

POLAND

**OVERVIEW OF LOCAL GOVERNMENT'S
ROLE IN FACILITATING PRIVATE
DEVELOPMENT OF HOUSING**

October 1991

POLAND

OVERVIEW OF LOCAL GOVERNMENT'S ROLE IN FACILITATING PRIVATE DEVELOPMENT OF HOUSING

Prepared for
AID RHUDO/EASTERN EUROPE
Washington, DC
and
USAID MISSION
Warsaw, Poland

Prepared by
PADCO, Inc.
1012 N Street, NW
Washington, DC 20001

AID Contract No. DHR-1008-C-00-0108-00
RFS #36

October 1991

TABLE OF CONTENTS

CHAPTER 1

1.1	Introduction	1
1.2	Methodological Approach	2
1.3	Executive Summary	4
1.3.1	Polish Municipal Government Organization and Functions	4
1.3.2	Municipal Finance	6
1.3.3	Legal and Regulatory Framework	6
1.3.4	Principal Constraints and Bottlenecks	10

CHAPTER 2

2	Polish Municipal Government Organization, Budgetmaking, and the Decision Environment	19
2.1	Organization and Functional Responsibilities of the Gmina	19
2.2	The Budgetary Process in Polish Gmina	25

CHAPTER 3

3	Municipal Finance in Poland	29
3.1	Gmina Revenues	29
3.2	Gmina Expenditures	33

CHAPTER 4

4	Legal and Regulatory Framework for the Delivery of Serviced Land and Housing	41
4.1	Introduction	41
4.2	Legal Framework	42
4.2.1	Local Self Government and the Division of Authorities	42
4.2.2	Land Management	43
4.2.3	Rental Housing Legislation	44
4.2.4	Land Transfer, Titling and Registration	45
4.2.5	Planning and Project Approvals	45
4.2.6	The "Housing Crisis" Proposal	47
4.2.7	The Construction Industry—Privatization and Competitive Procurement	49
4.2.8	Local Construction and Mortgage Finance Institutions	50
4.2.9	Taxation and Tax Incentives	51
4.2.10	Cooperative Housing	52

Table of Contents, continued

CHAPTER FIVE

5 Principal Constraints and Bottlenecks to Facilitating the Private Sector

Production of Housing	53
5.1 Non-Shelter Related Obstacles of Local Government	53
5.2 Overview of Constraints and Bottlenecks	54
5.2.1 Managerial/Administrative Weaknesses	54
5.2.2 Land Management Issues	55
5.2.3 Project Planning and Design	58
5.2.4 Financing Technical Infrastructure	60
5.2.5 Construction of Serviced Land and Housing	62
5.3 Specific Local Government Impediments to the Private Sector Provision of Housing	64

FIGURES AND TABLES

Figure 1	Organizational Structure of a Typical Polish City (Gdansk) Government	5
Figure 2.1.1	Organizational Structure of a Typical Polish City (Gdansk) Government	21
Figure 2.1.2	Organizational Structure of a Warsaw Gmina (Mokotow) Government	23
Figure 2.1.3	Organizational Structure of the Warsaw Union Administration	24
Table 1.3.1	1991 Revenue Aggregates for Selected Polish Cities	7
Table 1.3.2	1991 Expenditures for Selected Polish Cities	8-9
Table 1.3.3	Local Government: Review of Obstacles to the Private Sector Provision of Housing: Warsaw-Gdansk-Torun-Siedlce-Lodz	11-16
Table 1.3.4	Summary and Prioritization of Local Government Impediments to the Private Sector Provision of Housing: Warsaw-Gdansk-Torun-Siedlce-Lodz	17
Table 3.1.1	1991 Revenue Aggregate for Selected Polish Cities	30
Table 3.2.1	1991 Expenditures for Selected Polish Cities	34-35
Table 4.2.1	Schedule of Essential Activity of an Investor in Multi-Family Housing Construction	48
Table 5.3.1	Local Government: Review of Obstacles to the Private Sector Provision of Housing: Warsaw-Gdansk-Torun-Siedlce-Lodz	65-69
Table 5.3.2	Summary and Prioritization of Local Government Impediments to the Private Sector Provision of Housing: Warsaw-Gdansk-Torun-Siedlce-Lodz	71

Table of Contents, continued

ANNEXES

ANNEX A Scope of Work

ANNEX B Detailed Assessments of the Five Cities Visited:
 Warsaw-Gdansk-Torun-Siedlce-Lodz (with Table of Contents)

ANNEX C Selected List of Persons Contacted During Mission

ANNEX D Bibliography

CHAPTER 1

1.1 Introduction

A philosophy of increased reliance on private sector production of housing figures prominently in government's latest January 1990 round of economic reforms. These reforms, which aim to rapidly transform Poland into a market economy, include provisions that seek to redress the adverse conditions under which the housing sector was previously dominated by large state enterprises. In the past, state construction enterprises commonly received large subsidies and preferential treatment in the awarding of contracts. Due to these comparative disadvantages, the private sector accounted for only about one-third of the total investment in housing at the time these latest economic reforms were introduced.

Coupled with this mandated decline in the monopolistic position of the state within Poland's housing sector, the recently enacted Local Self-Government Act (March 1990) will also have a dramatic impact on Poland's private housing sector. This act assigns Poland's municipalities a significant, new role in the provision of housing and serviced land.

For the first time in almost 50 years, local government will now have overall responsibility for all aspects of land management, urban planning, project approval, and the provision of off-site infrastructure. The ability of local government to efficiently and effectively carry out this new role will be one of the deciding factors in determining to what extent the private sector can increase its share of Poland's residential housing market.

To serve as a vehicle for this major restructuring of its housing sector, the Polish government and the World Bank, through the Housing Finance Project Office (HFPO), are in the process of preparing a major housing sector program for World Bank financing. This program is designed to encourage, support and introduce changes in the country's housing sector which are consistent with current economic and policy reforms. Overall, the program is expected to improve the housing delivery system, expand the availability of construction and mortgage financing, and to define the role and degree of involvement of national and local government in the housing sector.

The World Bank and the United States Agency for International Development (AID) have agreed to collaborate in developing this program for Poland's housing sector. The two donor agencies will pursue a coordinated approach whereby AID provides management assistance and the World Bank provides capital financing. AID's management assistance will focus on three of the housing sector's key components:

- Housing Finance System that will rationalize the provision of construction and mortgage financing;

- Private builders, residential developers, and the emerging real estate industry who are responsible for the development, marketing and sales of housing projects;
- Local government that is responsible for land management and the provision of infrastructure, as well as for the local economic development and environmental protection.

This report focuses on the critical third element of AID-World Bank collaboration—local government. Specifically, the report employs a rapid assessment of five Polish cities (Warsaw, Gdansk, Torun, Siedlce and Lodz) to gauge the capacity and capabilities of local government to carry out its prescribed role in the delivery of serviced land and housing. Following the identification and assessment of the principal constraints and bottlenecks of this process at the local level, the report recommends a technical assistance and training program that addresses their amelioration. At the request of the Office of Housing and Urban Programs, PADCO will provide the proposed technical assistance and training program under separate cover. (See Annex A for a detailed description of this study's Scope of Work.)

The remainder of this chapter contains the study's methodological approach and executive summary. Chapter 2 provides a quick overview of the current municipal structure as recently enacted in Local Self-Government Act (March 1990). This section also contains a brief description of the budgetary process and decision environment at the level of local government. Chapter 3 analyzes the financial situation of the five municipalities visited by the survey team. Chapter 4 presents the essentially national legal framework that impacts on the delivery of serviced land and housing at the local level. Finally, Chapter 5 identifies the constraints and bottlenecks that will tend to impede the private production of housing at the level of local government.

1.2 Methodological Approach

This section describes the methodological approach applied in the present study. The present study uses the case study approach in the form of rapid assessments of five Polish cities. These case studies serve to underpin the principal findings and conclusions of the main text and the proposed TA/training program. (See Annex B for individual write-ups of the five city assessments.) The field portion of this assignment was carried out by a four-person PADCO team during a three-week mission to Poland in April 1991. The team consisted of Lee Baker, Team Leader and Private Sector Development Specialist; Jerry Erbach, Urban Land and Infrastructure Specialist; Robert Rickards, Municipal Finance; and Barry Veret, Legal Specialist.

The rapid assessment approach to this assignment was structured as follows:

1. Review in Washington and Warsaw of secondary source materials on Poland's housing delivery system, local government structure and proposed program for WB financing;

2. Delineation of a complete list of elements comprising a generic shelter delivery system for Poland as follows:
 - Land (market organization, public and private tenure patterns, prices, availability, selection and acquisition process);
 - Market analysis, planning and design (standards/affordability, building technologies, provision of trunk infrastructure, on-site infrastructure and housing unit development);
 - Financing
 - construction and mortgage financing (on-site development)
 - financing and cost recovery of trunk infrastructure (off-site development)
 - Construction of serviced land and housing;
 - Building materials industry;
 - Manpower (availability of labor for construction sector, skill levels, wages, organization);
 - Regulatory framework
 - zoning and land use planning
 - site and subdivision approval process
 - permits and inspections
 - taxes (property) and tax incentives
 - Land titling, registration and transfer;
 - Marketing and sales.
3. Determination, through an initial round of discussions with senior local officials in each of the five Polish cities, of those critical elements in Poland's housing delivery system where local government plays a role or has responsibility for a specific task (emphasis was placed on identifying those particular points where private investors or developers rely on local government intervention to successfully complete the housing delivery cycle);
4. Carrying out of indepth discussions with both local officials involved in land management, urban planning, and the provision of infrastructure and with private builders and developers to pinpoint the constraints and bottlenecks associated with local government involvement in the delivery of housing.
5. Formulation of individual TA and training programs to begin to address the constraints and bottlenecks encountered in the five cities visited by the survey team.

Prior to departing Poland, the team debriefed the Director of USAID/Poland, the Director of the Housing Finance Project Officials, and the appropriate Vice Mayors and other senior local officials from the five cities visited.

1.3 Executive Summary

The following sections present the general parameters and framework of Polish local government that circumscribe the private sector's role in the provision of housing. These sections concentrate on the capacity and capabilities of the five Polish cities visited by the PADCO team—Warsaw, Gdansk, Torun, Siedlce and Lodz—to facilitate the private sector in the delivery of serviced land and housing.

