environment is



still lacking. Another important effect in the development of institutional infrastructure should be obtained through setting up investment parks.

The government has as an objective to increase the expenditure on R&D significantly and to create such institutional mechanisms which would encourage enterprises to spend more on research and innovation, and assist the transfer of technologies to companies. As a parallel measure, regulatory actions will be undertaken with the view to increase the supply of applicable solution from science. The private sector must be the driving force of increased innovations in the economy while the role of the state will be rather to support it through suitable regulatory measures and, only to a lesser extent, through financial transfers.

3.1. Development of the innovation market and of the institutional environment facilitating the cooperation between 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 that type of actions. Regulations are also missing as regards public-private financing in the field of R&D. In Poland, the ties of R&D area and science with the economy are weak. The effective institutional environment facilitating the cooperation between R&D area and the economy is 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 ; support of financing innovative projects through higher risk capital funds, also using the National Capital Fund; budgetary support of scientific research and development work carried out by enterprises; linking 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 transfer of technology to enterprises, supporting the development of science-and-technology parks, clusters and investment parks; support for the implementation of regional innovation strategies;

- **legislative:** implementing the Act of 29 July 2005 on certain forms of support for innovative operations (Journal of Laws No 179, item 1484) introducing economic-financial instruments: 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 (Journal of Laws No 238, item 2390, with further amendments) and the Act of 28 July 2005 on public-private partnership (Journal of Laws No 169, item 1420). Introducing legal provisions to enable the implementation of investment park concept.

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

3.2. Supporting the research and development area

Current status: In Poland, outlay on R&D is very low, predominantly (around two-thirds) from the state budget. A number of research and development units have not been restructured. The effectiveness of such research institutions is low, while the level of their links with the business community very low. Also, the potential of Polish scientists as regards international cooperation, in particular their participation in European projects and research programmes is still to be utilised.

Implementation instruments:

- **institutional/organisational:** restructuring Research and Development units, particularly through consolidation and ownership transformation; implementing the 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 aimed at conducting R&D work generating economic benefits, implemented by



research units; 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 (Journal of Laws No 238, item 2390, with further amendments) and the Act of 29 July 2005 on certain forms of support for innovative activities (Journal of Laws No 179, item 1484).

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

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

Current status: The current level of using information technologies in administration (*e-government*), business (*e-business*), education (*e-learning*) and the healthcare sector (*e-health*) is much lower than the average of the EU-15 and new Member States. The level of the development of 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 economy and administration; upgrading telecommunications infrastructure and developing infrastructure for broadband Internet access on the national and regional levels; making the use of electronic communication in economy, administration and healthcare more widespread;

- **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 (*Journal of Laws* No 64, item 565), which provides for a State IT Development Plan, giving the minister competent for IT 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; full implementation of the amended Tax Law ; adapting to the European standards in 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 reduction of costs. Less information exclusion, 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: In Poland material-, energy- and water-intensive technologies are still widely used, which results in the low effectiveness of environmental resources management. A barrier hampering a full use of the potential of eco-technologies is, in particular, limited capacity of companies to finance such costs and risks as regards eco-innovation, as well as insufficient outlay 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 advisability and profitability of using most energy efficient goods; supporting the development of local district heating systems with the preferential treatment of cogeneration;

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



Expected effects: Increased enterprise competitiveness owing to higher innovation levels, including a transfer of environment-friendly solutions in terms of technology, products and organisation. Expansion of the market of eco-technologies. Introduction, on the market and for use, of goods featuring highest classes of energy efficiency. Development of industry serving the needs of innovative technologies. Lessening the adverse environmental impact of the economy.

Priority 4. Infrastructure development and upgrade and ensuring competitive environment in network sectors

The condition of **infrastructure** continues to remain a major barrier to economic development. The existing layout of 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, which is a serious obstacle to the movement of persons, goods and services, contributes to the slow-down of economic development and constrains territorial cohesion both on the national and Community level. The existing road network does not meet the European standards.

There is a total of 1446 km of **roads** where the allowable axle load is 11.5 t/axle (end of 2004), which makes as little as 8 % of all national roads. By the end of 2004, 552 km of motorways, and 106 km of express roads were commissioned while 20 ring roads were built. At present, there is 288 km of motorways, 197 km of express roads and 19 ring roads under construction. It is estimated that 30 % of national roads require immediate repair and another 30 % will qualify for repair in the coming years. Poor road infrastructure hampers international transport, limits the opportunities of attracting foreign capital and reduces workforce mobility.

