THE PRZEMYŚL SUBREGION (NUTS3) AS AN EXAMPLE OF A BORDER REGION - CASE STUDY REPORT

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1. INTRODUCTION

This report was prepared as part of a study on development processes in selected regions of the Central and Eastern European countries, conducted as part of the GRINCOH project. The study was aimed to identify the strengths and weaknesses of different regions as well as their different responses to transformation, crisis and EU membership. The study, in addition to analyses of publicly available statistical data, made use of qualitative components in the form of 12 in-depth interviews carried out in 2013 with representatives of institutions influencing the socio-economic development of Przemyśl. The analyses below discuss local development mechanisms in relation to Przemyśl and the surrounding Przemyśl subregion.

1.1. Location and history

The Przemyśl subregion with an area of 4,300 km2 forms a part of the Podkarpackie voivodship (*województwo*) situated in south-eastern Poland. Przemyśl, with a population of 65,000, is the main city of this area bordering on Ukraine. Other major urban centres of the subregion include the county (*powiat*) capitals: Jarosław (40,000), Przeworsk (15,000) and Lubaczów (12,000). The railway route connecting Kraków and Lviv runs though Przemyśl, and the A4 Motorway leading to the border crossing in Korczowa is currently being built 14 km north of the city.

In the early Middle Ages, this area was the object of rivalry between Poland, Russia and Hungary, ultimately to form a part of the Kingdom of Poland until the First Partition in 1772. Following the Partition, Przemyśl was incorporated by Austria, and returned to Poland in the wake of World War I as a part of the Lwów voivodship. After World War II, the functional ties with Lwów were severed by the newly installed state border, with Rzeszów taking over the role of the major regional urban centre in this part of Poland. The post-War resettlement activities considerably reduced the Ukrainian minority on the Polish side of the border, and the Polish population on the Ukrainian side.

1.2. Basic socio-economic characteristic

The Przemyśl subregion has a population of 397,000, and the functional area of Przemyśl together with the surrounding municipality has around 75,000 residents. Over the last 10 years, the population of the city and the region has been relatively stable, as a result of the rather small – at least according to the official statistics[1] – migration outflow, which was compensated by a positive natural increase. The population density of ca. 95 persons/km2 is much lower than the national average (122 persons/km2). The subregion's level of economic development is even lower, with the per capita GDP of EUR 4,900 in 2010, corresponding to 53% of the national average. This result, which was the worst in Poland, is mainly an effect of an unfavourable economic structure, characterised by a high share of inefficient agriculture (4.4% GVA and 24.1% of employment). The role of industry is relatively small owing to deindustrialisation processes during the economic transition period (currently, industry has a 18.6% share in GVA and employs 22.2% of people in work). The role of industry has been taken over by the sector of simple services, including those

[1] These statistics considerably underrate (by as much as ten times, according to some sources) the volume of international migration.

handling cross-border interactions; it accounts for 34.3% GVA and 35.2% of the working population. The weakness of the private sector is also manifested by a high share of public services in GVA (30.5%, i.e. over 11 pp more than the country's average), and the underlying large scale of public transfers. At the same time, human capital resources measured by the level of education are less developed than the average in Poland (14.4% of the population has tertiary education compared to Poland's 17.9% in 2011), which is due to the absence of a reputable higher education institution (the number of university students per 1000 population is around 15, compared to the national average of 45).

1.3. Administrative and governance context

Poland's subregions (NUTS3) were established solely for statistical reasons, although until 1998 voivodships operated at the similar level, but had rather limited competencies. Following the 1998 reform of the territorial organisation of the state, the municipal level of local governance (LAU2), which was created in 1990, was expanded by:

- Dual self-governing and governmental voivodships at the NUTS2 level, whose competencies include inter alia strategic planning and economic development (with the support of Regional Operational Programmes (ROPs) co-financed from the EU), regional roads, regional railways and higher education;
- Self-governing counties (LAU1), whose areas of responsibilities include supra-municipal services in the sphere of education and health care, construction and maintenance of county roads and labour market policies.

Municipalities, or *gminy* (LAU2) form the essential level of territorial self-governance in Poland, which is reflected amongst other in their share in the revenues of self-government, at a level of 78.7% (including 52.9% of municipal own revenues), compared to 12.7% for counties (29.4% own revenues), and 8.6% for voivodships (49.1% own revenues). The main responsibilities of the municipality include the development and maintenance of the technical and social infrastructure, provision of public services (education, health care, social assistance), as well as spatial planning.