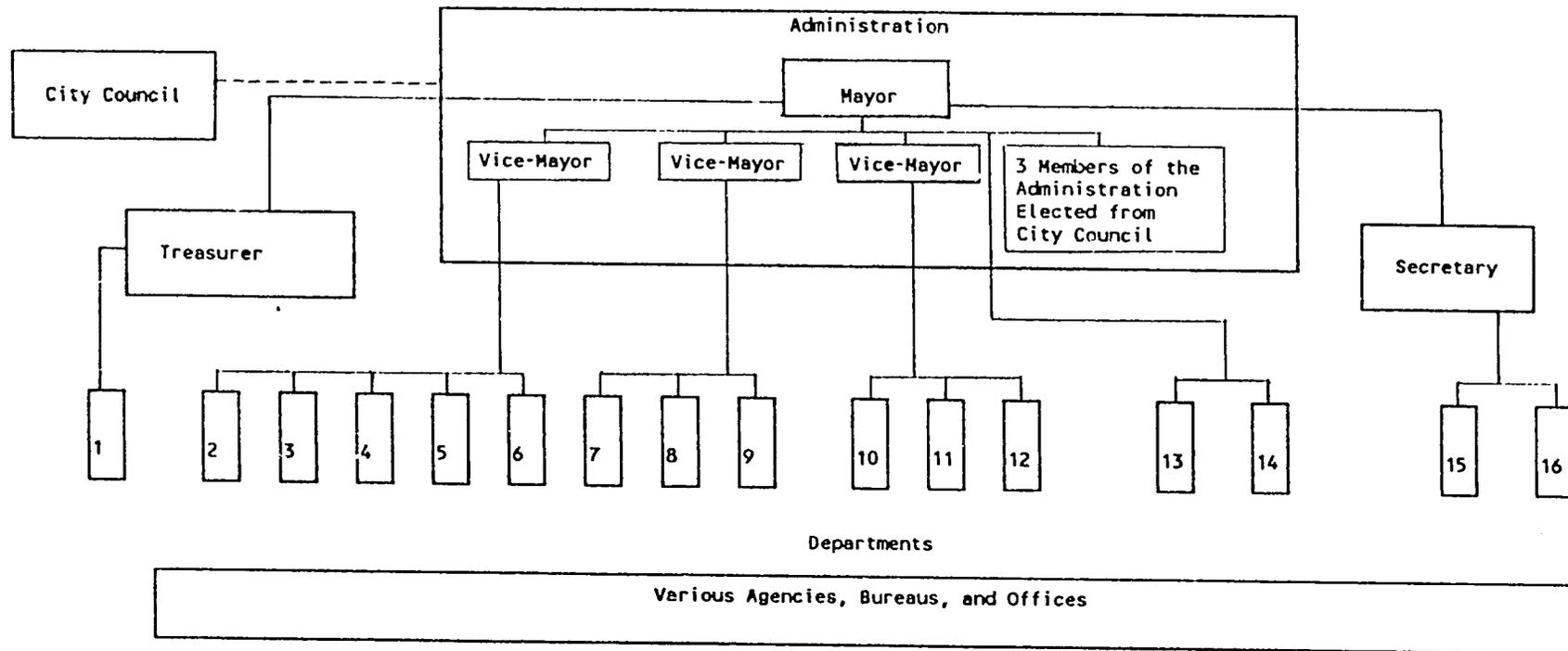
1.3.1 Polish Municipal Government Organization and Functions

In March 1990, the Polish parliament passed the Local Self-Government Act. This act defines functional responsibilities of Polish municipal (gmina) government as follows:

- Finance (finance and budget office, comptroller, assessor and accounting offices);
- Culture, education and recreation (agencies for physical culture, recreation fields, sports facilities, tourism, daycare, pre-school, elementary education, and culture);
- Organization, law and personnel (individual offices for each function and a bureau for citizen complaints and municipal intervention);
- Social administration (residential registry office, identity cards, military affairs, social welfare);
- Public health (food inspection, hospitals, health service);
- Registry office (separate bureaus for marriages, births and deaths);
- Environmental protection, water management and agriculture (individual agencies for protection of land, water and agriculture);
- Local affairs (bureau regulating trade and services, market places, and shopping arcades);
- City-owned enterprises (public transportation, road and bridge construction and maintenance, water supply and distribution, fire protection, environmental health and sanitary facilities, municipal parks and wooded areas, municipal refuse collection, dumps and waste recycling, energy and heat supply, sewage disposal, municipal cemeteries, and housing construction);
- Geodesics/land management (separate offices for spatial organization and land use);
- Municipal development (urban design, property investment, joint-venture enterprises);
- Architecture and property management (individual agencies for each function);
- Municipal inspectorate of civil defense;
- Local police (a locally-controlled, auxiliary police force handling misdemeanors);
- Municipal economy; and
- City Council office.

Figure 1 illustrates the organizational structure of the functional departments and other subordinate agencies, bureaus and offices for Polish municipal government.

Figure 1: Organizational Structure of a Typical Polish City (Gdansk) Government



Department Titles

1. Finance
2. Culture, Education, Recreation
3. Organization, Law, Personnel
4. Social Administration
5. Public Health
6. Registry Office
7. Protection of the Environment, Water Management, and Agriculture
8. Local Affairs
9. Municipal Economy
10. Geodesic and Land Management
11. Municipal Development
12. Architecture and Superintendence of Buildings
13. Municipal Inspectorate of Civil Defense
14. Town Watchmen
15. Economy
16. Council Office

1.3.2 Municipal Finance

1.3.2.1 Gmina Revenue

The 1990 Local Self-Government Act spells out the main sources of gmina revenue as taxes, fees and other revenue specified by separate legislation; income from gmina property; general subsidies from the state budget; budget surpluses from previous years; special purpose subsidies for the execution of delegated responsibilities; revenues from the voluntary taxation of municipal residents; loans and the issuing of bonds; inheritances, bequests and donations; and other income. **Table 1.3.1** groups these revenue sources together into five categories for comparative analysis. The table highlights the importance of tax revenue from state enterprises; between 58 and 81 percent of total revenue for all gmina except the two Warsaw districts are from this source.

1.3.2.2 Gmina Expenditures

Table 1.3.2 summarizes gmina expenditures for 1991. It shows that the gminas studied allocate between 75 and 85 percent of their budgetary resources to five items: (1) city-owned enterprises; (2) communal housing; (3) education and child-care; (4) financial reserves; and, (5) investments.

1.3.3 Legal and Regulatory Framework

The basic decentralization legislation is now in-place establishing local self-governance and the division of authority between central and local government. The basic laws include the Local Self-Government Act of March 8, 1990; the Law of March 22, 1990 on Territorial Organs of General State Administration; the Law of May 10, 1990 on implementation regarding Local Government and Local Government Enterprises; and, the Law of May 17, 1990 on Division of Competence between Organs of Local Government and State Administration.

This legislative package, however, is not wholly self-enabling. Other legislation dealing with specific subject areas—such as land management, physical planning and building codes, rental housing—remain in effect. The following sections briefly highlight the other principal legislation that impacts on local government in its role of facilitating the private provision of housing.

1.3.3.1 Land Management

The recently revised Law of Land Management and Expropriation (Law of April 29, 1985, as amended through October 29, 1990) is the first comprehensive revision of legislation specifically concerned with local government's role in housing and urban development. This law provides the basis for a municipality to acquire and develop land for multi-family housing and set aside land for the subdivision and production of single-family housing. The rules for land acquisition, the first refusal rights of tenants and existing users are also spelled out in this law.

Table 1.3.1: 1991 Revenue Aggregates for Selected Polish Cities

VARIABLE	CITY						
	<u>Gdańsk</u>	<u>Toruń</u>	<u>Łódź</u>	<u>Siedlce</u>	<u>Mokotów</u>	<u>Praga-Północ</u>	<u>Warsaw</u>
Revenue from Socialist Economic Units (000 zł.)	534,811,000 68.4%	143,941,500 60.9%	557,017,000 58.3%	46,050,000 62.1%	32,887,500 11.5%	53,419,000 29.7%	1,557,742,000 80.8%
Taxes and Charges from Physical Persons (000 zł.)	147,371,000 18.9%	32,031,000 13.6%	71,292,000 7.5%	3,250,000 4.4%	24,830,000 8.7%	31,469,817 17.5%	235,259,000 12.2%
Various Settlements (000 zł.)	24,000,000 3.1%	19,220,000 8.1%	42,966,000 4.5%	13,500,000 18.2%	22,000,000 7.7%	--	--
National Subsidies (000 zł.)	61,284,968 7.8%	13,554,945 5.7%	63,310,000 6.6%	6,255,300 8.5%	206,861,614 72.1%	89,175,517 49.5%	115,315,507 6.0%
Communal Enterprises/City Services/Official Fees (000 zł.)	14,067,000 1.8%	27,527,555 11.7%	220,237,000 23.1%	5,050,000 6.8%	202,000 *	6,000,000 3.3%	20,200,000 1.0%
Total Revenue (000 zł.)	781,533,968 100.0%	236,275,000 100.0%	954,822,000 100.0%	74,105,300 100.0%	286,781,114 100.0%	180,064,334 100.0%	1,928,516,507 100.0%
1988 Population	461,500	199,600	851,500	69,200	367,900	237,500	1,651,200
1991 Revenue per Capita in zł. (\$))	1,693,460 (\$148.55)	1,183,742 (\$103.84)	1,121,341 (\$98.36)	1,070,886 (\$93.94)	779,508 (\$68.38)	758,166 (\$65.51)	1,167,948 (\$102.45)

*Fraction smaller than 0.1%.

Table 1.3.2: 1991 Expenditures for Selected Polish Cities

VARIABLE	CITY						
	Gdańsk	Toruń	Łódź	Siedlce	Mokotów	Praga-Połnoc	Warsaw
Residential Building, Planning and Zoning (000 zł.)	--	--	441,000 *	--	--	--	--
Agriculture (000 zł.)	296,000 *	651,000 0.3%	--	1,000 *	255,000 0.1%	240,000 0.1%	--
Parks and Forests (000 zł.)	--	33,000 *	--	--	--	30,000 *	250,000 *
Roads and Streets (000 zł.)	500,000 0.1%	--	--	--	--	--	--
City-Owned Enterprises (000 zł.)	222,859,600 28.5%	102,216,000 43.3%	306,503,000 32.1%	14,400,000 19.4%	17,460,000 6.1%	15,803,600 8.8%	1,225,448,660 63.5%
Communal Housing and City-Owned Buildings (000 zł.)	221,415,100 28.3%	19,377,000 8.2%	132,603,000 13.9%	320,000 0.4%	58,040,000 20.2%	28,514,489 15.8%	33,675,403 1.7%
Education and Child Care (000 zł.)	115,785,000 14.8%	31,000,000 13.1%	130,059,000 13.6%	14,176,500 19.1%	55,350,000 19.3%	55,612,862 30.9%	--
Culture and Art (000 zł.)	9,100,000 1.2%	9,528,000 4.0%	20,500,000 2.2%	2,100,000 2.8%	6,500,000 2.3%	6,193,650 3.4%	26,820,136 1.4%
Public Health (000 zł.)	28,344,805 3.6%	7,639,000 3.2%	24,632,000 2.6%	2,500,000 3.4%	21,950,000 7.7%	16,050,000 8.9%	--
Public Welfare (000 zł.)	22,016,300 2.8%	10,183,000 4.6%	30,000,000 3.1%	3,820,000 5.2%	27,000,000 9.4%	17,156,901 9.5%	--
Physical Culture and Sports (000 zł.)	746,000 0.1%	9,572,000 4.1%	10,435,000 1.1%	3,630,000 4.9%	250,000 0.1%	50,000 *	21,000,000 1.1%
Tourism (000 zł.)	304,000 *	--	--	--	--	--	--
Various Settlements (000 zł.)	1,650,000 0.2%	876,000 0.4%	12,459,000 1.3%	700,000 0.9%	250,000 0.1%	1,677,236 0.9%	24,681,186 1.3%
Self-Government and Administration (000 zł.)	33,993,000 4.3%	20,000,000 8.5%	65,022,000 6.8%	6,000,000 8.1%	17,170,000 6.0%	12,515,185 7.0%	56,612,615 2.9%
Finances (000 zł.)	--	14,000,000 5.9%	--	--	--	--	--