The condition of **railway infrastructure** is also bad, due to which it takes longer to transport goods thus reducing the competitiveness of railways vis-à-vis road transport. Tracks of about 35 % of railway lines in Poland qualify for replacement, and the allowable train speed on over 9 thousand km of lines (almost half of the entire railway network) does not exceed 60 km/h.

The public transport system needs support, in order to maintain or expand its share in the market, as well as to increase mobility of labour force.

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 affects adversely the comfort of living, slows down demographic processes and contributes to the low level of labour force mobility. The persistent sectoral barriers still include: low supply of land for housing developments (lacking local plans, deficit of land with infrastructure for development), poor state of repair and great backlog in necessary repairs, low percentage of social housing in the housing resources at communes' disposal, significant disproportion between purchasing power of potential buyers and relatively high prices of flats. A large proportion of households face barriers limiting their access to housing loans (high costs of bank loans, lacking suitable collateral to secure loans). The legislative solutions undertaken to date with respect to housing sector have often lacked the necessary comprehensiveness, despite many positive effects brought about by legislative changes and operating support mechanisms. In 2004, a pilot programme of financial support to communes was introduced aiming at creating resources of social housing, yet comprehensive solutions are still lacking. After 10 years of another programme, involving community housing projects to be let within the community, supported by financing from the National Housing Fund, the annual supply of residential space from these projects does not exceed 10 thousand flats. As regards the fully-owned flats, the financing support instruments, based on mortgage loans, extended in 2002 to households (interest-rate break, housing loans with fixed interest rate) have proven insufficient to elicit demand for the housing loans. The Government intends to undertake comprehensive actions to support the housing sector.



In order to maintain **effective competition in network sectors** it is necessary to continue liberalisation in the energy industry, transport, telecommunications and postal services. It is indispensable to create the conditions for the start-up of competitive operators on these markets and to gradually decrease the direct influence of state bodies on the companies operating in these sectors.

The process of creating **liberal market in the energy sector** has aimed to continue the activities of market restructuring, technological and organisational modernisation and, by this to fulfil the European Union requirements. A competitive **electricity market** is developing on the basis of the existing market model with a regulated access to the grid (i.e. applying TPA – Third Party Access to the grid). In the implementation of a competitive electricity market a balancing market has been created managed by an independent energy transmission operator spun off from the Polish Power Grid (Polskie Sieci Elektroenergetyczne S.A.) Capital Group. There has been a launch of a stock exchange market managed by the Polish Power Exchange (Towarowa Giełda Energii S.A.). As a result of market liberalisation in the **gas sector**, gas distribution companies and a distribution system operator were de-coupled from the Polish Oil and Gas Company (Polskie Górnictwo Naftowe i Gazownictwo S.A.)

There are stumbling blocks on the way to the liberalisation of the energy markets, the key ones being: long-term contracts for capacity and electricity purchase concluded between the Polish Power Grid Company (Polskie Sieci Elektroenergetyczne S.A., abbr. PSE S.A.) and power generators as regards the electrical power sector and gas purchase contracts with such obligations as ‘take or pay’ as regards the gas sector. Long-term contracts constrain the functioning of market mechanisms throughout the energy sector.

The **telecommunications market** liberalisation and the improved competitiveness of the Polish market are the priorities of the Telecommunications Act of 16 July 2004 (Journal of Laws No 171, item 1800, with further amendments). This act defines, among others, the rules of telecommunications services provision and its overseeing, the rights and obligations of the telecommunications companies, the rights and obligations of users and end-users, the conditions for network provision and telecommunications services provision, the conditions of telecommunications market regulation, the conditions for the general service provision and the protection of service users, the conditions of frequency allocation and their numbering the conditions of data processing in telecommunications and the protection of the secrecy in telecommunications. The price levels are regulated by the market and to certain extent, 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 has been made towards the **postal services** market liberalisation. 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 was lowered from 500 g to 350 g and the price limit went down from fivefold to threefold the fee specified in the Polish Post price list for a standard letter falling within the lowest weight category sent First Class. The weight limit, which is higher than the weight limit in force in other Member States under the Directive 97/67/EC, follows from the Accession Treaty which established the transition period for Poland effective until the end of 2005.

