The Role of Local Government in the Process of Stimulating the Development of the Local Economy

Abstract

Considering the role of local government in stimulating local economy development, and at the same time in shaping development processes, it must be stressed that local government has certain functions to perform consisting of shaping life conditions that are beneficial to the residents and the operation of business entities. To achieve this purpose it undertakes various activities, and uses legal and economic instruments. With this in mind, this publication attempts to demonstrate the role of territorial government as an entity that directly and indirectly stimulates local economy development processes, along with the presentation of selected instruments and actions conductive to shaping these processes. The considerations in this study pertain to the conditions of the functioning of territorial government units in Poland at the local level. Of course, due to the length of the paper, only selected issues of this broadly understood problem will be discussed.

Keywords: local government, local development, the local economy
Introduction

The tasks of local government, as the host of the area, include the satisfaction of the current needs of the community of residents and the stimulation of socio-economic development. Realizing this, local authorities conduct policy, the aim of which is to stimulate economic processes influencing the improvement of competitiveness in the territorial unit. They do this by means of the rational management of resources, using specialized legal, administrative, financial, and informational instruments. In particular these activities encompass the expansion and modernization of local technical and social infrastructure, the rational management of municipal real estate, the stimulation of entrepreneurship, the creation of developed economic and industrial zones, and the promotion of territorial units.

Every territorial unit is part of a larger socio-economic system. There are numerous factors that have an influence on its functioning, and which do not depended on local authorities or communities. We should mention here the territorial unit's location in the settlement system, its position in relation to communication routes, the availability of natural resources and the level of the local economic base. These factors differentiate territorial units and are the reason why some of them are initially in a privileged position in relation to others.

Irrespective of the existing local conditions, local authorities are required to implement policies aimed at the most efficient use of the potential they possess. Its aim is the rational formation of development processes, achieved, among others, through the modernization and expansion of the resources of technical and social infrastructure they have available. Such activities lead to the maintenance or improvement of the attractiveness of a given territorial unit within a settlement system. The final effects are increasing the level of satisfaction of the self-governing community's collective needs, a higher quality of life for residents, and the improved operating conditions of the local economy.

Territorial units, in shaping local development processes, compete with each other in attracting investors, new residents, sports organization and artistic events, as well as in the use of other factors that contribute to socio-economic development. This competition takes on many faces, resulting in positive and negative effects. The nature of these effects depends on the proper selection of instruments for achieving the intended objectives, including the realization of a rational management strategy.

With this in mind, this publication attempts to demonstrate the role of territorial government as an entity that directly and indirectly stimulates local economy development processes, along with the presentation of selected instruments and actions.
The role of local government in the process of stimulating the development of the local economy is conducive to shaping these processes. The considerations in this study pertain to the conditions of the functioning of territorial government units in Poland at the local level. Of course, due to the length of the paper, only selected issues of this broadly understood problem will be discussed.

1. Local Government as a Local Economy Entity

Local government is an association of members of the local population that is a separate structure within the state and created by virtue of law, appointed to carry out public administration, and equipped with the material resources to carry out the tasks assigned to it.\(^1\) It is an internal organization of the local society, having a legal personality, and its own structures and decision-making bodies. Local government carries out its own tasks and those tasks assigned to it by the regulations prescribed by legal acts. The formal and legal side of its activity is subject to supervision by the state.

Today, local government autonomy stems from the definition included in the European Charter of Local Self-Government of 1985, according to which, local self-government denotes the right and the ability of local authorities to regulate and manage a substantial share of public affairs at their own responsibility and in the interests of the local population (within the limits of the law).\(^2\)

The division of tasks between the different levels of local government, as part of the decentralization process, should be done in accordance with the principle of subsidiarity. This means that decision-making should take place as close to the residents of the local community as possible, while respecting the principles of economy and efficiency. In turn, the application of the principle of subsidiarity is vital in supporting smaller, economically weaker communities.

The main activity of local self-government is the execution of public tasks, the aim of which is to create appropriate living conditions for local communities as well as organizing the proper operation and development of the economy. Local authorities can directly and indirectly affect the social, economic and territorial situation of individual areas using available legal instruments, administrative procedures and financial resources.

Carrying out the tasks aimed at improving the quality of the provision of municipal and social services, local authorities achieve the following goals:

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\(^1\) E. Ochendowski, *Prawo administracyjne (część ogólna)*, TNOiK, Toruń 2013, p. 207.

economic objective – to create the best conditions for the development of entrepreneurship among residents, existing operators and new investors;

social objective – the provision of an adequate quantity and quality of municipal and social services, satisfying housing needs, and ensuring public safety;

spatial objective – rational organization of space, the use and management of space and the arrangement of various functions (activities) in this space;

ecological objective – the protection of the resources and values of the natural environment;

cultural objective – the protection of the resources and values of cultural heritage.