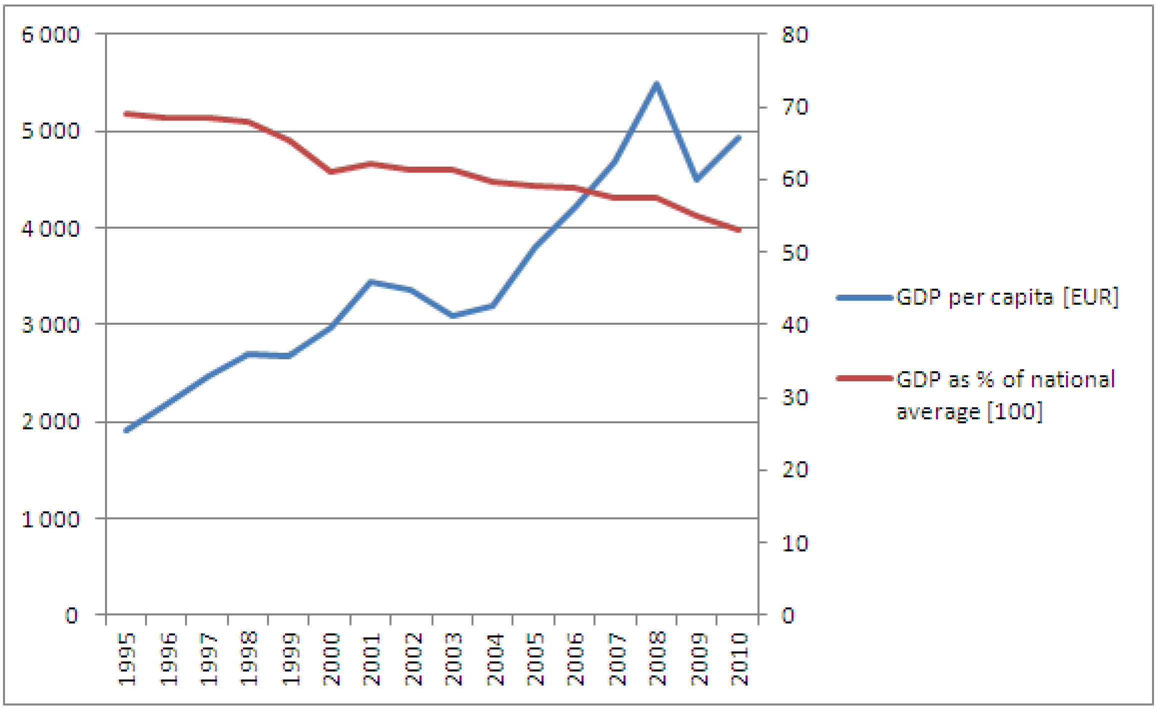
It should be noted that the structure of territorial government in Poland is a multi-level but not a multi-tier one, which means that individual territorial units enjoy a considerable autonomy, which – outside of the legislative and financial framework – is restricted only by the obligation to hold consultations regarding some of the tasks within their remit. In addition, membership of self-regulating business bodies is not obligatory for but is based on voluntary participation of entrepreneurs in chambers of commerce or industry, sectoral or territorial chambers of crafts. In consequence, the enterprise sector has a dispersed representation, and its cooperation with local governments is highly contingent upon the local and regional context. There is a large number of non-governmental not-for-profit organisations, and some of them closely cooperate with local governments in the provision of various tasks, also as part of the Human Capital Operational Programme (HC OP).

2. Trajectories of economic development and structural change, social cohesion

2.1. Economic performance of the region

In the recent years, the Przemyśl subregion, just as Poland at large, recorded a fast socio-economic development, which was only slightly decelerated by the recent global economic crisis. Nevertheless, while in the years 1995-2009 Poland's real GDP increase was 82.8% (in 1995 fixed prices), in the case of Przemyśl growth was much lower, at a level of 45.3%. This meant a decrease in per capita income from around 70% of the national average down to 53% in 2010. In effect, the region became the poorest area of the country, and the drop in the income relative to the national income post 2000 was among the largest nationally (by 9.2 pp). On the other hand, it should be noted that the regional GDP expressed in EUR increased considerably, from around EUR 2000 in 1995 to EUR 5000 EUR in 2010, i.e. approximately two and a half times, although the growth measured using purchasing power parity was much lower.

Fig. 1. GDP per capita change in the Przemyśl subregion in 1995-2010



Source: prepared by the authors based on Eurostat data.

The reasons underpinning the slow development pace of the Przemyśl subregion include the 1998 Russian financial crisis, which led to a collapse in the trade with the eastern partners. After the crisis ended, unlike in many other regions of Poland, in Przemyśl and its subregion there was still visible a strong dependence on the trade exchange with the eastern partners, particularly Ukraine. This was particularly evident when the value of such trade was juxtaposed with the number of the population and the overall value of foreign trade. This in turn propelled deindustrialisation processes, as a result of which the share of industry in GVA fell to 17.1%, one of the lowest figures for the country at large. In consequence, the most recent economic crisis which affected only some industrial sectors in Poland **(Gorzelak, 2009)**, was not acutely felt in the regional economy. The indirect consequences of the crisis suffered by Ukraine proved more weighty as they reduced the volume of trade with this country. In 2008-2011, the value of exports of the regional companies shrank from EUR 113,000,000 to EUR 86,000,000, while the share of Ukraine decreased from 49% to 37%, although the overall trade balance still remained positive, at a level of EUR 70,000,000 (3.6% of the regional income). Some respondents also brought up the issue of the loss of the voivodship city status by Przemyśl in 1999, which resulted in job redundancies in the public administration.

2.2. Heritage of former socialist system

According to respondents, the key contemporary manifestations of the former development model include:

- Undeveloped post-industrial sites (e.g. POMONA, a food processing plant) and post-military facilities (military hospital);
- Decapitalised pre-War housing stock, largely ignored under the previous regime when emphasis was placed on the construction of new housing estates built from pre-fabricated concrete panels in the peripheral areas of Przemyśl.

It should also be pointed out that the majority of old industrial plants have survived thanks to deep restructuring processes that reduced the number of employees down to a level of 25-30% of the original staff, as for example was the case with POLNA (industrial automation plant), FIBRIS (hardboard manufacturing plant) or SANWIL (upholstery materials). In this case, respondents did not suggest that the former regime had any impact on the system of values of the older generation. This was probably due to its insignificant influence on contemporary socio-economic processes in light of the extensive restructuring of the local economy.

2.3. Direction of structural changes in the region

The structural changes taking place in the regional economy over the last decade have been rather moderate. In terms of the GVA structure, the role of agriculture and industry has been significantly reduced (-5.5 pp and -2.8 pp, respectively). In parallel, the role of the remaining sectors has increased, particularly of simple and public services (2.5% and 2.5%, respectively). Nevertheless, the use of the pool of labour has always been rather ineffective, with more than half of people in work being individual farmers and public services employees (the observable decrease of employment in agriculture has been accompanied by an increasing number of jobs in public services). Employment in industry, construction and business services has remained at a stable level. The gradually growing number of jobs observable in the recent years has been generated mainly by the simple services sector. To a considerable extent, this has been associated with the border location of the subregion, and the resultant socio-economic interactions between Poland and Ukraine (wholesale and retail trade, logistics, tourism). In this respect, the recent years saw an expansion of shopping centres and supermarkets catering to the needs of visitors from Ukraine using the ‘tax free’ procedure, a development which has considerably reduced the scale of traditional open-air market trade.