The number of operators other than the Polish Post 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 limited the range of activities subject to a license and required from new operators to obtain an entry into the postal operators register have encouraged new operators to launch their businesses. These changes became operative with the Act on the freedom of enterprise coming into force.



Infrastructure

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

Current status: The lack of 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 surrounding infrastructure linked with road and railway networks) is currently a very serious barrier to the development of the Polish economy. The harmful impact of transport (vehicular emissions, noise, congestion) on the environment and human health is on the increase, while – at the same time – the spatial potential for new infrastructure projects diminishes because of more areas covered by special nature conservation measures.

Implementation instruments:

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

- **legislative:** improving regulatory framework of air transport sector to meet market needs; 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 enabling the cost of maintenance, repairs and upgrade of rail infrastructure to be covered from public funds; adopting an act on the integrated transport safety system harmonising Polish legislation with EU law and other international regulations.

Expected effects: Better cohesion between the national transport system and the European system. Lower costs of transport fleet and rolling stock wear, particularly that of railway rolling stock. Better quality and increase in passenger numbers and freight transport volumes. Lessening 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 (trade, distribution) or in the power sector.

Implementation instruments:

- **institutional/organisational:** de-coupling distribution system operators, in legal terms, in the electrical power sector and gas sector; capital consolidation of enterprises operating in the sector; privatisation of companies with the exception of transmission operators; employment restructuring to match production needs and to ensure at the same time improved work efficiency and effectiveness in mining and power companies;

- **legislative:** implementation of the EC market directives.

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



4.3. Supporting the construction and upgrade of energy infrastructure

Current status: The quality and structure of the existing energy infrastructure and cross-border connections do not ensure effective operation of the electricity market and natural gas market and do not take advantage of Poland's location as a transit country for the fuels delivery to the EU countries. The low effectiveness of primary energy use, as well as of energy production and use, result in high energy intensity of the economic and social domains, while the structure of energy resources consumed has an adverse impact of increasing the amount of pollution emissions.

Implementation instruments:

- **institutional/organisational:** assistance from public funds for the implementation of selected infrastructure projects;
- **legislative:** adopting laws and implementation regulations necessary to carry out the tasks.

Expected effects: Increasing the transmission capacity within the country and on trans-border connections. Raising the effectiveness of energy production, transmission and use, as well as the use of renewable resources. More rational use of energy resources. Curbing pollution emissions and reducing 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. preference for sale of energy produced from RES. The results of these actions are not sufficient to reach the projected indicators of the share of these sources of energy in primary energy and electricity. The renewable energy share in the balance of the primary energy use in Poland in 2003 amounted to 1.6 % compared with 13.7 % on average in the EU-15. There are plans to increase this share in Poland to 7.5 % in 2010 in accordance with 'The State Energy Policy until 2025' adopted by the Council of Ministers on 4 January 2005.

Implementation instruments:

- **institutional/organisational:** implementing a trading scheme of energy certificates of origin; supporting the use of biomass, water and wind energy; increasing 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: agricultural production development, employment growth, development of industry and services for the needs of renewable energy. Lower pollution emissions, in particular greenhouse gases emissions and more rational use of natural resources.

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

Current status: Underdeveloped housing results in, among other things, lower living standards, limited mobility in labour market and a widening gap in unemployment rates among individual provinces and contributes to the consolidation of poverty and social exclusion, while in long-term perspective it enhances the current negative tendencies in demography.

The low ratio of waste water treatment plant services per capita, many wild waste dumps, erratic waste management, as well as quality and quantity problems with water supply result in an overall low sanitation level of the country.

Implementation instruments:

- **institutional/organisational:** supporting the development of flats for rent that are affordable to middle-income level groups (including flats under ownership arrangements), repair and quality enhancement of the existing housing resources; lower costs of flat exchange; creating an effective system of housing financing, among other things, through actions facilitating enhanced availability of



housing loans and increasing the importance of securitization⁵⁾ of mortgage assets and developing a secondary market for mortgage debt, supporting the creation of a pool of social housing (council flats); – the development of a housing benefits system; providing support for the households in their efforts to obtain their own flats; supporting housing investment undertaken jointly by provincial and local self-governments, 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 respective acts of law, drafting and enacting new laws implementing the governmental programme of community housing projects, and of system supporting communes in creating their resources of social housing.