The status of local government as presented above assumes its active role in the local economy. It should be expressed in the concentration on activities for shaping conditions conducive to local development.

The local economy is the basic area of economic activity for the local territorial social system. In its simplest interpretation, it means the activities directed at the development of the local unit. J. Parysek defines it as a complex process in which local authorities using their own resources, including residents and the involvement of internal partners (with their capital), stimulate the socio-economic development of the given territorial unit. The majority of definitions include the stimulation of the development processes and the creation, within the municipality, of a good climate for investing and establishing business entities. The local economy is also sometimes understood to be the operation of various types of local institutions, leading to the creation of new jobs, using the local development base.

Due to the allocation of development factors and actors (among others: needs, infrastructure resources, and business entities) every economy, including local ones, have their spatial aspect, whose expression is the defined spatial organization, structure and functioning of the territorial unit. In order to achieve this development, developed demographic, social, and institutional structures are needed that will create, justify, and implement this development; that is, to steer the development.

The subject of the local economy is the area of the municipality. All local issues, not reserved by law for other entities, belong to the competencies of its authorities.

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4 J. Parysek, Podstawy gospodarki lokalnej, op.cit., p. 18.


6 J. Parysek, op.cit., p. 22.
In accordance with economic activities, the local economy consists of entities operating in the area of the given unit, such as: private companies, public utility companies, local government units and budgetary establishments (e.g. schools, cultural centres, health centres), banks and financial institutions, universities, NGOs, households, and other entities supporting business processes.\(^7\)

The complex functioning of the local economy stems from the fact that it is a set of interdependent business entities operating in the area of the municipality, each of which performs specific functions and pursues its own goals. These entities develop the space according to the requirements that result from the functions they perform. During their everyday operations various relations occur between the entities that result from cooperation and collaboration, exchange of goods and services, work provisions, etc.\(^8\) Each of these entities seeks to achieve benefits, but it is difficult to expect that the sum of these individual efforts will lead to the maximization of benefits for the whole system. Thus, various contradictions and conflicts occur in the objectives of these entities. The maximization of their own benefits are most often achieved at the expense of other entities, which results in them making losses.

Under a system operating in such conditions, a particularly important role is played by the local authorities. Their task is to conduct a development policy that will minimize conflicts and facilitate the coordination of the business entity’s activities in such a way as to be beneficial to the given system (e.g. the promotion of economic development while maintaining environmental values and rational management of space). Thus, it can be stated that in these processes, self-government, and mainly the local authorities who act on its behalf, are the steering element of the system.\(^9\)

What is important for the development of the local economy is attracting new business entities whose activities will lead to the creation of jobs, an increase in the tax base and the emergence of other benefits for the business’ location. This concerns, primarily, finding actors who at the time of achieving their own goals will produce the maximum local effect,\(^10\) which is expressed by attaining benefits for the general public, and not only in achieving profits for a single economic entity.

Under such conditions, local development goals and strategies that are implemented by local authorities, can count on the support and understanding of actors on the

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\(^7\) J. Parysek, op.cit., p. 44.
\(^10\) J. Parysek, op.cit., p.53.
local stage who will adopt the development directions as their own, and participate in their implementation.\textsuperscript{11}

When discussing the local economy's development processes it is worth referring to the theory of the economic base. Werner Sombart, a German economist, presented the essence of its meaning by stating that the development of a town is determined by the size and wealth of its natural resources, and the socio-economic development of its infrastructure.\textsuperscript{12} The basic conditions for the implementation of this processes, as defined above, is due to the existence, within the municipality, of a local development base that significantly increases the area of impact of the business entities located in the municipality. The development of supra-local functions can constitute an important source of social benefits that is expressed, among others, in an increase in the rank of the territorial unit; raising its attractiveness as a place that satisfies needs and as the location of attractive investments.\textsuperscript{13} In this sense, it is the local government's task to undertake actions supporting local activities that are conducive to the development of supra-local functions and the creation of conditions for new investors.

The role of local authorities is to shape development processes that are directed at the coexistence of many functions. Structures dominated by only one of these functions are not very resistant to larger changes in the environment (e.g. a collapse in the labour market in a situation where there is a downturn in the unit's functioning due to the reliance on one large industrial facility, which is the main employer). From this point of view, knowledge concerning the conditions and mechanisms of this development is very important. It is a fundamental premise underlying rational decision making and the effective management of the operation and development of territorial units.