2.4. Impact of external factors upon regional development

The external factors which underpinned the development of the Przemyśl subregion in the analysed period can be divided intro three groups.

The first group is associated with the **economic cycle**, both globally and in Central and Eastern European countries (mostly Ukraine), which are the main trade partners of the local companies. The Russian financial crisis of 1998 was of particular importance as it led to the collapse of the trade exchange model based on open-air marketplaces **(Smętkowski 2002)**. The impact of the recent financial crisis was also indirectly associated with the diminishing Polish exports to Ukraine due to the economic slump in that country.

Another group of factors is connected with the existence of the state border which since 2004 has functioned as the **external border of the European Union**. Following Poland’s accession to the EU, particularly joining the Schengen zone in 2007 and the gradual adoption of the relevant customs regulations, the border was made much more impenetrable. This in turn reduced the traffic of individuals carrying small amounts of excise goods across the border, the so-called 'ants'. In consequence, this way of earning money proved no longer profitable for Polish citizens; their share in the number of individuals crossing the border fell from 45% in 2009 to 12% in 2012 at the expense of Ukrainian citizens.

The last major external factor of a **financial** nature involves the use of EU funds for the region's development, as part of the two most recent Cohesion policy perspectives, 2004-2006 and 2007-2013. In respondents' opinion, this has been the main driver fostering the growth of the subregion and the city in the recent years. Nonetheless, as shown by the dynamic of development processes, it has not brought about a relative improvement of the region's situation. As part of this factor, the role of the domestic budget transfers can be highlighted as they support the functioning of the public services sector, which is relatively well-developed in comparison to the region's economic potential.

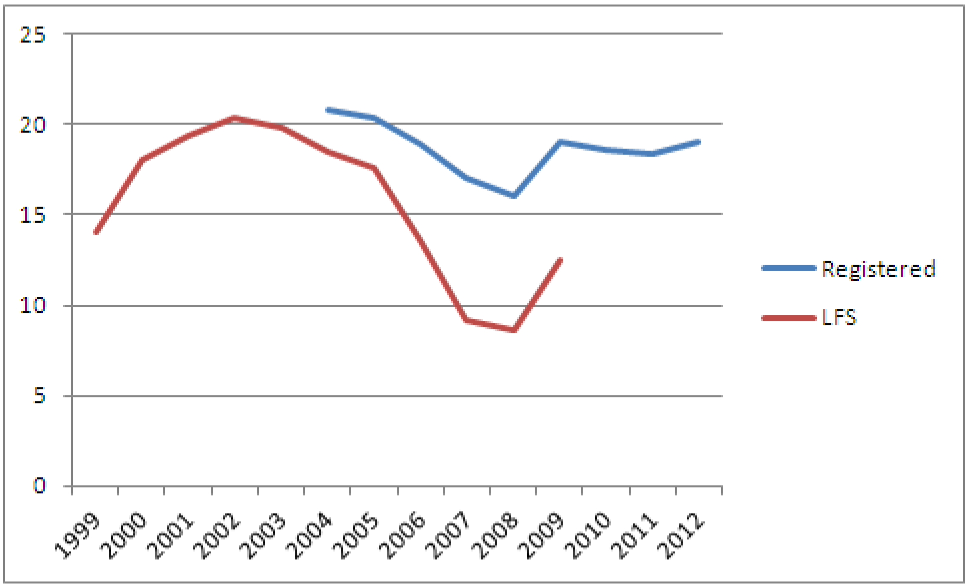
To sum up, it can be concluded that the region has a **rather limited susceptibility to external factors**, as their impact is hindered by its specific economic structure. Above all, this is associated with a high share of public services in generating the regional income and a high share of employment in inefficient agriculture.

2.5. How does the situation on regional labour market affect social cohesion?

In respect of registered unemployment, the labour market situation in Przemyśl has been relatively stable in the recent years. On the one hand, just as in the country at large, the number of the unemployed fell post 2004 as a result of Poland's EU accession (a combined effect of a favourable economic situation and labour migration). On the other hand, in the wake of the recent economic crisis, the labour market situation deteriorated again. While in 2000 registered unemployment affected some 35,000 residents of the Przemyśl subregion, and in 2008 it fell to some 25,000, in 2012 the number of people out of work was 32,700, which corresponds to the unemployment rate at 19%. It should also be pointed out that the unemployment rate is probably lower by some 5 pp, as indicated by the Eurostat estimates based on the labour force survey (BAEL). This is mostly due to the fact that some people are employed in the 'shadow' ('grey') economy or involved in petty cross-border trade. Another issue to be noted is the problem of 'hidden' unemployment in agriculture, with an excessive number of people working in this sector compared to the actual needs.

Increased unemployment did not lead to any substantial increase in social welfare expenditure, including benefits for individuals. In 2012, expenditure on such benefits totalled PLN 204,000,000, and their share amounted to some 15.3% of total municipal expenditure (i.e. 4.6 pp more than the national average). At the same time, respondents emphasised that unemployment, given the unchanged scale of social welfare, did not significantly increase the income disparities or social stratification within the city or the region. This is most likely due to the considerable share of the public sector in overall employment (34% for the voivodship in 2011) and the improved situation of farms as a result of CAP transfers. Furthermore, it should be noted that the salaries in the enterprise sector relatively increased, from 79.3% of the national average in 2007 to 81.4% in 2011.

Fig. 2. Registered unemployment rate (A) and unemployment rate based on Labour Force Survey (LFS) (estimated) (B) in Przemyśl subregion [%]



Source: prepared by the author based on GUS and Eurostat data

2.6. How can the accessibility of different public services (health care, child care, education and training, labour market and social) be assessed?

In relation to the level of economic development, accessibility of public services in the Przemyśl subregion can be regarded as satisfactory, although certain specific problems can be encountered, just as elsewhere across the country.