Expected effects: Better living conditions of families and higher mobility of the population. Curbing social exclusion in housing.

4.6. More widespread use and development of Public-Private Partnership (PPP)

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

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

The PPP Act aims at removing barriers regarding the role and functions of administration in implementing public tasks with participation of a private partner. The Act authorizes public and private operators to enter cooperation agreements on PPP with the view to perform public tasks. It is also to prevent events where a PPP projects might become a political instrument or be submitted to political pressures.

More widespread use of PPP should effect a change in the philosophy of financing public tasks.

Implementation instruments:

- **institutional/organisational:** Creating a system for promoting good practices and models for PPP projects, as well as raising the levels of knowledge in public institutions as regards preparation and evaluation of PPP projects, setting up PPP project monitoring and overseeing mechanisms;

- **legislative:** implementing an act on public-private partnership and implementation regulations for the act.

Expected effects: Potential benefits drawn by public sector from more widespread application of PPP have to do with private partners taking over financing needed to implement public tasks. This is an effective way of raising capital, particularly when public financing is insufficient.

At the same time, PPP should also improve the absorption of EU assistance funds (following the examples of other EU Member States). The public partner applying for EU support should be able to indicate the contribution of a private investor as the required co-financing of a project. Hence the tensions in both local self-government budgets and the state budget could be alleviated.

Long terms of PPP agreements should also have beneficial effects on introducing long-term financial planning.

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



Liberalisation of network markets

4.7. Introduction of competitive energy and natural gas markets

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

Implementation instruments:

- **institutional/organisational:** creating an institutional system for the implementation of the measure enabling the removal of the barrier involving long-term power and electricity sale contracts; administrative decisions made by the President of the Energy Regulatory Office.

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

Expected effects: Cost reduction in the energy sector operation and better energy efficiency in all areas of energy production, transmission and use. Rationalisation of pricing.

4.8. Liberalisation of rail transport

Current status: As regards rail transport liberalisation, the changes introduced as a result of the rail packages I and II created the conditions for proper operation of rail transport on the market of transport services in Poland. The Office of Rail Transport was established to supervise the rail transport regulation and to provide independent technical supervision over the activities of rail carriers and infrastructure administrators. The Office of Rail Transport as a 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 license for transport of persons and goods as well as rendering traction vehicles accessible, which is granted by the Office of Rail Transport. A license for passenger transport is held by 25 carriers, a license for transport of goods – 59 carriers, a license for rendering traction vehicles accessible – 38 carriers.

Implementation instruments:

- **institutional/organisational:** introducing the instruments of infrastructure financing;

- **legislative:** an Act on the Rail Fund, an act on financing the 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. Higher 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 the 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 telecommunications market by the President of the Office of Telecommunications and Post Regulation.

Implementation instruments:

- **institutional/organisational:** strengthening the role of the regulatory body (with a target solution being to integrate regulation of media and telecommunications in one new regulatory authority), improving the regulatory tools;

- **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 transition from analogue to digital broadcasting in ground-based television*. Currently implemented schedule set out in the *Strategy...*, aimed at gradual introduction of digital broadcasting in ground-based television signal and phasing out analogue broadcasting. The cessation of analogue broadcasting is planned to occur by the end of 2014. Also planned is the analysis of feasibility of digital radio broadcasting to be introduced in Poland.

Implementation instruments:

- **institutional/organisational:** the establishment of an intra-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 wider programming offered. Availability of additional services.

4.11. Development of postal services market

Current status: Following the Copenhagen negotiations, as of 1 January 2006 the scope restricted for the public operator in Poland will be decreased within the shipment weight range to 50 g and within the price range to 2.5 times the fee charged by the operator for the 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.



Labour market policy area

Priority 5. *Creation and retention of new jobs and reducing unemployment*

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

Unemployment affects particularly **young people** (15-24) entering the labour market, many graduates of secondary schools and universities who have problems with finding their first job due to a generally difficult situation on the market and lack of professional experience. Joblessness is also more common among **older people** (50-64) who, by and large, have already left the job market as a result of deactivation policy contributing to lower professional activity indicators in this group, especially as regards poorly educated people with little skills. The activity of women on the labour market is also insufficient due to, among other things, 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 the low level of infrastructure and human capital, and the small scale of economic activity.