Table 1.3.2, 1991 Expenditures for Selected Polish Cities, continued

VARIABLE	CITY						
	Gdańsk	Toruń	Łódź	Siedlce	Mokotów	Praga-Połnoc	Warsaw
Reserves (000 zł.)	5,025,163 0.6%	10,500,000 4.4%	183,359,000 19.2%	1,748,700 2.4%	82,556,114 28.8%	26,220,411 14.6%	540,028,507 28.0%
Investment (000 zł.)	119,499,000 15.3%	49,655,000 ** 21.0%	38,809,000 4.1%	24,738,300 33.3%	17,002,700 5.9%	7,843,000 ** 4.4%	680,350,000 ** 35.3%
Total (000 zł.)	781,533,968 100.0%	236,275,000 100.0%	954,822,000 100.0%	74,105,300 100.0%	286,781,114 100.0%	180,064,334 100.0%	1,928,516,507 100.0%
Investment per Capita in zł. (\$)	258,936 (\$22.71)	248,772 (\$21.82)	45,577 (\$4.00)	357,490 (\$31.36)	46,216 (\$4.05)	33,023 (\$2.90)	412,034 (\$36.14)

*Fraction smaller than 0.1%.

** Included in departmental expenditures.

1.3.3.2 Land Transfer, Titling and Registration

The legal mechanisms for land titling, registration and transfer are well established as a technical matter. They are based on a registry system typical of European countries. Under this system, a document is established for each plot of land in a record book maintained by the Courts (until a recent amendment of the law, these records were maintained by the State Notary). For each parcel of land there is recorded a legal description of the property and all relevant ownerships and encumbrances. The system is set forth in the Law on the Real Estate Register (1982, 1983) and the Law on Managing Real Estate Register by the State Notary Offices (1984, as amended 1990).

1.3.3.3 Planning and Project Approvals

Under existing law, there are several formal levels in the master planning process with accompanying standards issued by the Ministry of Construction. These levels include the national, the provincial (or voivodship) level and the local level. The planning process will be changed substantially with the advent of newly empowered locally elected officials. The existing plans affecting the municipalities are regarded as out of date and subject to *ad hoc* modification by town councils. Proposed revisions of the Physical Planning Law will doubtless serve to formalize this transfer of authority and responsibility. Extensive modifications of the law appear to be needed to provide the impetus toward establishing local procedures and ordinances to deal with local planning needs and processes.

1.3.3.4 "Housing Crisis" Proposal

A draft "Housing Crisis" law, prepared by the Ministry of Construction, has been submitted to the Council of Ministers. This legislation would modify existing law and provide simplified procedures for local government to exercise control over the housing development process. It seeks to expedite the transfer of land for housing construction, streamline procedures for approvals and reduce the tax burden on home builders and homeowners. The law is proposed as a temporary matter, to remain in force only through 1995 unless later extended.

1.3.4 Principal Constraints and Bottlenecks

This section highlights in a tabular format those specific elements of the development process that will constrain local governments in Warsaw, Gdansk, Torun, Siedlce and Lodz from successfully carrying out their legislative role in facilitating the production of housing in a market-driven economy. (Table 1.3.3)

Table 1.3.4 identifies those specific bottlenecks and constraints that are within local government's purview of functions and responsibilities. This table prioritizes the local government-specific bottlenecks in terms of those requiring the most urgent attention. This evaluation and prioritization of the constraints and bottlenecks affecting the provision of housing in Warsaw, Gdansk, Torun, Siedlce and Lodz establish the basis for formulating the proposed AID-financed municipal advisory program.

**TABLE 1.3.3
LOCAL GOVERNMENT
REVIEW OF OBSTACLES TO THE PRIVATE SECTOR PROVISION OF HOUSING
WARSAW – GDANSK – TORUN – SIEDLCE – LODZ**

CITY/ OBSTACLE	Institutional Structure of Local Government	Managerial/ Administrative Capacity	LAND MANAGEMENT					Project Planning/Design		Financing Technical (off-site) Infrastructure	Construction of Services Land/Housing	
			Land Titling, Registration and Transfer	Transfer of State Land	Regulatory Framework		Land Valuation	Market Analysis/ Feasibility Studies	Building Technologies/ Materials		Construction Management	Competitive Bidding
					Land Use Planning	Development Approvals/ Controls						
WARSAW	Two-tier, gmina/ Union local gov't structure complicates division of responsibilities in areas of land use and infrastructure provision and coordination; questions have arisen as to which tier takes the initiative in these areas and how development conflicts between the two are resolved	Strong at Union level for Vice- Mayors for technical matters and administrative matters; varies at gmina level; gmina councils are new with citizen members inexperienced in local government; overly cautious in decision-making; need period of adaptation	System out-of- date due to failure to record much of state "nationalizations" over last 40 years	Process proceeding very slowly at gmina level due to unresolved privatization issues and documentation problems; voivodship land office unable to process requests for transfer of state land on timely basis	Union gov't carrying out update of city's general master plan under 1984 Planning Act; gminas will prepare own detailed plans in accordance with general plan; little relationship between land use planning and economic development	Gminas responsible for this function; approval process paralyzed in most gminas pending results of land inventories and resolution of privatization issue	Very limited capacity	Capabilities in this field almost non-existent in city planning and design offices	City planning and design offices aware of inefficiencies of large, pre-fab systems; city- administered construction enterprises still using this technology; naive acceptance of current supply and stabilized price of building materials	Major revenue problems concerned with provision of infrastructure	Limited experience of city-administered construction enterprises	Limited experience
GDANSK	Normal "growing pains" of newly created local gov't consisting of large, democratically elected city councils	City management is very new; local situation is highly politicized; senior city officials appear unable to come to grips with city's principal housing and urban development issues in the context of the new financial and economic realities of local gov't administration	Proposed computerization and mapping of ongoing land inventory will be used later as basis for maintaining records of land registration and transfer	City aggressively pursuing land inventory to identify ownership and to update mapping; recently privatized state mapping firm carrying out effort with US \$2.5 million budget, which is only partially funded	City evolving toward a more flexible approach to land use planning; however, modifications to existing detailed plans at district level still difficult to obtain	Cumbersome and time-consuming approval process to gain access to city land, including preliminary location approval, negotiation with infrastructure agencies, final location approval, and review of arch/engr project plans	First local (perhaps first nationally) class of 20 land valuers recently graduated to assist in new requirement of auctioning of state land	No sign of capacity in either city entities or state or private design offices	Possibly due to a lack of suitable land, city has not embarked on in-fill program; coop development on southern fringe predominantly multi-family with some single family and TH; mix of large, pre-fab and traditional technologies	City has prepared major infrastructure and transport investment program; execution of sewerage and heating components required to serve new coop development on southern fringe; sufficient and timely; financial resources in doubt	Major development quagmire on southern fringe of city reflects lack of understanding of project phasing with availability of trunk infrastructure and land acquisition	No mention of any experience in this area

**TABLE 1.3.3
LOCAL GOVERNMENT
REVIEW OF OBSTACLES TO THE PRIVATE SECTOR PROVISION OF HOUSING
WARSAW – GDANSK – TORUN – SIEDLCE – LODZ**

CITY/ OBSTACLE	Institutional Structure of Local Government	Managerial/ Administrative Capacity	LAND MANAGEMENT					Project Planning/Design		Financing Technical (off-site) Infrastructure	Construction of Serviced Land/Housing	
			Land Titling, Registration and Transfer	Transfer of State Land	Regulatory Framework		Land Valuation	Market Analysis/ Feasibility Studies	Building Technologies/ Materials		Construction Management	Competitive Bidding
					Land Use Planning	Development Approvals/ Controls						
TORUN	Normal "growing pains" of newly created local govt consisting of large, democratically elected city councils	Strong Vice Mayor and department heads have articulated clear and appropriate development policies and priorities for city; city's attitude is oriented toward solving own problems; leadership in place to achieve policies	Land inventory exercise has produced few problems in reconciling registry and court records regarding the plot boundaries of the current user versus ownership	Land transfer less of a problem here than in other cities; land surveys and documentation will take some time, but transfers from voivodship expected to work fairly well	City has pursued very intelligent approach to growth management; emphasis on in-fill; recent recovery of 170 ha. site from Soviet military has presented city with opportunity to revise growth plans to a more efficient, north-south direction	City officials not sure how project approval process will work under new system, including auction of public land; operational guidelines not yet received from central govt	Expertise not available in municipality; support in land valuations provided by voivodship office	No experience evidenced in municipality; private developer of joint-venture for WB financing carried out rudimentary survey of prospective and user; 3-4 savvy local builders clearly have intuitive sense of potential market	Most advanced city in terms of shift back to traditional technologies; well-entrenched "Kombinat" still building with pre-fab technology on city's eastern periphery, but extensive in-fill construction by state and private enterprises almost exclusively traditional brick and block	Similar to other cities, town facing budgetary problems constraining its ability to finance infrastructure; city-private WB joint-venture has proposed inclusion of minimal off-site costs in financial plan	Private coops doing small, in-fill projects, appear knowledgeable re project management methods	No mention of any projects having been competitively bid
SIEDLCE	Normal "growing pains" of newly created local govt consisting of large, democratically elected city councils	Less overall technical experience in city's senior officials (reflective of Siedlce's smaller size) results in greater role for voivodship offices in matters dealing with urban development and housing; council committees depend on outside expertise	Land titling and registration less of a problem compared to other towns due to amount of land in private hands	Most vacant land for housing in private hands; most land never nationalized due to its predominantly agricultural nature	Master plan out-of-date due to city's moderate size and rapid growth; city wants to move away from rigid approach to planning (emphasizing multi-family dwellings) to more flexible view of housing encouraging private participation	Authority for development approvals still voivodship; relationship appears to be working okay; still very time-consuming to change agri or industrial use to residential; although less difficult to obtain use changes within residential category	Although much of Siedlce's land is in private hands, there are no signs of an active land market, nor knowledge of land values or valuation	No sign of any experience or expertise in this area	Extensive single-family units constructed with traditional methods, while previous and ongoing multi-family dwellings constructed with pre-fab systems	Due to an overall lack of financial resources to address severe infrastructure deficiencies in city-center and industrialized eastern sector, city has wisely focused on in-fill sites and the redesign/densification of coop projects to meet current housing needs	Recent small in-fill project development has tended to reduce delays in project completion related to price escalation of building materials and access to off-site infrastructure	Only city of five visited that has experimented with competitive bidding; competitively bid site development for WB project; believes it will be more difficult to bid building construction