As regards medical services, the number of physicians per 1000 population has slightly fallen on the one hand, but on the other more hospital beds have been provided. Another problem common with the rest of the country is the long waiting time for specialised medical visits. In education services, the quickly growing share of children aged 3-5 attending kindergartens should be mentioned. On the other hand, some children, mostly those living in rural areas, still have limited access to such facilities. At the primary and secondary school level, no significant problems can be found. However, the number of university students per 1000 population is low, a result of the small potential of the local higher education institutions in Przemyśl and Jarosław, which are losing students in favour of stronger academic centres in larger cities, particularly given the current demographic low. In addition, students tend to choose arts and social sciences, both areas of study which do not necessarily enhance the employability of their graduates. Another problem, stressed by most respondents, is the ageing of the society, a process still in its nascent phase but quickly gaining momentum. In four years, the percentage of the post-working age population increased by only 0.8 pp, and the residents of Przemyśl are still younger than the national average. This process, however, means that the system of social assistance and geriatric care of elderly people must be quickly adapted to the needs of elderly people. The labour market situation is evaluated in a variety of ways. On the one hand, some problems affecting young people are emphasised, and on the other hand it is pointed out that some of the registered unemployed are permanently incapable of work, which means that they should be covered by the social welfare, and not the job brokerage system. In the spatial dimension, it is emphasised that access to most public services in the rural areas is much more difficult.

Tab.1. Selected social sphere indicators in 2007-2011 (% of the national average in brackets)

Indicator	2007	2011
Number of physicians per 10,000 population	17.3 (84.4%)	16.2 (77.8%)
Number of residents per 1 hospital bed	381	250
Share of children in kindergartens in the 3-5 years age group	31.1 (65.8%)	53.1 (76.7%)
Number of university students per 1000 population	19.9 (39.4%)	14.7 (32.6%)
Share of post-working age population	15.7 (98.6%)	16.5 (95.8%)
Registered unemployment rate	17.1	18.4

Source: prepared by the author based on GUS data

2.7. What are the sources and scale of social problems (poverty, inequalities, labour market exclusion)?

The sources of major social problems in the Przemyśl subregion are generally similar to those found across the country. Poverty mainly affects elderly people (especially those who receive pensions from the Agricultural Social Insurance Fund (KRUS)). Nevertheless, the primary source of problems in this sphere are social pathologies, particularly alcoholism, the scale of which in the Przemyśl subregion is exacerbated by easy access to alcohol smuggled or illicitly imported from Ukraine. This problem affects the urban and rural population in a similar way, in the latter case being visible mainly in neighbourhoods where state-owned farms (so-called PGR) were located in the previous regime. The problem of long-term unemployment other than that associated with social pathologies occurs on a limited scale, since most people are able to find employment in the 'shadow economy'.

3. Development factors

3.1.What factors have played key role in development of the region in recent years?

The border location of the Przemyśl subregion is of crucial importance for its economic development due to the resultant economic interactions with Ukraine. In consequence, the region is quite susceptible to external volatility associated with the economic situation in foreign trade with this country. It should also be noted that so far the trade exchange has not led to any fuller economic integration involving larger capital flows across the border. This is mainly due to unfavourable conditions for locating foreign investments in Ukraine. Furthermore, the role of Przemyśl as the hub of trade exchange with Ukraine has recently decreased since the scale of direct purchases from companies operating in central Poland has increased. At the same time, it can be said that tourist shopping has become more 'civilised', with many supermarkets catering to Ukrainian clients being opened. On the other hand, however, this has weakened the position of the local small-scale businesses. In respondents' opinion, the border location still represents the main driver of the subregion's development. Nonetheless, such a location also poses some barriers to development, due to such considerations as:

- Dependence on the economic outlook for trade, which is determined by administrative factors which as a rule are impossible to predict;
- Concentration of business activity on handling trade flows instead of on production;

- ‘Spoiling’ the labour market by the existing opportunities for easy albeit short-lived earnings from petty or small-time border trade;
- Unwillingness to embark upon long-term investments due to the need to adapt to the rapidly changing external conditions.

The weakness of the private sector in the Przemyśl subregion is partly offset by the development of **public services and investments**. These include the development of border and customs services (but, on the other hand, the size of the military garrison has been drastically reduced), state higher education institutions in Przemyśl and Jarosław, and investments in road and environmental infrastructure. Another important factor has been the scale of urban revitalisation carried out in Przemyśl, which places it among at the very top of such initiatives in Poland. In Przemyśl itself, public institutions such as the City Hall or hospitals (voivodship and municipal) are the key employers. On the other hand, respondents emphasise that open-air markets in Przemyśl and Medyka still remain workplaces of significance, and the number of stalls and stands has remained at a stable level despite the decreasing turnover.

Some respondents also emphasise the **role of tourism** and its potential for the regional and urban development. It should be noted however that its role is still rather limited and involves mainly the handling of transit traffic (including tourist traffic) between Poland and Ukraine. According to the statistics of GUS (Central Statistical Office), the number of accommodation facilities and beds remained rather stable in the period 2004-2012. In 2012, there were 24 hotels operating in the subregion with 1266 beds and 36 other accommodation facilities offering another 2156 beds. The hotels had 43,400 registered guests from Poland and 14,000 from abroad, other types of facilities had 33,600 and 2600 visitors, respectively. In comparison with the total population of the region, this suggests that the sector plays a rather minor role in the region’s economic development.

3.2. What are the main obstacles that hinder the development process in the region?

A number of barriers can be identified which hinder the socio-economic development of the Przemyśl subregion. First and foremost, these include the **small attractiveness of the region for inward investment (both foreign and domestic)**. This low attractiveness can be attributed to a whole array of reasons such as, broadly speaking, poor transport connections with the main national growth centres (with the A4 Motorway still under construction) and the need to compete for investors with Rzeszów and other cities of the region which stronger industrial traditions. In the local dimension, Przemyśl lacks available investment sites, and the SEZ subzone was not opened in the city until 2006 (the first such zone being established in Poland in 1994), but the first investor did not appear there until 2011. Another barrier can be seen in the labour market being ‘spoiled’ by the ‘easy money’ opportunities offered by petty border trade.