The situation on the labour market is also conditioned by the existing solutions as regards **labour law**. Polish regulations, in general, follow modern standards including the ones that favour more diversity in employment formulas, however, the flexibility in hiring forms is still perceived as a factor threatening job security.

The range and effectiveness of **active labour market policies** combined with the lack of appropriate monitoring and assessment of its target range and actual effectiveness of such activities require a definite improvement.

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

Economic development in Poland in recent years has been connected mostly with the fast increase in work productivity. Technological changes and restructuring processes in the economy bring changes in the structure of **labour demand**, which requires adjustment on the supply side – an ongoing development of qualifications, the creation and promotion of new, flexible forms of employment. These are the only measures which can reduce the level of structural unemployment,

It must be emphasized that the activities indicated 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 retain people in employment and reduce the passivity of people in 'immobile' age group is addressed by the activities under Priority 1 *Consolidation of public finance and improvement of public finance management*.

5.1. Reducing the charges imposed on employees with the lowest income

Current status: Compared with the OECD countries Poland has relatively high non-wage labour costs, which places our country among the states with high charges imposed on hired labour. At the same time, effective tax progression (i.e. after taking into account non-wage costs and social insurance contributions) is the lowest in Poland among all OECD member states – joint tax charges are almost flat. This leads to a relatively high taxation on labour of the least productive people, so the ones 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 around 35-36%. The Act of 1 July 2005 amending the Act on the minimum wage for labour and amending other acts (Journal of Laws No 157, item 1314) introduced important changes to the method of establishing the minimum wage. As a result, an increase of 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 the taxation of the persons with the lowest income i.e. not exceeding 50% of average wage; correcting the amendments to the Act of 1 July 2005 amending the Act on the minimum wage for labour and amending other acts.

Expected effects: Increase in the net income of employees in the lowest wage bracket, without increasing charges borne by employers. Higher level of professional activity (labour supply) and employment in this group.

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

Current status: In Poland there are 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 thousand employees. Moreover, to a varied extent and degree a number of other institutions are involved in the activities for the jobless and job-seekers, such as: employment agencies, community information centres, academic career offices, many contact points in communes, and family assistance centres. The coordination and use of the potential of these institutions are insufficient.

Implementation instruments:

- **institutional/organisational:** applying identical service standards by offices; introducing a clear division of competences and coordination between individual labour market institutions; outsourcing the services to institutions other than public employment services working on local job markets (in communes, housing estates, 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 the use of labour market services by a larger group of interested people. Better organisation of the labour market institutions and implementation of such cooperation principles that bring more benefit to the labour market and its participants.

5.3. Increasing the range and quality of services provided by the county (*powiat*) and province labour offices

Current status: The staff potential at public employment services and the scope for their effective work are unsatisfactory. At the end of 2004, on average, in Poland there were 1850 unemployed persons per employment agent (in other EU Member States the same average was 300 unemployed per a job placement agent). The education level of public employment services employees was also unsatisfactory (fewer than 50 % had a higher education). The above factors have considerably limited the range of services offered by the public employment services. After Poland's accession to the EU, the units of EURES network began to operate on the Polish market.

Implementation instruments:

- **institutional/organisational:** increasing the importance of job placement and consulting in the activity of employment services, developing the range of services for the benefit of job-seekers and



employers, improved cooperation of labour offices with secondary schools, raising the qualifications of staff at labour offices, monitoring the effectiveness of the services provided, expanding 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 higher effectiveness of the services offered, particularly as regards job placement and professional counselling

5.4. Better information about labour market

Current status: Monitoring of professions in deficit and excess for the purposes of effective labour market policies is being implemented. The system of job demand forecasting is being improved. Additionally, a proposal for the National System of Labour Market Monitoring comprehensive database ('data warehouse') together with data storage software have been developed. At the same time, administrative data sources concerning the labour market are insufficient and make it impossible to conduct a thorough analysis 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 the Social Insurance Institution information systems as well as with the Education Information System SIO) in order to obtain aggregate data (on different aggregation levels) and 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: better precision as regards the effectiveness measurement of policies concerning labour markets and accurate identification of higher risk groups. Periodical definition of directions and intensity of the changes occurring in the profession and qualification structure on the regional and national labour markets. Improved management of human capital through information on employment opportunities. Better targeting of resources and tailoring active policies concerning labour markets to the needs of local job markets.