**TABLE 1.3.3
LOCAL GOVERNMENT
REVIEW OF OBSTACLES TO THE PRIVATE SECTOR PROVISION OF HOUSING
WARSAW – GDANSK – TORUN – SIEDLCE – LODZ**

CITY/ OBSTACLE	Institutional Structure of Local Government	Managerial/ Administrative Capacity	LAND MANAGEMENT					Project Planning/Design		Financing Technical (off-site) Infrastructure	Construction of Serviced Land/Housing	
			Land Titling, Registration and Transf	Transfer of State Land	Regulatory Framework		Land Valuation	Market Analysis/ Feasibility Studies	Building Technologies/ Materials		Construction Management	Competitive Bidding
					Land Use Planning	Development Approvals/ Controls						
LODZ	Normal "growing pains" of newly created local govt consisting of large, democratically elected city councils	Overall strong leadership at level of Vice-Mayor and technical department heads, knowledgeable in pursuit of appropriate development policies; city has clear idea of what should be done	Land registry system in disarray and will require a major overhaul; new maps needed that show both the ownership and use of land based on redefined boundaries and clearly written property descriptions	Continual changes in land tenure systems over last 100 years leading to a lack of clear information about property ownership has complicated dramatically the transfer of state land in Lodz; Lands Department staff of 44 is working to coordinate information from various map sources and to update data on property ownership	Work has begun on a new master plan that should be presented for review/approval in 1992; objectives of new planning approach is to provide more flexible guidelines that will lead to greater private sector participation in city development	Impression exists that approval process, both in terms of revisions in planning and zoning and in specific building plans, is not a particular problem; public land sales via auction problematic due to lack of clear operational guidelines from center	Active private land markets found on fringe of urban area and in areas of traditionally private agricultural land holdings; city council recently approved 4-tier fee structure as basis for bid prices for land	No experience noted in relevant municipal departments nor former state planning and design offices	City residential construction has been dominated by large state Kombi-nats; introduction of new technologies and private builders has been blocked by their construction practices	Land suitable for development and serviced by primary infrastructure currently adequate to meet city's needs for 5-7 years; however, city has very limited financial resources to provide secondary infrastructure to new housing developments	No sense that large state construction enterprises employed these techniques in past	No mention made of competitive bidding

**TABLE 1.3.4
SUMMARY AND PRIORITIZATION OF LOCAL GOVERNMENT IMPEDIMENTS
TO THE PRIVATE SECTOR PROVISION OF HOUSING
WARSAW – GDANSK – TORUN – SIEDLCE – LODZ**

CITY/ OBSTACLE	Institutional Structure of Local Government	Managerial/ Administrative Capacity	LAND MANAGEMENT					Project Planning/Design		Financing Technical (off-site) Infrastructure	Construction of Serviced Land/Housing	
			Land Titling, Registration and Transfer	Transfer of State Land	Regulatory Framework		Land Valuation	Market Analysis/ Feasibility Studies	Building Technologies/ Materials		Construction Management	Competitive Bidding
					Land Use Planning	Development Approvals/ Controls						
WARSAW	■ (I)	■ (I)	■ (III)	■ (I)	■ (I)	■ (II)	■ (II)	Local Government will not be directly involved in this area, but will, however, play an important role, through its project review and approval function, in the introduction of market-driven project design concepts	■ (I)	Local Government will not have a primary role in this area, but will rather serve as a catalyst in the structuring of public/private partnerships for the provision of serviced land and housing		
GDANSK		■ (I)	■ (III)	■ (II)	■ (II)	■ (II)	■ (II)		■ (I)			
TORUN			■ (III)	■ (II)	■ (I)	■ (I)	■ (I)		■ (I)			
SIEDLCE			■ (III)	■ (III)	■ (II)	■ (II)	■ (II)		■ (I)			
LODZ			■ (III)	■ (I)	■ (I)	■ (II)	■ (I)		■ (II)			

■ = Priority Constraint or Obstacle

Priority Level: I Highest—immediate action recommended in formulating advisory program
 II Intermediate
 III Lower—in terms of severity of obstacle or urgency/timeliness of remedial action

CHAPTER 2

2 Polish Municipal Government Organization, Budgetmaking, and the Decision Environment

This part of the report describes the current organization and functional responsibilities of Polish municipal (gmina) governments. It also examines the budgetary process in the five cities selected for this study.

2.1 Organization and Functional Responsibilities of the Gmina

In March 1990, the Polish parliament passed the Local Self-Government Act. Since then, the milieu in which Poland's municipalities (or "gmina" in the Polish language) have gone about allocating their resources has resembled closely that of cities in Western countries. Whether in Poland or the West, cities therefore have roughly similar institutional structures and cultural environments, confront similar budget problems, and use similar procedures for solving those problems. Hence, the following description of Polish municipal government organization and budgetmaking should seem familiar to most readers.

Western and Polish municipalities are similar insofar as they all have a legislative body equivalent to a city council, a mayor or city manager who serves as the chief executive, a senior financial officer who drafts the city budget, and a large number of departments, agencies, bureaus, and offices charged with administering various programs. The only major difference in the structure of municipal government between Poland and, say, the United States, is the institutional arrangement of these administrative units. In the United States, each city organizes them into a structure to suit itself. In contrast, all Polish cities (with the exception of Warsaw), group their administrative units together into a set of common functional departments.

This institutional uniformity greatly simplifies discussion of the organizational structure of Polish municipal government and budgetmaking. In contrast to the United States, where municipal budget formats vary as widely as city administrative structures, Polish municipal budgets are readily comparable on an intercity basis. Because all Polish cities use similar budget formats, all Polish mayors, vice-mayors, budget directors, department heads, and city council members talk about budget shares and budgetary procedures in terms of the same functional revenue and expenditure categories, regardless of the city in which they hold office.

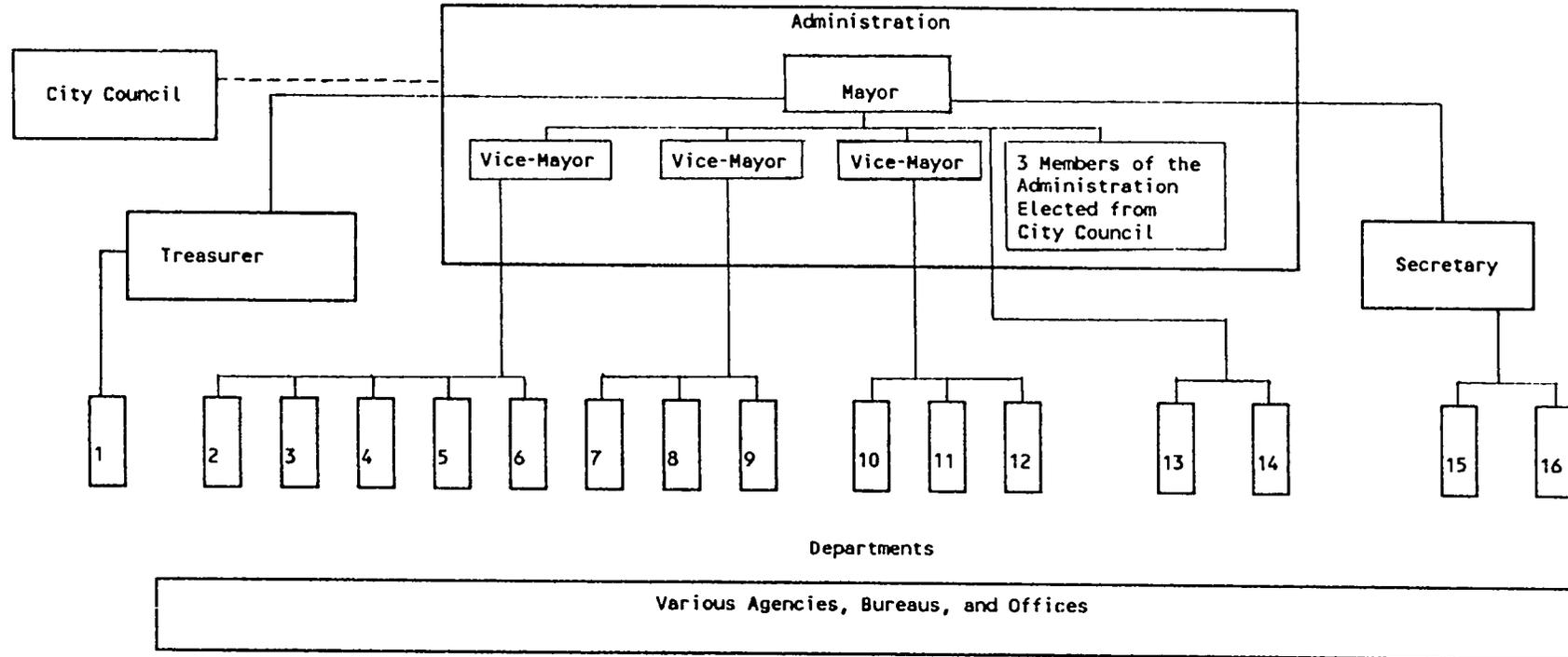
The rough resemblance between Western and Polish cultural environments is apparent in the kinds of functions for which their municipalities are responsible. A Polish municipal government's functions include:

1. Finance (finance and budget office, comptroller's, assessor's, and accounting offices);
2. Culture, education, and recreation (agencies for physical culture, recreational grounds, sports facilities, and tourism; day-care, pre-school, and elementary education; and culture);
3. Organization, law, and personnel (individual offices for each function and a bureau for citizen complaints and municipal intervention);
4. Social administration (residential registry office; identity card, military affairs, layman's offices, welfare and care facilities);
5. Public health (food inspection, hospitals, health service);
6. Registry office (separate bureaus for marriages, births and deaths);
7. Environmental protection, water management, and agriculture (individual agencies for protection of land, water, and agriculture);
8. Local affairs (bureau regulating trade and services, market places, and shopping malls);
9. City-owned businesses (public transportation company, road and bridge construction and repair, water mains and water supply, fire protection, environmental health and sanitary facilities, municipal parks and wooded areas, municipal refuse dumps and waste recycling, energy and heat supply, refuse collection, sewage disposal, municipal cemeteries, and housing construction);
10. Geodesics and land management (separate offices for spatial organization and land use);
11. Municipal development (urbanistics, investment property, joint-venture enterprises);
12. Architecture and superintendence of buildings (individual agencies for each function);
13. Municipal inspectorate of civil defense;
14. Own watchmen (a locally-controlled, auxiliary police force handling misdemeanors; (the Ministry of Home Affairs supervises the regular police forces));
15. Municipal economy; and
16. The city council office.