Local authorities that use their own as well as external resources, stimulate the economic development of the given territorial unit. Thus, the local economy can be regarded as a set of activities aimed at local development, which is coordinated by local government. In the literature, there is no single universally applicable definition for local development. We can talk about local development when the harmonized and systematic operation, which is carried out in the local community and with the


\textsuperscript{12} W. Sombart, \textit{Der Begrief Stadt und das Wesen der Staedtebildung}, "Archiv fur Sozialwissenschaft 225" 1916, pp. 124–133.

The role of local government in the process of stimulating the development of the local economy includes the participation of stakeholders, aims to satisfy the social needs of the local population and contribute to the overall progress.\textsuperscript{14}

The main components of local development include:\textsuperscript{15}
- economic growth and employment growth,
- increase in prosperity and improvement in the quality of life,
- increase of investment attractiveness,
- technological development and innovation,
- restructuring of economic activity,
- development of services and social resources, development of institutional infrastructure,
- increase in professional, social and spatial mobility,
- improvement in the quality of the environment.

It should be noted that in recent years, issues related to local development have focused on improving the quality of life of the community, which should be one of the effects of this development.\textsuperscript{16} It is a universal goal that requires particularizing for each local unit.\textsuperscript{17} Local development can be considered in its three spheres, that is:
- in the economic sphere – as generating revenue for businesses and households located in the given territorial unit and in developing entrepreneurship,
- in the social sphere – as a steady increase in the provisioning of social services, the level of education, civic consciousness, and culture,
- in the environmental and spatial sphere – as care for the natural environment and the creation of spatial order in urban areas.

As we can see, these three spheres, within which development processes are considered, largely correspond to the aforementioned objectives of the functioning of local government.

\textsuperscript{17} T. Famulska, K. Znaniecka, Finansowe aspekty rozwoju lokalnego, Wydawnictwo Akademii Ekonomicznej w Katowicach, Katowice 2004, pp. 9–18.
2. The Actions of Local Authorities that are Directed at the Development of the Local Economy

The role of local government in the processes of local economy can be demonstrated by analysing concepts based on Keynesian theory. According to the theory, imperfections in the market mechanism result in the inefficient use of resources belonging to individual territorial units. The effects of this can be compensated for by a wide range of intervention activities available to public authorities. Without them, leaving the development processes to be regulated by the market mechanism will cause the enlargement of existing differences.

The role of local government should not be limited exclusively to the sphere of regulation, but should also cover any impact on the shape of the actual sphere, especially by organizing, supporting, and stimulating economic development, rational space management, protection of environmental resources, and cultural heritage. Activities in this field can be described as self-government interventionism.

Local authorities can affect the development of the local economy to varying degrees using a variety of interventions in the economic and social spheres. These actions can take various forms. For example:

- financing the expansion of technical infrastructure – roads, water supply, sewage, sewage treatment plants;
- elimination of development thresholds occurring in the given unit;
- creating the conditions for business and entrepreneurship development, and the location of new businesses activity;
- human capital development – seeking to improve the level of education, increase the qualifications and skills of members of local communities, including local authorities;
- use of financial incentives and rational use of municipal property;
- use of cultural and environmental values;
- skilful use of spatial planning instruments, enabling rational shaping of development processes.

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18 M. Ziółkowski, Zarządzanie strategiczne w polskim samorządzie terytorialnym, in: A. Zalewski, op.cit., p. 92.
19 A. Sztando, Lokalny interwencjonizm samorządowy, czyli kształtowanie gminnego rozwoju gospodarczego, "Studia Regionalne i Lokalne" 2000, no. 1, Europejski Instytut Rozwoju Regionalnego i Lokalnego UW, pp. 79–89.
In practice, it is possible to point to a number of actions undertaken by local government that are aimed at increasing the competitiveness of the local economy. In the next part I will indicate selected spheres and instruments that local government use in stimulating local economy development.

The policy of local authorities can influence the behaviour and decisions of entrepreneurs. The stimulation of entrepreneurship is not one of the tasks of the municipality directly listed in the Act, but taking into account the role of local government, we should point out the necessity of implementing measures that aim to increase the competitiveness of the given territorial unit. The creation of a so-called favourable economic climate, understood as being projects aimed at facilitating the development of existing businesses and creating new companies, certainly belongs under such measures. Various other forms of the participation of local government in business projects are also possible, for example: as an entity directly implementing public investments, a contractor of business entities, a creator of business conditions for other entities, an entity doing business and affecting the labour market situation, and an entity that defines the direction of economic policy. The results of these actions shape the location's attractiveness.