Yet another related barrier to development is the relatively **low quality of the labour resources**, a result of many processes such as predominantly the migration (both domestic and international) of people with higher qualifications, and population ageing, a process particularly well visible compared to such cities as e.g. Rzeszów.

Other barriers include the low level of innovation of the industrial sectors operating in Przemyśl and ineffective, dispersed agriculture (located partly in submontane areas), accompanied by poorly developed linkages with the agri-food industry.

3A. External context of development: trade and FDI

3.3. Whether the regional economy is export oriented and how this is related to overall productivity and innovativeness?

The Przemyśl subregion is strongly **export-oriented in foreign trade**. In 2011, the value of exported goods and services from this region totalled EUR 235,000,000, producing a positive trade balance of EUR 83,000,000. In relation to the regional GDP, this represents approximately 12% and 4% of its value, respectively. The former indicator at national level is much higher, at 40%, but with a negative trade balance. Ukraine is the largest recipient of goods and services exported by Przemyśl-based companies, and had a 37% share in the value of the subregion's exports in 2011. This value will be even higher if we consider the PLN 1.85 billion (approx. EUR 450,000,000) worth of shopping done by Ukrainian citizens and reported at the border crossings located in the subregion (which however does not imply that the purchases were made in the subregion). This indicates that, in the case of this region, it is not the sale of products and services generated within the region that is of crucial importance but rather **intermediation in the trade exchange** between Ukrainian buyers and production companies located in other parts of the country. It should also be noted that this model is gradually becoming obsolete, as the direct trade linkages bypassing the intermediaries increase.

In this context, two companies should be mentioned: INGLOT, a cosmetics company and KAZAR, a shoe wear and leather accessories manufacturer. Both of them operate from Przemyśl, and for the last five to seven years have continued **a global (in the former case) and national (in the latter case) expansion** of their products. The former produces cosmetics in Przemyśl which it sells in around 400 own stores in over 50 other countries, including Poland (160 stores). KAZAR does not have its own factories, but the company's management board together with a logistics centre and a marketing and investment centre responsible for organising production globally operate from Przemyśl.

3.4. Was the region attractive for FDIs and what was the impact of these investments on regional economy?

The subregion did not attract any considerable influx of foreign capital. In 2011, merely 211 entities with foreign shareholdings operated there, which represented approximately 20% of all commercial law companies (compared to the national average of 22%). Nonetheless, the number of such companies per 10,000 population was only 5.3 compared to the national average of 18.4. The subregion and the city have performed particularly poorly when compared to the Podkarpackie voivodship, which attracted a considerable share of all FDIs inflows to Poland, also thanks to the Special Economic Zones programme, the first such SEZ to be located in Mielec. One exception has been the interest of foreign shopping chains in opening supermarkets within the subregion, also aimed to cater to the needs of visitors from Ukraine. It can also be observed that some investments in the subregion have been made by Ukrainian companies, perhaps because of more favourable conditions for conducting business activity here than those found in their mother country. These investments were most frequently made in the hotel sector and in retail and wholesale trade in foodstuffs. Conversely, the investments of Polish companies from the Przemyśl subregion in Ukraine have been few and far between, mostly due to the unstable legislative system that further increases risk (for example the loss of tax incentives in the Yavoriv SEZ).

3B. Endogenous growth factors: innovation and entrepreneurship

3.5. How innovative is regional economy and how this is related to educational and training system and its scientific base?

The low innovation of the subregion is a result of the poor quality of its human resources and the absence of any robust R&D institutions. Based on 2006 data for the subregion comprising also the neighbouring Krosno subregion, it can be said that the volume of R&D expenditure totalled a meagre PLN 23,000,000 (EUR 5,000,000), with some 300 staff being employed in the sector, i.e. 0.1% of the total number of people in work. On the other hand, it can be concluded that the examples of INGLOT and KAZAR prove that even a region with poor human capital resources and a low level of innovation can have companies which are strong players both nationally and globally. However, it should also be observed that they operate in the cosmetics, shoe wear and leather accessories sectors. Altogether, contemporarily there are no linkages between innovative activity and higher education, which is represented in the region mainly by low-cost social sciences and arts specialisations.

3.6. How important is the sector of SMEs in the regional economy and what are the main linkages of firms?

Small and medium-sized companies are among the major drivers of the subregion's economic development; they operate mostly in traditional sectors such as trade, construction, small-scale food industry. In 2011, 18,500 sole traders (i.e. individuals conducting business activity) were registered in the Przemyśl subregion, which accounts for 46 such businesses per 1000 population, a mere 62% of the country's average. This result is largely due to the high share of the rural population, whereas such businesses are mostly located in cities. There were some 6000 sole traders registered in Przemyśl, which represents around 90% of the national average per 1000 population.

3.7. Are there any clusters within the region and if yes – what are their main specialisations?

It is difficult to find any specialised industrial clusters operating within the subregion, and cooperation linkages between the existing businesses are not well developed.

4. Governance and local/regional development policies

4.1. What was the outcome of regional development strategy implementation?

In 2013, the development strategy for the Podkarpackie voivodship (of which the Przemyśl subregion is a part) was updated, whereas Przemyśl did not adopt its development strategy commenced in 2005 until 2012. The city's strategy formulated seven main goals, in the following spheres a) development of civil society; b) revitalisation and development of tourism, c) development of education, d) development of housing, e) development of enterprise, f) transport system and energy efficiency, and g) social assistance. As we can see, the scope of the city's strategic goals was quite extensive and strongly oriented on satisfying the residents' needs, with much less emphasis placed on improving the competitiveness of the local economy. In respondents' opinion, the social goals were being satisfactorily fulfilled, but the economic goals were found to be considerably delayed in execution (particularly the unsatisfactory operation of the SEZ subzone).

4.2. Has the existing governance model in the region been effective and efficient?

Similarly to other Polish cities, cooperation between the city authorities and NGOs was quite well developed in Przemyśl. However, the enterprise sector was less involved in development processes, being strongly dominated by the interests of small merchants operating in open-air markets.