By and large, these functions now are the same ones that a city government exercises almost anywhere in the West.

Figure 2.1.1 illustrates the arrangement of the functional departments and their subordinate agencies, bureaus, and offices within the overall structure of Polish municipal government. That figure also shows one of the two major institutional innovations of the Local Self-Government Act. It calls for a collective executive to head a city's administration. The collective executive consists of a mayor, three vice-mayors, and three city council members. The mayor has the managerial and representational responsibilities usually associated with "strong mayor" city governments in Western countries. The vice-mayors function similarly to assistant city-managers in "council-manager" municipal governments. Each of them oversees specific areas of the city's administration. In reaction to the over-centralization of power and abuses of authority under the previous regime, since 1990 city council elects three of its own members to serve in the executive.

Figure 2.1.1 Organizational Structure of a Typical Polish City (Gdansk) Government



Department Titles

1. Finance
2. Culture, Education, Recreation
3. Organization, Law, Personnel
4. Social Administration
5. Public Health
6. Registry Office
7. Protection of the Environment, Water Management, and Agriculture
8. Local Affairs
9. Municipal Economy
10. Geodesic and Land Management
11. Municipal Development
12. Architecture and Superintendence of Buildings
13. Municipal Inspectorate of Civil Defense
14. Town Watchmen
15. Economy
16. Council Office

The city's treasurer and secretary are members of the collective executive too, albeit in a nonvoting capacity. Finally, the collective executive exercises direct control over certain general functions (mayor's office, press and statistical offices, and other central organs of administration).

City council elects all members of the collective executive to four-year terms of office. However, it may recall an individual member or the entire executive at any time. As for council itself, its members serve four-year terms too. The number of council members, though, varies according to city population size. For example, with 69,200 inhabitants, Siedlce's city council has 36 members. Lodz, on the other hand, has 851,500 residents and an 80-member city council. Thus, in every city, councils constitute large, legislative bodies with considerable potential power. City councils typically divide themselves into committees for: finance and budget; education, sports, and culture; public security and fire protection; health care; physical planning and environmental protection; municipal economy and infrastructure; and supervision of the collective executive.

As mentioned above, Warsaw is the sole exception to this general organizational uniformity in Polish municipal government. Warsaw has seven major subdivisions, each of which enjoys the status of a municipality or *gmina* in its own right. **Figure 2.1.2** depicts the governmental structure of a Warsaw *gmina*. As the figure shows, each Warsaw *gmina* has a directly-elected, 12-member council. Again, the collective executive consists of seven voting members elected by council: a mayor; three vice-mayors; and three city council members. As in other *gmina*, a treasurer and a secretary are nonvoting members of the collective executive. Even the institutional arrangement of city council committees and departmental offices is similar to that of other *gmina*.

Figure 2.1.3 displays the main distinguishing feature of Warsaw municipal government, which also is the second major institutional innovation of the Local Self-government Act. Warsaw's seven constituent *gmina* councils each elect four of their members to an overall (Union) city council. Due to its limited functions, the Union council has just three main committees: economics and finance; technical services and industry; and social affairs. The 28-member Union council, in turn, elects another collective executive to supervise the Union level of administration. Unlike other municipal collective executives, this one has nine members because the Union City Council elects five, rather than three, at-large members. Although the structure of administration at the Union level largely parallels the organization of administrative units in the *gmina*, Union departments have different responsibilities. *Gmina* departments serve the daily needs of residents in their respective districts, while Union departments are responsible for government functions affecting the whole city. For example, maintenance of a flat in a specific public housing project is a *gmina* responsibility, but provision of public transportation for Warsaw is a Union function.

Figure 2.1.2 Organizational Structure of a Warsaw Gmina (Mokotow) Government

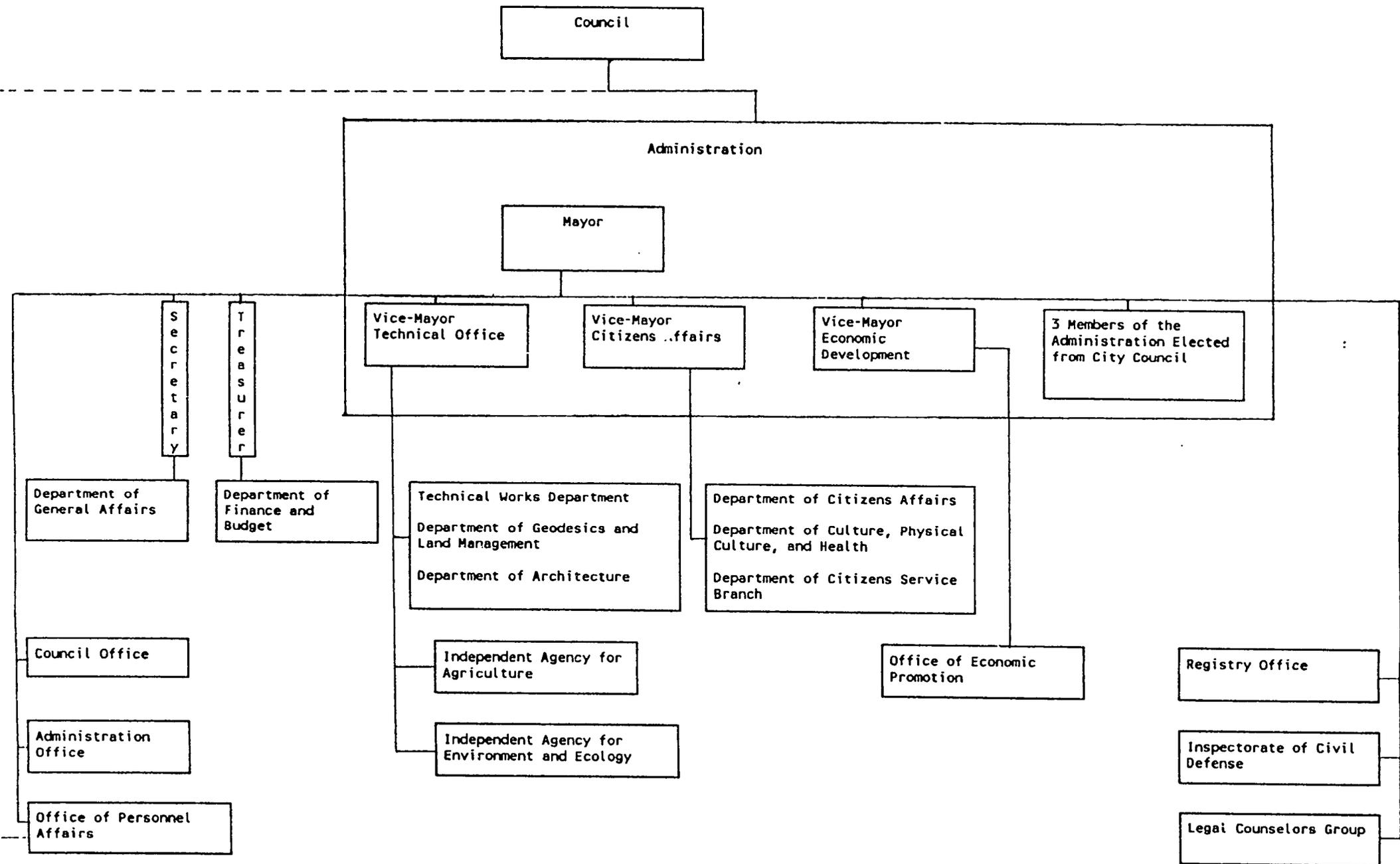
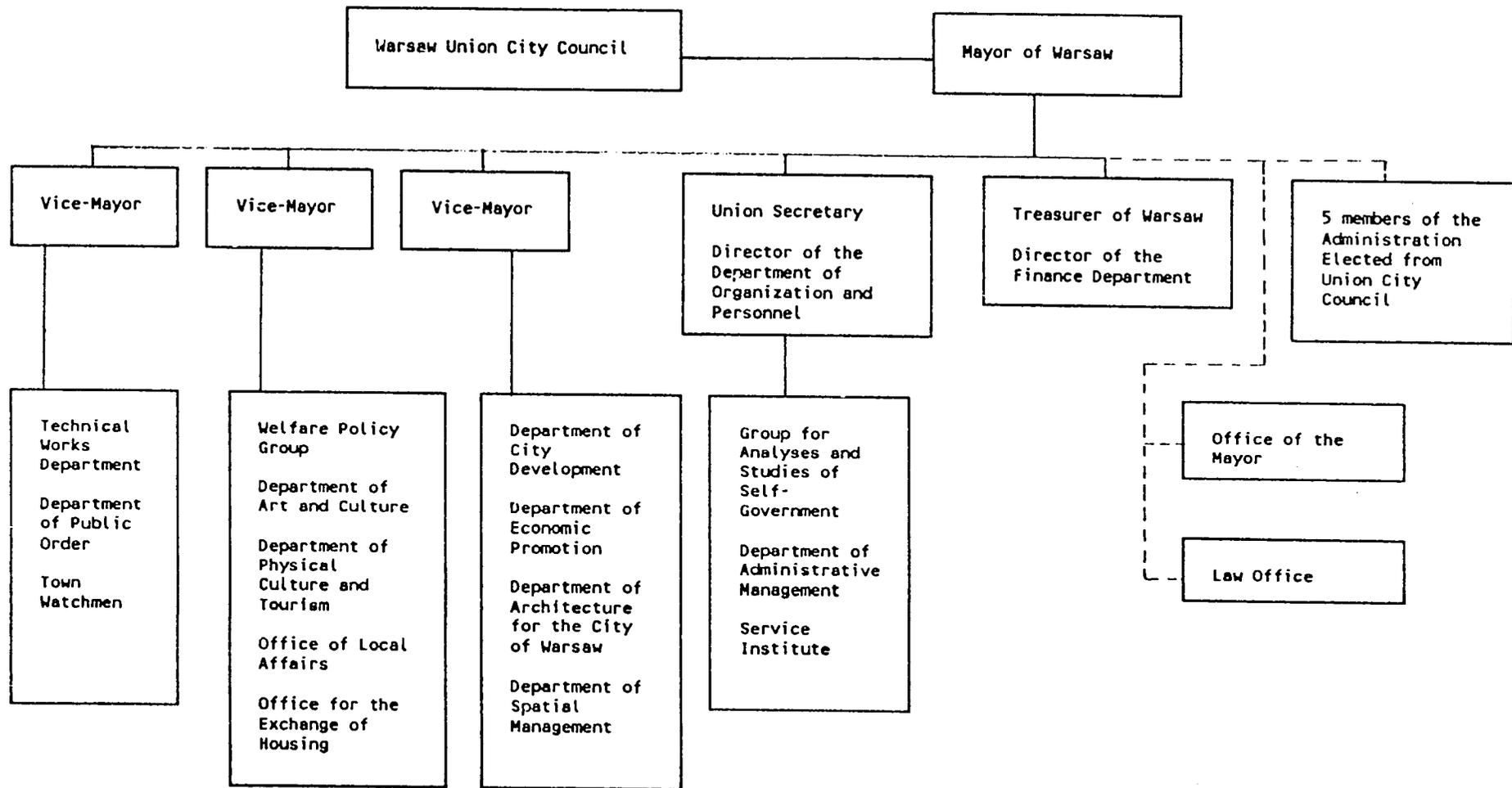


Figure 2.1.3 Organizational Structure of the Warsaw Union Administration



In all Polish cities, five administrative departments play key roles in the provision of housing and serviced land. First, the Department of City Development coordinates the activities of the other departments in this regard. In addition, it selects contractors and signs agreements with them, supervises financing, management, subcontracting, and inspection of construction projects, and hands over the completed municipal facilities to their future users. Second, the Department of Spatial Planning maintains the city's land inventory and approves site selection proposals. Third, the Architecture Office organizes design competitions and makes decisions about the physical form of planned construction. Fourth, the Department of Economic Promotion brings Polish and foreign investors together. It also informs them about the nature and location of new building opportunities. Fifth, the Finance Department allocates the budgetary funding necessary for the city to supply construction sites with trunkline, technical infrastructure.