The functional properties of the given municipality can either stimulate or decrease its attractiveness as a place for conducting business activities or as a place to live for local and potential external investors. Investors seek the best local conditions for their business. What is very important here is the level of infrastructural development, including technical and social infrastructure. A specific development potential is created as a result of projects implemented by the municipality (e.g. in the area of technical infrastructure). The development of the municipality and the competitiveness of its economy in relation to other municipalities is the outcome of locational advantages created in the form of certain functional properties for businesses and the population. From this point of view, implemented infrastructure investments are a very important factor in the economy's development. Their importance in shaping development processes will be considered in the next chapter.

One of the conditions for effectively shaping and stimulating economic development is a good knowledge of the local economy and the conditions of its development. Without such knowledge it is difficult for local authorities to accurately address the offer of available resources to appropriate investors. It is also difficult to choose investors who will be satisfied by development conditions. An important element here is also a knowledge of economic development trends at the macro level.

Analysing a project at the local and regional scale we can point to the creation of special economic zones as a factor in the development of the economy. Their aim is to activate the local economy, reduce unemployment and accelerate socio-economic
development. Currently 14 Special Economic Zones operate in Poland.\textsuperscript{20} The factors that attract and encourage entrepreneurs to invest in their area are of many different types, among which tax exemptions are the most attractive. The creation of special economic zones brings the following advantages: an increase in revenues from taxes on the personal income of people employed in the zones, increased tax revenue from economic activities carried out in the area and beyond, and a decrease in expenditure due to reduced unemployment (lower unemployment benefits, expenses for welfare, reduced cost for the so-called active combating of unemployment).\textsuperscript{21} It should be noted, however, that the creation of special economic zones is also connected with losses resulting from a reduction in budget revenues due to tax exemptions.

Entrepreneurship incubators, as well as municipal offices offering legal, financial, and marketing advice can be a form of aid for small and medium-sized enterprises. The creation of local and regional entrepreneurship development centres is also an activity that supports local entrepreneurship. These projects are expected to aid in the creation of new jobs, the emergence of new companies, the development of existing businesses, and the promotion of modern technologies. If the entities for supporting entrepreneurship are to be allowed to function independently, there must be a demand for their services from entrepreneurs in the given area. This is another area of activity in which local authorities can support the processes of development of the economy.

An important role in increasing the economic activity of municipalities is played by the entrepreneurship of local authorities in the promotion of development processes. Economic self-governments (chambers of industry and commerce) fulfil an important function by promoting production and services, causing an increase in new jobs.

Another group of actions undertaken by local authorities aims to reduce unemployment and its negative effects. This is done through active involvement in the fight against unemployment by creating jobs in administration, budgetary units, budgetary institutions and municipal companies. Some of the direct tools include: public works, intervention works, job placement services and municipalities’ own business activity. An important instrument used by municipal government in influencing the level of unemployment is the ability to conduct business and to directly employ people. Business activities conducted in the field of technical and social infrastructure leads to the socio-economic development of the municipality and creates external

\textsuperscript{20} According to data from 2015.
benefits for the area of business activity. The privatization of municipal enterprises and budgetary establishments can also be a source of stimulation for the development of entrepreneurship.

An essential area of activity for the municipality that influences local development processes is in the sphere of the supplying and contracting of services to the local market. Here the municipality is an employer, a principal, a customer and an investor. By conducting its policy in this area, local authorities affect the activities of private companies by making purchases and sales, the preparation of public procurement, and contracting work and services. An important task for public authorities in this regard is to prepare a municipal economic development strategy, which is a part of the municipality’s overall development strategy.

One of the local government policy elements that can lead to the development of the economy is the activities undertaken on the real estate market. The municipality that conducts transactions on this market (purchase, sale, lease) can affect the level of the prices.

The spatial policy implemented by local authorities and expressed in the records of planning documents, especially the local land-use plan, is also very important. If public authorities have enacted strategic documents defining the direction of development (development strategies, long-term investment plans) these instruments can be treated as an additional factor in increasing investors’ interest.

Among the instruments at the disposal of public authorities, the financial instruments are particularly important. One of purposes of their application is in influencing the economic activity of entities located within the municipality. This happens through establishing tax rates (although the municipalities’ control over taxation is very limited), the management of municipal assets, as well as attracting external sources for financing investments. Of great importance is the ability to make effective use of the European Union’s regional policy instruments and the financial instruments applied within its framework – mainly in the form of grants from Structural Funds and the Cohesion Fund. In practice, tax relief on real estate and means of transportation is the most commonly used incentive instrument for entrepreneurs.