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

Current status: One of the primary characteristics of Polish unemployment is a large share of people with low professional qualifications (persons holding vocational school certificates or even lower qualifications amounted to 66.9 % of the unemployed). Young poorly educated people who have problems entering the job market also form a numerous group of jobless people. Moreover, over half of the unemployed seek work for over 12 months from the moment of registration at a labour office. The Act on employment promotion and labour market institutions⁶ 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 the persons in a special situation on the job market and the 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 lower chances of finding employment).

Implementation instruments:

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

⁶ Article 49 (1).



- **legislative:** continuation of work on the Act on community cooperatives.

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

5.6. Professional activation of the disabled

Current status: assistance for the disabled in Poland targets, first of all, the 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 to rationalise the operation of sheltered enterprises employing disabled persons and increase employment of the disabled persons who are particularly disadvantaged on the job market; introducing a general rule of compensation for the higher employment costs of the disabled both for the open and sheltered labour markets from public funds with the exclusion of the employers obligated to make payments for the State Fund for Rehabilitation of Disabled Persons (PFRON) in order to increase the number of the disabled in employment, especially on the open job market.

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

Expected effects: Equal level of assistance regardless of the status of an employee of a disabled person.

Priority 6. Improving adaptability of staff and enterprises by investing into human capital

The quality of **human capital** in Poland understood as the level of education and skills, as compared with other EU countries, is low. In 2004, still about 55 % of people aged 15 and over held just a vocational education and only 12 % had a higher education. At the same time, the number of secondary school graduates is increasing and more and more of them decide to continue education at university. In the years 1995-2004, the number of university students went up over twofold. However, only 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 the students pursued study in information science).

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 are usually those who already have a high level of education and a job. The people who are most vulnerable to unemployment (i.e. people with low 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 in production age and a very slow increase of the population in post-production age. It is a consequence of the fact that in recent years the high birth-rate generation born in the late 1970s and early 1980s has begun to enter production age while those born during the post-war boom have not yet reached retirement age. But we might expect a complete turnaround in the coming years. It is estimated that the number of people in production age (15-64) will keep increasing until 2010 when it reaches the maximum level of about 27.3 million people (at present – 26.7 million). Only after 2010 will the demographic changes become a factor curbing unemployment and contributing to the increase of the employment rate. At the same time the ratio of post-production population (65 plus) depending on the production-age population (15-64) will go up 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, telework) more attractive and accessible for 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 the work time and 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:** disseminating information on the opportunities for various employment forms; applying flexible employment forms.

- **legislative:** the existing legislative solutions provide for the application of flexible employment forms and 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 education level of society does not meet the needs of the knowledge-based economy. There are too few people who have completed a secondary and higher education. The level of qualifications and general competence of prospective employees is in many cases insufficient to find employment or to become self-employed. What is more, the qualification structure does not match the needs of the labour market. This indicates that the inadequate educational offer in this regard is unsatisfactory. Also, the indicator of the participation of adult Poles in lifelong learning is very low, which is due, generally, to the fact that people in employment do not perceive the need to raise their qualifications. Very few of those who have low qualifications, who live in the 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 has low effectiveness.

Implementation instruments:

- **institutional/organisational:** developing and implementing ' a cross-sectoral 'Lifelong Learning Strategy', in particular developing and implementing system solutions to serve improved teaching and training quality and effectiveness (considering key competencies in teaching and testing standards, in training and upgrading qualifications of teachers and trainers and in evaluating teaching and training. developing a system of accreditation of lifelong learning institutions; creation of a system of validation and certification of qualifications obtained outside the educational system), matching the 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 promoting the idea of lifelong learning, and enhanced cooperation with social partners; ; implementing solutions supporting the development of distant learning (e-learning) and development of professional counselling in order to remove barriers to access to education, especially those caused by poverty or disability; Creating a national qualification system and the national qualification 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 the solutions aimed at education and training quality improvement: 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 the school graduates and training participants to employment and self-employment. 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 THE COHESION POLICY INSTRUMENTS

The National Reform Program (NRP) does not create a separate legal basis for programming the instruments of obtaining resources from structural funds and the Cohesion Fund and its priorities and actions are supported or supplemented by the development directions 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), which is the basis for structural funds and the Cohesion Fund intervention in Poland. Due to its timeframe, the NDP for 2005-2008 covers 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, Increasing Enterprise Competitiveness SOP, Restructuring and Upgrade of the Food Industry and the Development of Rural Areas SOP, Fishery and Fish Processing SOP, Transport SOP, Integrated Operational Programme (OP) of Regional Development, Technical Assistance (OP), Community Initiatives Programmes (Equal, Interreg) and the strategy for use of the Cohesion Fund. The total public funds (both national and Community funds) to be involved into the implementation of the 2004-2006 National Development Plan amount to EUR 17,673 million.