2.2 The Budgetary Process in Polish Gmina

According to Polish officials, the action plan and budget are the two most important documents the cities adopt each year. Although Chapter 6 of the Local Self-Government Law provides for innovation in municipal budgeting and finances, the national parliament has not passed the requisite separate legislation yet. So, conceptually, all Polish cities continue to confront the same problem in formulating their budgets they always have. Every year, they must find some way to apportion available resources among their various activities. Conversations with Polish budget officers suggest they take the same incremental approach to resource allocation decisionmaking as their Western colleagues. The fact that the executive branch dominates the budget formulation process has important implications for resource allocation outcomes. Because few executive branch officials stand for election, they have much less exposure to pressures from the city's electorate than legislative officials do. As a result, the former pay considerably less attention to changing political conditions and allegiances. Instead, they rely heavily on simple rules for guidance in making resource allocation decisions.

In Poland, budget formulation for the coming year begins with the preparation of revenue estimates the preceding September. During October, the various administrative units plan their activities, define their financial needs, and submit spending requests to the city's chief budget officer. Taut revenue constraints typically limit that officer's analysis of the units' requests. For want of a better alternative, he accepts "historical precedent" as his guide for recommending how to allocate anticipated revenue. In effect, he focuses his attention on using projected income to continue funding the city's current services. Only if a surplus remains thereafter, does he consider spending for additional maintenance and new capital investment programs. Hence, the chief budget officer's initial estimate of expenditure for any administrative unit in the coming year is the same amount of money authorized for it in the current year.

Next, he adjusts each estimate on a "fixed-percentage, across-the-board" basis. Although that normally involves considerable cuts in the administrative units' spending requests, it nevertheless usually increases authorized spending above current year levels. This

procedure "satisfices" the administrative units' spending demands, while simultaneously assuring that a balanced budget is attainable. It does so by providing each unit with a "fair share" of the projected net addition to municipal revenue. Guaranteed an incremental allocation above its expenditure "base," every unit can carry on and expand its activities. By following these simple decision rules, the chief budget officer ensures there are neither "losers" nor "winners" in slicing up the city's resource pie. That, in turn, minimizes political dissatisfaction among participants in the budgetary process. Consequently, during the two weeks when the city's collective executive body meets with department heads, it recommends few changes in the proposed budget draft.

Finally, in early November, the mayor forwards his incrementally adjusted, balanced budget draft to city council for its consideration. As mentioned above, due to their popular election, council members have greater direct exposure to electorate influences than executive officials do. All the same, these electorate influences scarcely affect resource allocation decisions because council members have little impact on the executive's budget proposals.

The reasons why council members have a negligible effect on the budget arise from their inherent disadvantages in dealing with fiscal matters. To begin with, they usually are part-time officials, who receive modest compensation at best. Thus, council members have little time for revising the executive's myriad spending recommendations during their three readings in November. Council members also typically lack in-depth financial expertise and adequate staff support. Due to these inadequacies, council's various finance subcommittees tend to confine their efforts mostly to checking for blatant errors and omissions in the executive's draft budget.

Further strengthening that tendency in Poland is the legal requirement for subnational budgets to balance all expenditures (including capital investments) with current revenues. This requirement means that any proposal to increase expenditures for one line item above the executive's recommendation must include a proposal to decrease the amount allocated for other items or to increase taxes.

For example, at a recent session on the budget, one council member proposed building additional schools for a 60,000-resident district served by just two elementary schools. Another member suggested purchase of a \$3000 microprocessor, without which meaningful enforcement of antipollution ordinances would be impossible. A third council member advocated continuing to give municipal employees Physical Culture Day off because it really had not been a Communist holiday. A fourth representative asked for funding to complete work in a housing project before freezing temperatures seriously damaged its water pipes. Yet none of these proposals included a recommendation to cut expenses elsewhere or to increase taxes. Eventually, one council member did recommend freeing up some funds for unspecified programs by cutting the city's already undermanned staff across-the-board. Meanwhile, council members talked among themselves, passed messages, milled about the chamber, and paid little attention. In the

end, all the proposed budget amendments failed and council adopted the executive's draft budget.

In Poland, city governments typically must enact their budgets by November 30. The fiscal year is congruent with the calendar year. The Finance Department reports the current budget situation to city council at six-, nine-, and twelve-month intervals. In January of the following year, department heads must hand in spending statements for the year just concluded. The Finance Department organizes these statements into an overall document for presentation to the collective executive, city council, and the public. In-house inspectors audit each accounting entity at least once every two years. Provincial (voivodship) and national authorities themselves may conduct additional audits.

By taking the same incremental approach as their Western colleagues, Polish officials keep each functional department's budget share relatively constant over time. Nevertheless, functional expenditure patterns do change from one year to the next. These changes result from the influence of personality, partisan politics, and strategy on the interplay of spenders and savers during the budget formulation process. Although sizable spending pattern changes are important, empirically they occur rather infrequently.

Due to the great stability in revenue and expenditure patterns, both Polish and Western city governments sometimes appear to be sluggish, economically inefficient, and politically undemocratic in responding to citizens' changing needs. At the same time, however, maintenance of relatively stable fiscal patterns greatly facilitates the planning of future departmental activities. It also avoids the wastefulness associated with "boom and bust" funding cycles.

CHAPTER 3

3 Municipal Finance in Poland

This section analyzes the revenues and expenditures of the five municipalities visited by the survey team. It pays particular attention to the issues of municipal services, debt, infrastructure investment, and cost recovery.

At present, five factors make it particularly difficult to analyze Polish municipalities' revenues and expenditures. First, Article 53, Chapter 6 of the Local Self-Government Act allows the gmina council to define both the procedure for budget adoption and the kind and degree of detail of information supporting the draft budget. As a result, the number of revenue categories available for analysis varies from 7 to 44 across the gminas studied. Second, due to the current high annual inflation rate (52 percent) and uncertain decision environment, some budgetmakers admit to projecting income and outgo less carefully than usual. Third, the very late adoption of the national budget means that most cities only recently learned how much they would receive in transfer payments. Hence, some city councils still have not passed their own annual budgets. Fourth, the national government is in the process of transferring a portion of its tax base and administrative responsibilities to the voivodships and cities. The current year data available for 1991 consequently have little comparability with prior years. Fifth, legislation is pending to allow cities to rely more heavily on property taxes, to introduce a city income tax, and to phase out certain business taxes. So it is possible that the structure of 1992 revenues and expenditures will be rather different from the one for 1991.

3.1 Gmina Revenues

Article 54, Chapter 6 of the Local Self-Government Act, spells out the following main sources of gmina revenue: certain taxes, fees, and other revenue specified by separate legislation; income from gmina property; and general subsidies from the state budget. In addition, gmina revenue may include: budget surpluses from previous years; special-purpose subsidies for the execution of delegated responsibilities; revenue from voluntary taxation of inhabitants; loans and the issuing of bonds; inheritances, bequests, and donations; and other income. **Table 3.1.1** groups these revenue sources together into five categories for comparative analysis. Perhaps the table's most striking feature is how important tax revenues from socialist economic units (state enterprises) are (between 58.3 percent and 80.8 percent of total revenue) for all the gmina except the two Warsaw districts (Mokotow and Praga-Polnoc). Personal taxes, user charges, and fees are much less significant. Aside from Mokotow and Praga-Polnoc, the same is true for national subsidies.

Table 3.1.1: 1991 Revenue Aggregates for Selected Polish Cities

VARIABLE	CITY						
	Gdańsk	Toruń	Łódź	Siedlce	Mokotów	Praga-Połnoc	Warsaw
Revenue from Socialist Economic Units (000 zł.)	534,811,000 68.4%	143,941,500 60.9%	557,017,000 58.3%	46,050,000 62.1%	32,887,500 11.5%	53,419,000 29.7%	1,557,742,000 80.8%
Taxes and Charges from Physical Persons (000 zł.)	147,371,000 18.9%	32,031,000 13.6%	71,292,000 7.5%	3,250,000 4.4%	24,830,000 8.7%	31,469,817 17.5%	235,259,000 12.2%
Various Settlements (000 zł.)	24,000,000 3.1%	19,220,000 8.1%	42,966,000 4.5%	13,500,000 18.2%	22,000,000 7.7%	--	--
National Subsidies (000 zł.)	61,284,968 7.8%	13,554,945 5.7%	63,310,000 6.6%	6,255,300 8.5%	206,861,614 72.1%	89,175,517 49.5%	115,315,507 6.0%
Communal Enterprises/City Services/Official Fees (000 zł.)	14,067,000 1.8%	27,527,555 11.7%	220,237,000 23.1%	5,050,000 6.8%	202,000 *	6,000,000 3.3%	20,200,000 1.0%
Total Revenue (000 zł.)	781,533,968 100.0%	236,275,000 100.0%	954,822,000 100.0%	74,105,300 100.0%	286,781,114 100.0%	180,064,334 100.0%	1,928,516,507 100.0%
1988 Population	461,500	199,600	851,500	69,200	367,900	237,500	1,651,200
1991 Revenue per Capita in zł. (\$)	1,693,460 (\$148.55)	1,183,742 (\$103.84)	1,121,341 (\$98.36)	1,070,886 (\$93.94)	779,508 (\$68.38)	758,166 (\$65.51)	1,167,948 (\$102.45)

*Fraction smaller than 0.1%.