In order to support business activity, municipalities can also provide loan guarantees for businesses that have difficulties in obtaining credit, and can also support specialized institutions that provide financial assistance in the form of grants and preferential loans. In turn, by expanding their investment activities, local authorities can benefit from external sources of financing, including debt market instruments. This policy is intended to accelerate and improve the efficiency of investment processes. A condition for the efficient use of these funds is to maintain a rational financial policy, in particular a debt incurring policy according to creditworthiness.
Seeking to improve the efficient use of local resources, local authorities should carry out actions to ensure the clear understanding of rules and procedures for handling official formalities. Moreover, it is important to effectively promote the municipality by means of both traditional methods, such as through the media, and modern ones such as the Internet. It also essential to create information points that promote territorial units and also support investors by providing advice and assistance in arranging official matters. In this regard, cooperation with specialized institutions may be helpful, for example, local development agencies, whose aims are usually to promote local entrepreneurship and local brands.

3. The Importance of Municipalities’ Infrastructure Investments for the Development of the Local Economy

Sustainable economic growth is not possible without investments. A very important element for shaping local and regional development processes is the implementation of municipal infrastructure investment, which in many cases constitutes a lever for development processes. Their level of investment is also treated as an indicator of economic effectiveness and a condition for the development of entrepreneurship.\(^\text{22}\) Economic and social infrastructure investments are necessary to ensure the occurrence of growth and development processes for the given area, so a continuing infrastructure gap is usually a significant barrier to the development of the local economy.

Municipal infrastructure is a complex resource, which is subject to change with multi-dimensional effects. With a changing economic environment, the meaning of each of its components changes. New services appear that require a new type of network and facilities that give direction to further development processes. An important problem here is the skilful development of the relationship between the development of municipal infrastructure and social infrastructure. Economic infrastructure provides a technical background for economic activity and adequate living conditions for the population. Its expansion, modernization and all the adjustments to the current requirements are tools for adapting the area to the functions performed by it. Equipping the area with transport, water, electricity, sewage, gas networks and public buildings is one of the important measures of its investment attractiveness. The other type of infrastructure, social infrastructure, underlies the development of

human resources and their structure in relation to present and future expectations. What is very important here is educational infrastructure, which develops social potential and provides an appropriately qualified workforce. Projects in the sphere of health, culture, sport and recreation are also crucial.

When planning the development of municipal infrastructure, attention should be paid to such features as its ancillary role, capital intensiveness, technical indivisibility, longevity, immobility, and the mutual interdependence of various elements of the infrastructure. Local authorities are responsible for the proper allocation of public resources for the functioning and development of infrastructure. They should be interested not only in investments funded directly by municipalities, but also made by other entities.

The impact of infrastructure on economic life is complex and it is worth paying attention to a certain dependency. By creating demand for certain services, providing material resources, and ensuring it is possible for institutions to meet this demand, the economy has an initiating function in relation to infrastructure. Economic development forms a basis for the development of infrastructure. At the same time, however, the economy is a consumer of infrastructure results. Thus, it depends indirectly on the current degree to which needs are satisfied.

When analysing these relationships, attention should be drawn to the kind of positive correlation between the level of infrastructure development, and the general level and pace of development of the economy and of local development as a whole. A high level of economic development requires high outlays, but also financial stability and the ability to maintain a technical and social base at the appropriate level. A low level of economic development often constitutes a very important barrier to the planning of an infrastructure network and to raising the level of the satisfaction of social needs. Thus, in practice, the implementation of infrastructure investments should outpace future demand, according to the expected direction of economic development, so as not to lead to the creation of a large developmental threshold and thus to the suppression of the pace of the local economy’s development.

The shaping of local development processes requires the coordination of investment activities, especially the mutual adjustment of the individual elements of infrastructure in terms of space and time. Due to the normally long and capital consuming investment process, and the high operational costs of the resulting infrastructure, the municipality’s authorities should prepare a long-term, multiannual investment plan, including all feasible investment projects and tasks. The scheduling of investments

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24 A. Ginsbert-Gebert, op.cit., p. 233.
and tasks requires the use of integrated instruments for strategic management, mainly local development strategies and long-term financial plans showing the feasibility of the strategies.

The infrastructure investments of municipalities should be treated as an important factor in building the competitiveness of the territorial unit. A consistent policy in this area can turn areas that have a supposedly low attractiveness into a convenient place for potential investors.\(^{25}\) Achieving the desired effects requires the local authorities to make a considerable commitment and take their own initiatives in the pursuit of goals.