The NRP objectives implementation within the operational programmes under 2004-2006 NDP (as of 31 October 2005)

Human resources development (HRD) SOP

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

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

Increasing the enterprise competitiveness (IEC) SOP

The NRP reforms within the framework of the above programme are principally implemented by the following actions: *strengthening the institutions supporting activities of businesses, better access to external financing of enterprise investment, creating the conditions conducive to development of businesses, strengthening the cooperation between R&D and 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 the formally approved projects amounts to 214% of allocations for 2004-2006 and is the highest of all 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 the total programme obligations. The most popular is the Priority 2 action under *direct assistance for enterprises*.

Transport SOP

As regards this programme and the Strategy for the Use of the Cohesion Fund, the NRP priorities are implemented, above all, through the following projects: *railway lines reconstruction, improvement of access to sea ports infrastructure, development of intermodal systems, construction*



and reconstruction of motorways, express roads and national roads, improvements in traffic on national-status roads.

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

Integrated operational programme of regional development (IOPRD)

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

Under all the activities covered by the IOPRD, the beneficiaries submitted formally approved applications for subsidies from the European Regional Development Fund (ERDF) and the European Social Fund (ESF) which amount to 195 % of the allocation for the entire programme duration. The total value of the contracts signed is equal to 55% of resources for 2004-2006. About 14.16% of allocations for 2004 and 3.31% of allocation for the entire programme duration have been released from the programme accounts.

Continuation of the NRP objectives in 2007-2013

As a result of the debate over the implementation status and the future of the Lisbon Strategy and the Cohesion Policy the European Union has come up with a new concept of their implementation (more definite drive of the Lisbon Strategy into the growth and employment issues, newly defined objectives of the Cohesion Policy: convergence, competitiveness and territorial cooperation) as well as the new scope of the structural funds and the Cohesion Fund.

With a view to effectively implement the renewed Lisbon Strategy, the European Commission has proposed to apply an integrated approach including the economic and social issues combined, reflected in as the Integrated Guidelines for Growth and Employment for the years 2005-2008 (IG). These guidelines are 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 IG, also developed on the Community level is the Community Strategic Guidelines for growth and jobs 2007-2013 (CSG). These guidelines provide the basis for the development, on the 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 committing of ca. 60% of Community funds towards the implementation of the renewed Lisbon Strategy. Hence, beginning in 2007, the directions of reforms envisaged in NPR in the areas of macroeconomic, structural and labour market policies will be supported under national and regional operational programmes co-financed by structural funds and the Cohesion Fund, targeting the support of modern economy, human resources and modern and partnership-based manner of exercising power, as well as the support for infrastructure and the environment.

Because of work on preparing the final arrangements of operational programmes and relevant tables of financing schedules for 2007-2013 still in progress, this subchapter does not include data on financial allocations on individual measures programmed in the National Reform Programme for 2005-2008