The crucial role played by business taxation in financing municipal government is another carryover from the former regime. The taxes paid and the government entity receiving them vary with the type of enterprise. They also vary with the different levels of government controlling and managing an enterprise. Currently, there are six different types of businesses in Poland: private enterprises; joint ventures; cooperatives; state enterprises, provincial enterprises; and local enterprises.

The last three business types are socialized enterprises. In theory, all socialized enterprises belong to the state. In practice, though, the state only manages and controls state enterprises, while the provincial voivodships run provincial enterprises, and cities operate local enterprises. Changes now underway affect both the allocation of enterprises among these six types and the relationship of each type with various levels of government and administration.

There continues to be three levels of government and administration in Poland: the national or state level; the provincial level, consisting of 49 voivodships; and the local level, which comprises 2,404 communes and cities. Under the previous regime, the voivodships and communes were hybrids. They elected councils, passed resolutions and budgets, levied taxes and decided expenditures, and operated enterprises. Yet they had no administration of their own, nor freedom to set their tax rates or determine the total amount of their budgets.

Today, Polish cities still have little authority to set tax rates or decide the overall amount of their budgets. Moreover, their major revenue sources are the same ones on which they depended under the previous regime. There are five main taxes and a few minor ones.

The turnover tax really is a sales tax, assessed on gross sales. Its rate varies with the type of product sold, from 0 percent to 95 percent (on vodka). The average rate seems to be in the 30-40 percent range. State enterprises pay this tax to the state; provincial enterprises pay it to the voivodships; and all other enterprises pay it to the cities and communes.

So-called "dividends" actually are a property tax, assessed on the capital of state enterprises, at a 30 percent rate. Again, state enterprises pay the tax to the level of government operating them. However, other enterprises, such as cooperatives, private enterprises, and joint ventures, do not pay this tax.

The wage tax effectively is a 20 percent payroll tax. Private enterprises and joint ventures do not pay this tax. Socialized enterprises pay 15 percent of the tax (3 percent of the wage bill) to the state and 85 percent (17 percent of the wage bill) to the voivodships. Cooperatives also pay 15 percent of the tax to the state and 85 percent to the communes. In addition, there is another levy assessed on wages, at the rate of 45 percent. All enterprises pay that into the state social security fund.

All enterprises (except joint ventures) also pay a corporate income tax on their net income. In principle, the rate is 40 percent. Its use as an attractive incentive to favor certain kinds of "socially desirable" activities, though, sometimes results in effective rates close to 0 percent. State enterprises pay 95 percent of the tax (38 percent of their income) to the state and 5 percent (2 percent of their income) to the voivodship in which they are located. Provincial enterprises pay their tax to the voivodship, too. Communal enterprises, cooperatives, and private enterprises pay it to cities and communes.

Besides the five major taxes just discussed, there are a few minor ones. The real estate tax is one of the latter. All owners of built and unbuilt property, enterprises, and households, pay it into city and communal budgets. For land, the rates vary with usage from modest amounts for industrial or commercial usage to almost negligible amounts for non-industrial uses such as gardening. For buildings, households pay five percent of the value assessed for insurance purposes, while enterprises pay at a somewhat higher rate.

Another minor tax is the so-called road tax, which is a tax on motor vehicles. Both enterprises and households pay it, based on the motor vehicles they own. The rate changes with the type of vehicle (currently, from 50,000 zloties for an ordinary automobile to 150,000 zloties for a small truck, and to 440,000 zloties for a truck larger than 10 tons). The revenue generated by this tax accrues to the cities and communes.

A third minor tax is the personal income tax levied on individuals with an annual income in excess of 60 million zloties. As **Table 3.1.1** shows, all taxes and charges received from physical persons make up a relatively small portion of city revenues. However, there are two major exceptions. One of them is Gdansk (18.9 percent), which taxes persons leasing city-owned facilities. The other exception is Torun (13.6 percent), which has considerable income from the real estate holdings of private individuals.

The various settlements category in **Table 3.1.1** includes mostly fines and penalties paid into the city treasury. Hence, it too represents a minor revenue source except for Siedlce (18.1 percent). It bulks larger there because Siedlce also has a large surplus carried forward from 1990 and additional receipts from privatizing several municipal enterprises.

Polish cities receive both general and special purpose subsidies from the national government. Among the special purposes for which the national government subsidizes cities are: infrastructure investments; assistance to the poor and unemployed; child day-care, elementary and primary schooling; and military cemeteries. Among the gminas studied, the two Warsaw districts Mokotow and Praga-Polnoc are heavily dependent on national subsidies (72.1 percent and 49.5 percent, respectively). Supposedly, though, that dependence will decrease once the national legislature arrives at a long-term division of taxing and spending powers between the Warsaw gmina and Union governments.

Lodz (23.1 percent) and Torun (11.7 percent) are the two cities relying most on revenue from communal enterprises, city services, and official fees. Both cities derive sizable incomes from land leased to communal enterprises. Otherwise, the cities studied received relatively little revenue from these sources.

Generally, the current fiscal situation for Polish cities is grim. The most important factors affecting their budgets are largely outside their control. They have only the tax bases assigned them by the state and little freedom to adjust tax rates. Thus, their income fails to keep up with inflation. Take, for example, the city of Lodz. Its 1991 revenues are up 34 percent over 1990, but that still is 18 percent below the annual inflation rate. The real amount of resources available to support existing activities therefore is considerably smaller than in the prior year.

Real income from various taxes on state enterprises, moreover, are declining as these businesses undergo restructuring and privatization. The economic disarray Poland's former major trading partners (the USSR and other COMECON-member countries) are experiencing no doubt is strengthening that decline. So, too, is a rise in tax delinquencies (at present, about 15 percent for real estate taxes in Warsaw). Poor municipal record-keeping and cumbersome tax recovery procedures further compound the delinquency problem.

Finally, Poland simply is a poor country. The city government of Gdansk, traditionally Poland's richest municipality, operates on an annual income of just \$150 per capita (11,400 zloties = \$1). Hence, even controlling inflation, reallocating tax bases, increasing tax rates, reinvigorating the economy and reorienting it toward the world market, and reducing tax delinquency cannot boost Polish cities revenues much in the short-run.

3.2 Gmina Expenditures

Until their financial situation improves, Polish municipalities somehow must manage their activities within very taut revenue constraints. **Table 3.2.1** summarizes the absolute and relative amounts of money cities spend on those activities. It reproduces the major expenditure categories listed in the study cities' budgets. There are two anomalies. First, several cities list their spending for parks and forests, or roads and streets, separately rather than including them under the city-owned enterprise heading. The same is true for tourism and finances, which most cities group with physical culture and sports and reserves, respectively. Nevertheless, 12 of the 17 listed categories, covering about 95 percent of the expenditures, are identical. Second, three of the seven local government entities report capital spending separately, while the others record it as individual line items within the current services' budget. The double asterisks appearing on the investment line in **Table 3.2.1** reflect this distinction.

Table 3.2.1: 1991 Expenditures for Selected Polish Cities

VARIABLE	CITY						
	Gdańsk	Toruń	Łódź	Siedlce	Mokotów	Praga-Północ	Warsaw
Residential Building, Planning and Zoning (000 zł.)	--	--	441,000 *	--	--	--	--
Agriculture (000 zł.)	296,000 *	651,000 0.3%	--	1,000 *	255,000 0.1%	240,000 0.1%	--
Parks and Forests (000 zł.)	--	33,000 *	--	--	--	30,000 *	250,000 *
Roads and Streets (000 zł.)	500,000 0.1%	--	--	--	--	--	--
City-Owned Enterprises (000 zł.)	222,859,600 28.5%	102,216,000 43.3%	306,503,000 32.1%	14,400,000 19.4%	17,460,000 6.1%	15,803,600 8.8%	1,225,448,660 63.5%
Communal Housing and City-Owned Buildings (000 zł.)	221,415,100 28.3%	19,377,000 8.2%	132,603,000 13.9%	320,000 0.4%	58,040,000 20.2%	28,514,489 15.8%	33,675,403 1.7%
Education and Child Care (000 zł.)	115,785,000 14.8%	31,000,000 13.1%	130,059,000 13.6%	14,176,500 19.1%	55,350,000 19.3%	55,612,862 30.9%	--
Culture and Art (000 zł.)	9,100,000 1.2%	9,528,000 4.0%	20,500,000 2.2%	2,100,000 2.8%	6,500,000 2.3%	6,193,650 3.4%	26,820,136 1.4%
Public Health (000 zł.)	28,344,805 3.6%	7,639,000 3.2%	24,632,000 2.6%	2,500,000 3.4%	21,950,000 7.7%	16,050,000 8.9%	--
Public Welfare (000 zł.)	22,016,300 2.8%	10,883,000 4.6%	30,000,000 3.1%	3,820,000 5.2%	27,000,000 9.4%	17,156,901 9.5%	--
Physical Culture and Sports (000 zł.)	746,000 0.1%	9,572,000 4.1%	10,435,000 1.1%	3,630,000 4.9%	250,000 0.1%	50,000 *	21,000,000 1.1%
Tourism (000 zł.)	304,000 *	--	--	--	--	--	--
Various Settlements (000 zł.)	1,650,000 0.2%	876,000 0.4%	12,459,000 1.3%	700,000 0.9%	250,000 0.1%	1,677,236 0.9%	24,681,186 1.3%
Self-Government and Administration (000 zł.)	33,993,000 4.3%	20,000,000 8.5%	65,022,000 6.8%	6,000,000 8.1%	17,170,000 6.0%	12,515,185 7.0%	56,612,615 2.9%
Finances (000 zł.)	--	14,000,000 5.9%	--	--	--	--	--

Table 3.2.1, continued

VARIABLE	CITY						
	Gdańsk	Toruń	Łódź	Siedlce	Mokotów	Praga-Połnoc	Warsaw
Reserves (000 zł.)	5,025,163 0.6%	10,500,000 4.4%	183,359,000 19.2%	1,748,700 2.4%	82,556,114 28.8%	26,220,411 14.6%	540,028,507 28.0%
Investment (000 zł.)	119,499,000 15.3%	49,655,000 ** 21.0%	38,809,000 4.1%	24,738,300 33.3%	17,002,700 5.9%	7,843,000 ** 4.4%	680,350,000 ** 35.3%
Total (000 zł.)	781,533,968 100.0%	236,275,000 100.0%	954,822,000 100.0%	74,105,300 100.0%	286,781,114 100.0%	180,064,334 100.0%	1,928,516,507 100.0%
Investment per Capita in zł. (\$)	258,936 (\$22.71)	248,772 (\$21.82)	45,577 (\$4.00)	357,490 (\$31.36)	46,216 (\$4.05)	33,023 (\$2.90)	412,034 (\$36.14)

*Fraction smaller than 0.1%.