In speaking about investments as an instrument for stimulating economic development, one must take into account investments not only in the economic sphere, but also all other investments, because development requires investing in people, in their education, skills, and attitudes. Without entrepreneurial and educated people it is impossible to achieve sustainable economic growth. Development also requires investment in the natural and social environment, as well as in organizational structures, which will increasingly become more suitable for carrying out new tasks and implementing complex strategies. Therefore, authorities who are aware of this should support existing organizations, including all organizations that group together companies or entrepreneurs who implement specific economic goals.

To conclude, it can be stated that local government investments are a very important factor in stimulating the development of the local economy and the growth of the territorial unit’s competitiveness. Their implementation is very important for current and future living conditions of local communities and the functioning and development of the activities of business entities.

Analysing the problem of local investments, attention should be paid to the sizes of the investment needs occurring in individual provinces. This is confirmed by research-estimates conducted in this respect by the author of this study. The calculated sizes of the investment needed for the construction of a water supply network can be given as an example. Analysing the relative scope of the needs, as a percentage of the current state of development, research results show that in 2014 the largest range of needs was found in the provinces of: Małopolskie (30.6%), Podkarpackie (30.1%), Mazowieckie (18.1%), Lubelskie (22.0%) and Świętokrzyskie (17.7%). The smallest shortages calculated in relation to the current state of development fall in the provinces of Opole (5.6%), Zachodniopomorskie (5.6%), Śląskie (6.6%), Wielkopolskie (7.1%) and Pomorskie (7.3%). At the same time it should be noted that in recent years

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A high rate of infrastructure network growth has been recorded in provinces with lower levels of development (e.g. Podkarpackie Province). This is one of the factors influencing the growth of local socio-economic potential.

In macro regions, the largest sizes of the needs pertain to the east (13.3 thousand km; in 2008 it was 225 thousand km), the centre (101 thousand km; in 2008 – 20.8 thousand km) and the south (6.0 thousand km; in 2008 – 13.0 thousand km), and the smallest ones are found in the south-west (1.6 thousand km; in 2008 – 3.1 thousand km) and the north-west (3.6 thousand km; in 2008 – 6.4 thousand km).

The numbers given show a larger scale of needs in the areas of agricultural character, which are located mainly in the regions of eastern and south-eastern Poland, while there is a much better situation in large urban areas, and in the provinces of western and northern Poland. Comparing the sizes of the infrastructure gap that were calculated in 2014 in relation to 2008, it can be clearly stated that, as a result of investment efforts, as well as a skilful selection of sources for funding, for the years 2007–2014 it was possible to significantly speed up the process for the development of the water supply network. Both the use of EU grants and the use of debt market instruments were important here. The effects of the tasks that have been realised are visible in all regions of the country, of course, in varied quantitative dimensions. It can be clearly stated that there was a reduction in the disproportions recorded among individual provinces.

The data presented shows how important the role of infrastructure plays in the stimulation of the local economy. Its lack or shortage is a factor in limiting developmental capacities.

4. Local Government Finances as a Condition of Development of the Local Economy

The possibilities for the implementation of municipal infrastructure investments are determined by the size of the budget revenues collected, in relation to the range of public tasks that are performed and the ability to obtain external (including repayable) sources of financing.

In Poland there is a wide variation in the level of budget revenues for municipalities, and thus their capacity to finance development tasks. On the one hand, this results from differences in the location of municipalities and the functions realized by them. On the other hand, the disproportions that occur are largely the result of the financial policy pursued by local authorities. Generally, in Poland, units located in urban areas and areas with high levels of economic development have a significantly
higher self-development potential, while local governments located in areas where agricultural production and low density of population dominate have lower opportunities in this regard.

On the basis of the author’s research, it can be concluded that the amount of income for municipalities is strongly correlated with the level of economic development and the degree of urbanization of the area. Some examples are the values recorded for the following provinces: Mazowieckie (PLN 24,400.6 million; 16.9% of total revenue in Poland), Śląskie (PLN 17,249.6 million; 11.9%), Wielkopolskie (PLN 11,905.2 million; – 8.3%) and Małopolskie (PLN 11,812.4 million; 8.2%). These areas, representing 29.7% of the country’s area and inhabited by 43.5% of the population, accounted for 45.3% of the total budget revenues for local government units in Poland. In the same year the lowest revenues were recorded in the provinces: Opolskie (PLN 3,140.3 million; 2.2% of the total revenues of local government units in Poland), Lubuskie (PLN 3,440.2 million; 2.4%), Świętokrzyskie (PLN 4,234.7 million; 2.9%), Podlaskie (PLN 4,283.8 million; 3.0%); that is mostly in areas with a lower level of economic development, located in the eastern and central regions of the country.