According to respondents, this was the reason for the inefficient operation of the Economic Council, with the main bone of contention being the construction and development of large-format shopping centres and chain stores.

Cooperation with the rural county has been unproblematic, unlike with the municipality surrounding the city. Just as in many other examples of a similar kind, there is a clear conflict of interest between the surrounding municipality which takes advantage of many services offered by the central city and which, on the other hand, attracts residents and investments at the expense of the central city.

To sum up, the model functioning at the local level is a far cry from governance, but some elements ensuring coordination and cooperation are in place and help address the interests of various groups while formulating urban policy. Having said that, the role of the city's local government still remains absolutely crucial.

At subregional level, there are no clear signs of territorial cooperation, due to the fact that no authorities operate at this level. Furthermore, for historic reasons, traces of competition can still be found in the interactions between Jarosław and Przemyśl.

4.3. What was the outcome of local/regional policies in different fields?

Among the major achievements of the urban policies so far, respondents indicated the following:

- Improved functioning of the transport system after the ring road has been partly opened;
- Enhanced attractiveness of the city for tourism (revitalisation of historic buildings, construction of a skiing slope, ski lift and luge track);
- Improved condition of the natural environment (a new waste treatment plant).

In contrast, the results achieved regarding the fulfilment of the economic goals were evaluated much less optimistically, which was manifested by:

- The lack of successes in attracting inward investors; on the other hand, it was pointed out that the process of providing hard infrastructure to the areas in the SEZ subzone had been completed;
- A rather weak development of the SME sector except the trade and transport sectors, due inter alia to the absence of investment sites (it was proposed to extend the city limits) and lack of a business incubator (even though a Loan Fund has operated in the city);
- A low innovation level of enterprises, which was a premise for supporting the idea to set up a technology park.

5. External interventions: national policies and EU cohesion policy

5.1. Which type of policies (regional, sectoral, horizontal policies) have had the most significant impact on regional development in recent years?

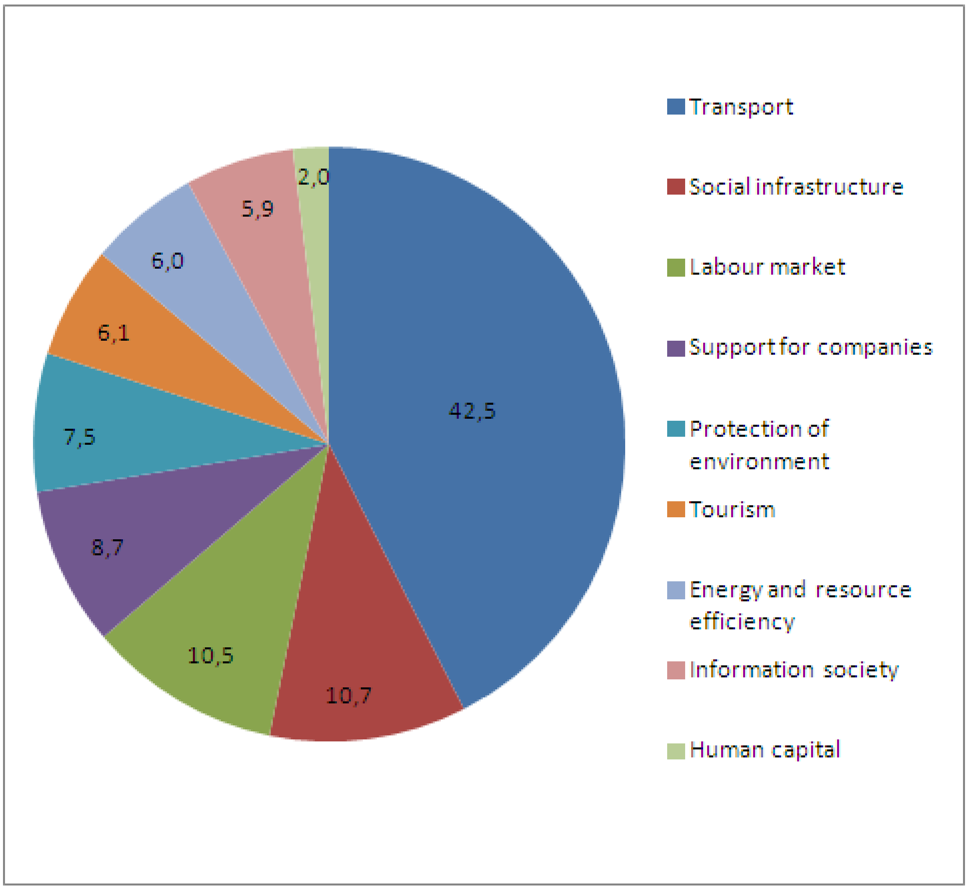
The macroregional policy – Development of Eastern Poland and Regional Operational Programmes as part of the EFRR (31.5% and 42%, respectively) was the most important policy in terms of the volume of external funds allocated for the development of Przemyśl (the total value of the projects implemented in 2007-2012 amounted to approximately PLN 1 billion (EUR 220,000,000), while the horizontal policy within the ESF (12.5%) and the sectoral policy within the Cohesion Fund – the Infrastructure and Environment Programme (7.5%), were rather less important. The A4 Motorway, however, was not taken into account in the latter case; its construction cost in the subregion is estimated at around PLN 2.4 billion.

According to respondents, the regional policy (the National Strategy for Regional Development) is unfavourable from the point of view of the city and the subregion since it focuses on the regional centres and disregards the subregional ones. In respondents' opinion, the regional policy favouring Rzeszów and its neighbouring areas, which in their view was compliant with the adopted polarisation and diffusion model of the region development, also raised objections.