ANNEX – THE NRP ACTIONS FOR 2005-2008 COMPARED WITH THE EC INTEGRATED GUIDELINES

Integrated Guidelines	Activities provided for in the National Reform Programme in 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>Consolidation of public finance and improving public finance management</u></p> <ul style="list-style-type: none"> • Continuation of obligatory audit of public institutions current expenses • Continuation of public finance decentralisation • Optimizing access to benefits leading to early employee deactivation. Improving farmers' social insurance system • Reform of the pension system • Continuation of the healthcare organisation reform
<p>(3) To promote an efficient allocation of resources for growth and employment</p>	<ul style="list-style-type: none"> • Rationalizing public expenditure on administration and tighter control over public resources which are at 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 Partnership
<p>(4) To ensure that wage developments contribute to macroeconomic stability and growth</p>	<ul style="list-style-type: none"> • Increasing flexibility and diversification in employment and work organisation forms • Investing in human capital
<p>(5) To promote greater coherence between macroeconomic, structural and employment policies</p>	<ul style="list-style-type: none"> • Implementing the system of long-term budgetary planning • Adopting EU standards (ESA'95) as regards statistics and forecasts in public finance sector
<p>(6) To contribute to a dynamic and well-functioning European and Monetary Union</p>	
<p>II. <u>Microeconomic and structural policy areas</u></p>	<p>Priority 2 – <u>Development of entrepreneurship</u></p> <p>Priority 3 – <u>Increased enterprise innovation</u></p> <p>Priority 4 – <u>Infrastructure development and upgrade and ensuring competitive environment in network sectors</u></p>
<p>(7) To increase and improve investment in R&D, especially implemented in the private sector</p>	<ul style="list-style-type: none"> • R&D support



<p>(8) To facilitate all forms of innovation</p> <p>(9) To facilitate the increased production and use of ICT for the creation of information society</p>	<ul style="list-style-type: none"> • Development of innovation market and institutional environment facilitating cooperation between R&D and the economy • Development of ICT in economy and administration
<p>(10) To strengthen competitive advantage of Poland's industrial base</p>	<ul style="list-style-type: none"> • Development of innovation market and institutional environment facilitating cooperation between R&D and economy
<p>(11) To support the sustainable use of resources and strengthen the synergies between environmental protection and growth</p>	<ul style="list-style-type: none"> • Facilitating the use of eco-technologies, supporting energy efficiency and cogeneration
<p>(12) To extend and deepen the Internal Market</p> <p>(13) To ensure open and competitive markets inside and outside Europe and make use of globalisation benefits</p>	<ul style="list-style-type: none"> • Liberalisation of network markets (energy, natural gas, rail transport, telecommunications, post) • Directing state aid towards horizontal goals
<p>(14) To create a more competitive environment for economic activity and support private initiative through better legislation</p>	<ul style="list-style-type: none"> • Simplification of administrative procedures and lower costs of business activity • Better quality of legal regulations • Improved administration of justice in economic cases
<p>(15) To promote a more entrepreneurial culture and create a supportive environment for SMEs</p>	<ul style="list-style-type: none"> • Financial strengthening of the loan, guarantee and capital funds • Supporting the promotion scheme of Polish economy and the system of services to exporters • Simplification of the building investment process • Completion of the ownership restructuring process of state-owned enterprises operating under the act of 25th September 1981 on state-owned enterprises
<p>(16) To expand and improve European infrastructure and complete priority cross-border projects</p>	<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 constructions and upgrade of energy infrastructure • Support for the development of renewable energy sources
<p>III. <u>Labour market area</u></p>	<p>Priority 5 – <u>Creation and retention of new jobs and reducing unemployment</u></p> <p>Priority 6 – <u>Improving the adaptability of staff and enterprises and investing in human capital</u></p>



<p>(17) To implement employment policies aiming at achieving full employment, improving quality and productivity of work, and strengthening social and territorial cohesion</p>	<ul style="list-style-type: none"> • Implementing new organisational and financial solutions in order to increase access to labour market services provided for the benefit of the unemployed, jobseekers and employers
<p>(18) To promote a lifecycle-matching approach to work</p>	<ul style="list-style-type: none"> ○ Activating persons from groups particularly underprivileged in the labour market ○ Increasing flexibility in employment forms and organization of work
<p>(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 those professionally inactive</p> <p>(20) To improve matching of labour market needs</p>	<ul style="list-style-type: none"> • Increasing the range and quality of services provided by the county (<i>powiat</i>) and province labour offices • Activation of persons from groups in especially underprivileged situation on the labour market • Professional activation of the disabled • Better information about the labour market • Better availability of affordable housing for citizens, and improved sanitation infrastructure
<p>(21) To promote flexibility combined with employment security and reduce labour market segmentation taking into account the role of social partners</p>	<ul style="list-style-type: none"> • Increasing the flexibility and diversification of employment forms and work organisation
<p>(22) To introduce labour-cost structure and mechanisms of setting wages, facilitating more employment</p>	<ul style="list-style-type: none"> • Lower charges imposed on employees with the lowest income
<p>(23) To expand and improve investment in human capital</p> <p>(24) To adjust education and training systems to new competence requirements</p>	<ul style="list-style-type: none"> • Investing in human capital