In order to illustrate the financial situation of municipalities, Table 1 shows the data and the results of calculations showing the level and dynamics of revenues for municipalities and cities with district rights for the years 2007–2014 in a summed province arrangement.

An examination of the dynamics of the changes shows a growth in the value of income for all provinces. In the period analysed the highest increase in revenue was characterized by regional governments of the provinces: Podlaskie (+68.4%), Lubelskie (+57.3%), Świętokrzyskie (+53.7%), Łódźkie (+49.6%), and the lowest: Opolskie (+33.9%), Lubuskie (+37.3%), Wielkopolskie (+42.7%), Mazowieckie (+44.8%) and Śląskie (+45.9%). The dynamics of the changes in different regions of the country varied, higher growth characterized units with the lower levels of income, which were located primarily in the eastern regions of the country. Here, the results of the compensation mechanism are visible, as well as the effects of EU funding. Financial policies implemented by local authorities also affect the differences that occur locally.

Table 1. Municipal Revenues in 2007–2014 by Province in Million PLN

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<tr>
<td>Dolnośląskie</td>
<td>8,306.58</td>
<td>8,772.93</td>
<td>9,864.22</td>
<td>11,002.02</td>
<td>11,345.82</td>
<td>11,701.58</td>
<td>140.87</td>
<td>3,897.51</td>
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<td>Kujawsko-pomorskie</td>
<td>5,359.85</td>
<td>6,016.16</td>
<td>6,448.63</td>
<td>7,319.29</td>
<td>7,645.71</td>
<td>8,064.95</td>
<td>150.47</td>
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<tr>
<td>Lubelskie</td>
<td>4,875.97</td>
<td>5,581.21</td>
<td>6,290.94</td>
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<td>7,351.27</td>
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<td>7,292.59</td>
<td>7,729.43</td>
<td>8,572.68</td>
<td>9,326.10</td>
<td>9,449.55</td>
<td>149.58</td>
<td>3,704.09</td>
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<td>10,836.99</td>
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<td>11,812.35</td>
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<td>23,876.90</td>
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<td>9,465.89</td>
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<tr>
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<td>15,209.69</td>
<td>16,392.30</td>
<td>17,249.61</td>
<td>18,560.41</td>
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<td>3,639.37</td>
<td>4,031.52</td>
<td>4,481.98</td>
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<td>3,534.08</td>
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<td>9,704.20</td>
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<td>11,905.16</td>
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<td>142.65</td>
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<td>4,532.63</td>
<td>5,063.77</td>
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<td>6,242.16</td>
<td>6,493.31</td>
<td>6,796.06</td>
<td>149.94</td>
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<td>Poland in total</td>
<td>103,876.55</td>
<td>115,209.66</td>
<td>126,196.09</td>
<td>139,654.50</td>
<td>144,260.00</td>
<td>152,808.76</td>
<td>147.11</td>
<td>3,746.78</td>
</tr>
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</table>

Source: the author's calculations based data from the Ministry of Finance.
The data above shows that in spite of the ongoing process of socio-economic development, the amount of income obtained for local budgets is still closely interdependent with their economic base. This thesis is confirmed by calculating their total income per capita. The average value for Poland reached the value of PLN 3,746.8 in 2013. The calculated results allow us to group provinces in the following way, according to the size of their generated income:

- income exceeding PLN 4,000 per capita – two provinces – Mazowieckie, (PLN 4,598) Pomorskie, (PLN 4,129);
- income in the range PLN of 3,701–4,000 – four provinces – Dolnośląskie (PLN 3,898), Zachodniopomorskie (PLN 3,776), Śląskie (PLN 3,744) and Łódźkie (PLN 3,704);
- income in the range of PLN 3,501–3,700 – six provinces – Kujawsko-Pomorskie (PLN 3,651), Podlaskie (PLN 3,580), Warmińsko-Mazurskie (PLN 3,534), Małopolskie (PLN 3,519);
- income in the range of PLN 3,101–3,500 – Wielkopolskie (PLN 3,437), Lubelskie (PLN 3,403), Lubuskie (PLN 3,356), Świętokrzyskie (PLN 3,334), Podkarpackie (PLN 3,310) and Opolskie (PLN 3,118).