5.2. Does the structure of external intervention (national/EU) address regional needs?

The value of the projects implemented with EU funding under the Cohesion policy (excluding the Common Agricultural Policy) in Przemyśl in 2007-2012 is estimated at PLN 1.63 billion. In terms of capital expenditure categories, the greatest resources were allocated for the development of the transport infrastructure, mainly the construction of the city ring road. The remaining intervention categories were usually not higher than 10%. First of all, they included capital expenditures for social infrastructure (including revitalisation) and for activities undertaken in the labour market, which were additionally supported by investments in human capital (2%). Support for enterprises accounted for only 8.5%. In this context, environmental investments were relatively small, similarly to those made for tourism and the power industry, and development of the information society.

Fig. 3. Structure of capital expenditures under the Cohesion policy in 2007-2012 in Przemyśl subregion [%]



Source: Prepared by the author based on data from the Ministry of Regional Development

The most important projects in terms of the volume of funds completed in Przemyśl and in the Przemysl rural county in the 2007-2013 Financial Perspective included:

- Construction of the city ring road (PLN 392,000,000);
- Improved level of economic activity in Przemyśl (PLN 48,000,000);
- Wind farm in Kalników (PLN 47,000,000);
- Development of the East European State Higher School (PWSW) teaching facilities in Przemyśl (PLN 40,000,000);
- Modernisation of the Castle together with revitalisation of the Park (PLN 21,000,000);
- Wireless broadband Internet (PLN 21,000,000);
- Complete provision of hard infrastructure for investment sites in Przemyśl (PLN 20,000,000);
- Construction of a sewage system together with a waste treatment plant in the rural county (PLN 15,000,000);
- Support in implementation of a new technology in a timber industry plant (PLN 12,000,000);
- Development of the Przemyśl Fortress – Phase 1 (PLN 11,000,000);
- Revitalisation projects of several historic buildings in Przemyśl (two at PLN 10,000,000 and one at PLN 6,000,000);
- Improved quality of water treatment (PLN 10,000,000).

In consequence, it can be stated that the structure of interventions to some extent matched the needs of the city. The construction of the transport infrastructure proved to be the most expensive, especially that of the ring road, which nevertheless is badly needed due to the inefficiency of the existing transport system. The ring road construction is planned to be continued, to ensure transport connections to the investment sites in the SEZ. The revitalisation of the listed sites located in the city centre should be also considered as justified. However, an ambitious project aimed to create a tourist product based on the Przemyśl Fortress, commenced under the present Financial Perspective, should be treated with extreme caution, also taking into account the past experiences connected with the tourist promotion of the city. However, it can be said that in the light of the economic position of the city, insufficient resources were allocated for business development, including support for enhancing the innovation of enterprises. There is no business incubator operating in the city, and the areas prepared for investment projects have poor transport infrastructure connecting them with the city's exit roads. Nevertheless, the education infrastructure developed with the use of the European funds and the projects implemented in the labour market were positively evaluated by respondents. From the regional point of view, the construction of the sewage networks may be viewed as problematic. The sewage networks were extended by 1200 km in the subregion (from the level of approximately 2000 in 2004) thanks to the EU co-financing. Attention should also be paid to the networks' low efficiency in terms of the number of users (123 persons per 1 km of the sewage network, which was the lowest value for the country at large).

5.3. Has the Cohesion Policy resulted more strongly in the improvement of economic potential or competitiveness, or has it rather affected social well-being?

Based on the analyses, it is quite clearly visible that the intervention focused first of all on the **improvement of the quality of life of the city inhabitants**. The main investment directions which have a positive impact on competitiveness of the local economy include:

- Improvement in the city road system, including partial elimination of the transit traffic from the centre thanks to the ring road. On the other hand, it can be indicated that these activities should be continued because the main investment sites lack good roads connecting them with the ring road;

- Provision of hard infrastructure and direct support for companies, albeit with a relatively small volume of capital expenditure, additionally being dispersed among numerous small businesses;
- Activities aimed to develop tourism, including those relating to the renovation of the city centre. It should be noticed, however, that the results of these activities are rather limited, and Przemyśl still fails to be a tourist destination and performs transit functions in the traffic between Poland and Ukraine.

6. Future prospects

6.1. What are the main opportunities and threats for the development of the region?

According to respondents and data analyses, the main opportunities for the development of Przemyśl and the Przemyśl subregion include:

- **Functional integration with Rzeszów** through the improvement of everyday commuting (thanks to enhanced accessibility of the transport system after the completion of the motorway, which should result in reducing the travelling times down to one hour (over a distance of 86 km)); at present only several dozen people commute to this city on a daily basis;
- **Strengthening the social and economic relations with Ukraine** thanks to the progress in the integration of this country with the European Union and improvement of the border crossings operations, including development of services to facilitate the transit road and railway traffic;
- **Development of the education potential** – strengthening of Przemyśl and Jarosław as academic centres (adding technical specialisations to the university curricula);
- **Development of tourism** – a significant potential supported by the construction of a health resort and specialisation in geriatric care, engagement in tourist network products in cooperation with other urban centres of Eastern Poland.

On the other hand, the main future threats include:

- Progressing **depopulation** connected with the ageing of the society, which could cripple economic development;
- The lack of inflow of investment capital interested in starting manufacturing activity due to the **cost competition from Ukraine**;
- An **outflow of young and educated** inhabitants to large urban centres, which will limit the potential for endogenous development;
- The **weakening of the local enterprise** focused on services supporting trade relations with Ukraine, due to a change in the model of trade with this country.

6.2. How would you specify recommended future objectives (spheres) of national development policy?

From the perspective of subregional centres the size of Przemyśl and regions with a predominantly agricultural profile, the following national development policy objectives can be proposed to foster their development:

- **Support programme for medium-sized cities** focusing on the improvement of their competitiveness, connected with the selection of a specific specialisation and target-oriented support for companies in the form of an education profile matching their needs, and enhancing their innovation;
- **Restructuring activities in rural areas**, consisting in the reduction of the number of people working in agriculture through the development of simple services (e.g. logistics) and support for the development of enterprise, as well as improvement of the quality of the human capital thanks to increased capital expenditures on the education system.

6.3 Recommended future objectives (spheres) of the EU Cohesion policy?

The following desirable changes in the European policy can be indicated from the perspective of subregional centres of the Przemyśl size and regions with a predominantly agricultural profile:

- A **gradual departure from the Common Agricultural Policy** as one of the main factors petrifying the economic structure of weaker-developed agricultural regions;
- **Strengthening of the role of cross-border cooperation programmes at the external EU border**, which should foster the development of the border regions located in the neighbouring country and strengthen the existing linkages within the Member State (in this case, a development programme should be funded as part of the ERDF).

As regards the Cohesion policy, the following recommendations connected with a **further increase of the role of an urban component** of the Cohesion policy and a transition from investments relating to the quality of life to **development-oriented investments** can be proposed.

7. CONCLUSIONS

7.1. What are the main trends in restructuring the regional economy?

The restructuring process of the Przemyśl subregion and the city of Przemyśl is proceeding at quite a slow pace. The main reasons for the petrification of the existing economic structure include:

- A large percentage of family farming in the labour market, with rather limited opportunities for retraining of the people working in this sector;
- A significant share of public services, including services connected with the external border, in income generation, which in effect preserves the dependence of the subregion on transfers from the public budget.

The most important structural changes taking place in the recent years involved :

- The development of the simple services sector handling cross-border relations (wholesale and retail trade, transport and logistics, hotels and restaurants);
- The decreasing role of agriculture in GVA (but subsistence farms, lack of well-developed agricultural and food processing industry);
- Continued deindustrialisation, affecting enterprises operating in traditional industries undergoing restructuring processes involving staff redundancies.

7.2. What factors of regional development were the most important (exogenous, endogenous, structural, socio-political, others)?

Factors of an exogenous nature mainly connected with services supporting the cross-border relations between Poland and Ukraine have been dominant in the development of the region. In the private sector, this is manifested by well-developed intermediation services in foreign trade. In the public sector, it is connected with the operation of the services and guards for handling traffic across the border. The first sector has undergone a certain decline, associated with the redirection of the foreign trade of the voivodship (the prolonged crisis in Ukraine has increased interest in other markets).

However, the slow development dynamics of the subregion largely stems from a structural factor connected with the region's being deeply embedded in the traditional agrarian economy and the accompanying the lack of endogenous potential to develop a competitive industry and services, coupled with its low attractiveness to external capital.

7.3. Has the productivity growth been related to the increase of the innovative capacity of the region?

The productivity growth of the subregional economy is only slightly connected with the development of innovative activities, a result, among other factors, of only rudimentary R&D potential. In consequence, labour productivity is growing as a result of restructuring processes in the existing industrial plants (staff redundancies). On the other hand, the Przemyśl industry is competing (with few exceptions) mainly with its product prices, while the cheap labour force partially compensates for its peripheral location in relation to the markets. The internal demand is generated by transfers from the public budget allocated for the maintenance of the public services sector, which is highly inflated in comparison to the economic potential.

7.4. Are social disparities and economic growth within the region interlinked? And how? (lower level of inequalities and exclusion / higher growth? or?)

The scale of social disparities in the Przemyśl subregion has not changed significantly in the recent years. An increase in the number of registered unemployed people has been partially compensated by employment in the 'grey economy'. The availability of public services in the region is similar to that in other regions of the country and actually shows some trends for improvement – at least in selected aspects. Apart from that, in the context of weak economic growth, a relatively good development of the social area can be emphasised.

7.5. What were the most successful regional/local policies?

In the recent years, thanks to the availability of the Structural Funds, the quality of life of the Przemyśl inhabitants has significantly improved in many different aspects. The partial construction of the city ring road, renovation of historic sites, including residential buildings in the city centre, and improvement of the natural environment (owing to the municipal waste treatment plant) can be indicated in this context. Up to now, despite certain activities being undertaken (provision of hard infrastructure in the SEZ subzone), there has been no success in attracting inward investment (except for foreign chain shopping malls). The situation is similar as regards the development of the SME sector activities or increasing the number of tourists visiting the city.

7.6. Has the external intervention been important for development of the region?

The role of the external intervention has been largely limited to improving the quality of life and to the demand effects associated with the implementation of a number of new investment projects. So far, it is hard to present the effects of the activities which have significantly improved the competitiveness of the local enterprises or have boosted the attractiveness of the region to inward capital. It is possible, however, to quote some examples of a positive use of the EU funds for the improvement of the innovation potential, such as e.g. the construction of an approximately PLN

3,000,000 worth R&D centre at INGLOT company. It should be emphasised, however, that it is a preliminary evaluation, which will require a more detailed verification on the basis of ex-post studies conducted after all the investment projects currently under way have been finalised.

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Annex 1. Institutions covered by in-depth interviews:

1. Przemyśl City Office, Department of European Funds and Strategic Development (Urząd Miasta Przemyśl, Wydział Funduszy Europejskich i Strategii Rozwoju)
2. Cross-border Association of Wiar River Microregion (Transgraniczny Mikroregion Dolina Wiaru)
3. County Office in Przemyśl (Starostwo Powiatowe w Przemyślu)
4. Office for City Development in Przemyśl (Biuro Rozwoju Miasta Przemyśla)
5. Department for Promotion of Investors Contact Point in Przemyśl (Działu Promocji, Punkt obsługi inwestorów Przemyśl)
6. County Labour Market Office (Powiatowy Urząd Pracy w Przemyślu)
7. State Eastern European Higher School (Państwowa Wyższa Szkoła Wschodnioeuropejska w Przemyślu)
8. City Social Service Centre (Miejski Ośrodek Pomocy Społecznej w Przemyślu)
9. Regional Chamber of Commerce in Przemyśl (Regional Izba Gospodarcza w Przemyślu)
10. Agency for Regional Development in Przemyśl (Przemyska Agencja Rozwoju Regionalnego)
11. Association Regia Civitias (Stowarzyszenie Regia Civitias)
12. Carpathian Euroregion (Euroregion Karpacki)