The values given confirm the fact that the highest rate characterises cities with district rights, municipalities, and other urbanized and industrialized entities. Governments of less populated and less industrialized regions are in a worse situation. As are, especially, the agricultural areas of eastern, south-eastern and, in part, central Poland. The study also shows a higher level of income per capita in urban areas over rural and semi-urban areas. All this confirms the thesis pronounced earlier, that the financial potential of municipalities is closely related to the level of the economic development of the area, the function of core centres and the size of population.

The existing differences are evidence for the municipalities’ diversified financial potential and at the same time for the different possibilities of obtaining external funding. An important element is the ability to manage finances. It is possible to indicate many municipalities with high financial potential and low investment outcomes and, inversely, municipalities with a relatively low potential but having a high share and value of investment in the budget. Equally interesting are the examples of local governments in which, during one term of office, a high percentage of investment expenditure compared to the total expenditure is recorded, and in the next term, after the change of authorities, its share is much lower. These examples show the importance of the management decisions connected with the ability to generate excess funds in the budget that can be used to finance investments.

The development of the local economy depends largely on the local governments’ ability to generate funds that can be allocated to the realization of investment projects.
As the author’s research shows, in recent years we can talk about the incomplete use of investment potential by Polish local governments. We can enumerate, inter alia, the following causes:

- the operating surplus level is too low in relation to the existing investment needs. Current expenditures definitely prevail in municipalities’ budgets. The rate of growth is, in many municipalities, higher than the dynamics of changes for not only current income, but also total revenue;
- existing external conditions associated with the process of the decentralization of tasks and public finances. For many years there has been a discrepancy between the scope of the tasks delegated to local governments and the financial resources for their implementation. The increasing burden of the costs of implementing current tasks on local government budgets results in the lowering of their own investment potential;
- limited control of taxation by municipalities, the consequence of which is the poor efficiency of income from local taxes, including property taxes;
- construction of the compensation system, which limits the development potential of units with high basic tax revenues per capita. In calculating equalization grants very little consideration is given to the diversification of the scope of the tasks carried out by various municipalities (operating costs differ greatly between big cities and a small municipalities) and the effective use of funds by beneficiaries of the system is completely disregarded;
- legal barriers pertaining to the incurrence of local government debt, limiting, in many cases, the possibility of using debt as an instrument for financing investments, despite the economic capacity to incur debt;
- existing barriers to obtaining EU funds having a formal and legal, political, economic character (difficulty in ensuring the municipalities’ share of the contribution) or being a consequence of errors in the management of investment projects.

If local government units are to be able to more effectively generate funds for financing the local economy, extensive activities should be undertaken that are aimed at:

- increasing the financial potential of municipalities, in particular with regards to their own incomes;
- a reduction of the dependence on transfers from the state budget (grants and subsidies) of the revenues of municipalities;

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- the rationalization of the equalization system, increase the efficiency of EU subsidies use;
- improving the efficiency of public finance management at local government level, both in terms of raising revenue and implementing budget expenditure;
- promoting effective instruments for long-term financial planning, in particular the preparation of reliable financial forecasts.

To conclude, it can be stated that the state of local government finances is an important element in shaping the development of the local economy. The increase in municipalities, financial potential and skilful financial management, constitute an opportunity to eliminate the present infrastructure gap that is occurring in quantitative and qualitative terms. They also have the possibility for creating the conditions for the development of entrepreneurship and the implementation of joint ventures with private entities.

**Conclusion**

Considering the role that local government has in stimulating local economy development while at the same time shaping development processes, it must be stressed that it has certain functions to perform in shaping life conditions that are beneficial for the residents and for the operation of business entities. To achieve this purpose it undertakes various activities and uses legal and economic instruments.

Infrastructure investment plays a particularly important role in the development processes. When planning the implementation of the investment, attention should be paid to the necessity of incorporating infrastructure into the system of other local development factors so that services are rendered on this basis constitute a rational social and economic supplement to the conditions existing in the area. Of course, it should be borne in mind that the ability to invest arises when local government has excess financial resources (i.e. the funds that remain at the disposal of the municipality after meeting current social needs) and external funds, raised for the implementation of the given investment projects.

In the formation of local development processes a very important role is played by the authorities’ ability to use existing socio-economic potential and to build on its base conditions for the competitive growth of the territorial unit. Of key importance here is the preparation and application of integrated strategic management instruments, such as development strategy, long-term investment plans, and long-term financial plans. Thus, the policy of local authorities is an important factor in shaping local development processes.
The Role of Local Government in the Process of Stimulating the Development of the Local Economy

References