** Included in departmental expenditures.

Table 3.2.1 shows that the gminas studied allocate between 75 percent and 85 percent of their budget resources in five areas: city-owned enterprises; communal housing; education and child-care; financial reserves; and investments. That leaves just 15 percent to 25 percent of revenue available for everything else municipalities do.

City-owned enterprises comprise the largest single expenditure category. For most cities, these enterprises include public transportation, water, sewer, waste collection, electricity and heating, park services, and cemetery companies. Cities also may own and operate construction and building materials companies for housing, roads and streets, water and sewage treatment plants, and subway systems. All these companies provide services urban Poles regard as essential. Therefore, the prior regime assumed they must operate regardless of cost. In a few instances, the cemetery companies manage to break even. Generally, though, city-owned companies require substantial public subsidies to make ends meet. For example, in Warsaw, budget subsidies cover between 70 percent and 80 percent of the public transportation, water supply, and park services companies' costs. Other city-owned enterprises rely less on the municipal budget for funding. Yet all of them obtain at least 50 percent of their funding from that source.

Heavy subsidization of city-owned enterprises is another carryover from the previous regime. In addition, many new city officials accuse their predecessors of gross mismanagement and waste. Taut budget constraints afford opportunities to redress past mispractices by enforcing savings wherever possible and by raising user charges. Again taking Warsaw as an example, the Union government plans to cut all subsidies to 25 percent of enterprise costs in 1992 and to eliminate them altogether in 1993.

The feasibility of plans for drastic reductions in subsidies is highly questionable. Like Warsaw, Lodz has several satellite towns on its periphery. Many residents of the towns use public transportation to commute to jobs in Lodz. Historically, Lodz has subsidized its public transportation company heavily, but the surrounding communities have not contributed to its operations. To reduce the subsidies it pays, Lodz is raising transportation ticket prices. Moreover, it is asking the satellite town governments to help pay for the services their citizens use. Lodz's efforts in this regard are meeting considerable resistance. The satellite communities point out that contributions to public transport in Lodz will consume 75 percent of their total budget resources. Furthermore, they are reluctant to pay for something which they received free-of-charge for years. During the first three months of 1991, they have contributed only 40 percent of the amount Lodz had requested. Without more cooperation from its neighbors, it is unlikely Lodz will be able to meet its subsidy reduction goals.

Another heavily subsidized area of municipal activity is education and child-care. Polish cities are responsible for primary education. They also provide both nurseries and kindergartens. In the past, cities such as Gdansk operated their own secondary, technical, and art schools too. However, they ran out of the financial means to continue doing so. Although city officials welcome the fiscal relief resulting from the Ministry of Education's

taking over these schools, they nevertheless recognize they have lost control over important local institutions.

The situation with child-care is a similar one. In recent years, parents have paid for their children's food and a fee toward meeting the nursery's or kindergarten's operating costs. Those fees, though, paid for just 10-30 percent of the institutions' operations. City subsidies made up the difference between parents' payments and the full costs. Due to their fiscal distress, Torun and Siedlce are ordering sharp increases in their child-care fees. In larger cities, economic recession is putting substantial numbers of women out of work. The fact that many mothers now are at home and unable to pay even small fees, is leading officials to close down municipal child-care operations altogether.

Finances and reserves occupy a prominent place in five of the seven gmina budgets. Uses for the two categories vary by gmina. Gdansk and Siedlce maintain only small reserves for general contingencies. So does Torun, but it also highlights short-term debt it intends to repay by placing the amount in the finances category. The Local Self-Government Act permits cities to create long-term debt by issuing bonds. Yet, to date that creative power remains a hypothetical one because Poland has no private capital market. Consequently, the sole form of debt on Polish cities' books is short-term. Currently paying annual interest at rates in excess of 80 percent, it is easy to understand why cities want to liquidate their debts as quickly as possible.

Mokotow and Praga-Polnoc are setting aside large amounts of money too, but in the reserves category. Like Torun, they are using those resources to repay credits taken on their behalf during the last days of the former regime. The Warsaw Union government, in contrast, has relatively small debts to repay. Its budget dedicates over 80 percent of the Union's large reserves as general purpose subsidies for the constituent gminas. The Union intends to transfer its dedicated reserves to the gminas on a redistributive basis. That should reduce substantially the large differences in per capita revenue receipts among the gminas. In addition, the Warsaw Union government is setting aside 32.5 billion zloties, about 6.0 percent of its total reserves, for water main and sewer construction.

Lodz also has large reserves, 9.5 billion zloties or 5.2 percent of which are for general contingencies. Four specific purposes account for 138 billion zloties, or 75.3 percent of the remaining reserves. First, Lodz is earmarking money in case its satellite towns fail to contribute their above-mentioned "fair share" to the public transportation company's operations. Second, the city is reserving funds to pay for a variety of joint-venture and privatization initiatives involving municipal enterprises. Third, Lodz is retaining resources for use in anticipation of receiving a World Bank loan for housing construction. In that event, the municipality intends to build the requisite trunk infrastructure for the approved projects. Fourth, in connection with any World Bank loan, Lodz wants to establish a communal real estate development bank as a joint venture with foreign partners.

Communal housing subsidies usually comprise between one-quarter and one-third of Polish municipalities' outlays. However, except for Gdansk, they are relatively less

important for the cities studied. Indeed, for Siedlce and Torun they are rather small at 0.4 percent and 8.2 percent, respectively. (The Warsaw Union government essentially has no responsibilities in this area.) The subsidies help pay for heat, hot and cold water, sewerage, current and general repairs, and in some cases electricity.

Polish officials emphasize the importance of these subsidies by noting that rents cover only 8 percent of housing operations and maintenance costs. They also say the previous regime did not allocate public housing chiefly to poor people or people with large families. Rather, paid at a flat rate per square meter, Polish housing subsidies therefore have a regressive effect. In addition, few unallocated resources remain to assist the truly needy. What Polish officials say they need are changes in the housing law to: eliminate the cities' responsibility to find housing for everyone; introduce market-based rents; and reallocate communal housing space and subsidies to poor people.

Even then, though, there still would be the problem of the Polish renter's reluctance to care for property he does not own. The solution to that problem preferred by many gmina officials is to sell as much space in communal housing as possible. Where necessary, they advocate subsidizing the sale of units to less well-off individuals. Everyone else would have to pay a price equal to the original construction costs minus depreciation. Municipal housing authorities would sell at auction any units not purchased by their current occupants.

Proceeding in this fashion presumably would reduce municipal outlays for housing subsidies, while increasing benefits targeted to really poor people. At the same time, it would free-up resources to meet non-housing needs and generate new resources by boosting the real estate property tax base. It also would help create a property-owning class with a genuine stake in Poland's fledgling democracy.

Housing subsidies in Siedlce and Torun are of smaller relative importance because both cities already have taken some of the above steps. Substantial portions of their populations already own their homes. Moreover, in the current year, Torun has sold another 200 housing units to private persons. Officials in the two cities, furthermore, eventually intend to sell the small stores and workshops located on the ground floor of many communal housing buildings. At present, popular interest in such shops is growing because large numbers of people want to start their own businesses. Again, such sales increase the revenue available to finance other activities, while simultaneously expanding the municipal real estate tax base.

All Polish cities certainly would welcome additional revenues with which to fund their current and capital investment activities. As **Table 3.2.1** reveals, in Warsaw, the division of responsibility between the gminas and Union leaves the latter carrying out most of the city's infrastructure investment. In reviewing **Table 3.2.1**, one also should remember that Lodz is dedicating almost all its reserves for investment purposes. Accordingly, capital investment in the cities studied ranges roughly from \$20 to \$40 per capita per year. It is noteworthy that this range is narrow and the absolute amounts involved are rather small.

Even so, gmina officials say they usually plan considerably more investment than they are able to undertake. The shortfall occurs due to national authorities' failure to transfer all the money promised the cities. Lodz shows much of its planned investment in its reserve account precisely because anticipated transfers from the Ministry of Finance may not be forthcoming.

In any event, 1991 is another difficult year for municipal capital investment planning. Projected investment by the Warsaw Union government, for example, is down by two-thirds. Solid waste disposal is taking the smallest reduction "hit." Heating and water supply systems, together with sewerage, are coping with the largest ones. All the same, the Union still foresees sizable expenditures for the initial subway line, a second sewage treatment plant, and a new drinking water pipeline.

The local electricity and regional gas companies continue to make some investments too. Hampering their efforts, though, are inadequate cost recovery mechanisms, including insufficient meters to measure electricity consumption in individual dwellings. Moreover, despite recent hikes, national authorities persist in setting retail prices to households for these utilities at levels far below their actual cost of production. So, although most customers pay their bills on time (the gas company, averages just 30 delinquencies among 600,000 residential customers per month), the utility companies cannot operate without subsidies yet.

Wherever possible, the utility companies are shifting investment costs to consumers. For example, the builder or developer must reimburse the gas company if it lays more than 15 meters of hook-up pipe on site. Fortunately, consumer demand for utilities seems to be weakening as their prices increase. That decreases the need for future investment in plant capacity. In fact, as a result of the housing construction industry's collapse, little of the recently-acquired, large-capacity equipment is in use.

With no private capital market, Polish municipal authorities are unable to raise investment funds by issuing revenue bonds. Still, utility company managers hope introducing amortization into Polish accounting rules will help generate some cash to meet their future capital needs.

Several additional alternatives for financing infrastructure investment exist domestically at both the national and local levels of government. To begin with, there is the possibility mentioned earlier that the national government may endow cities with more income-elastic tax bases and greater rate-setting flexibility. It also may increase its subsidies to municipalities, although doing so would undermine its goal of enhancing local government's autonomy. In any event, the national government's continuation of price reforms certainly would facilitate cities' efforts to improve their cost recovery mechanisms.

On the other hand, there are numerous steps the municipalities can take for themselves. They can generate resources for infrastructure investment internally through better planning, more efficient management, higher worker productivity, and newer technology.

They likewise can rely more on selling and leasing land and buildings, privatizing production of communal goods and services, and passing a greater portion of capital investment costs along to builders and developers. As a private capital market develops, cities can begin changing their image as profligate spenders by behaving in a fiscally responsible fashion. That would improve the cities' creditworthiness with both the banking community and trade union pension funds, thereby giving them the possibility of financing investments through long-term borrowing.

Lastly, meaningful assistance may be forthcoming from abroad. Foreign private investors may be willing to finance certain infrastructure investments (airports, toll roads and bridges, for example) if they can levy appropriate user charges. The governments of Germany, Switzerland, and the Scandinavian countries are considering partial forgiveness of Polish debt in return for investment in environmental infrastructure. In several of the municipalities visited, the team learned that discussions have taken place with the Swedish and German governments regarding the financing on concessionary terms of sewage treatment plants in order to improve the quality of effluent reaching the Baltic. In addition, loans from the World Bank and other international institutions constitute another financing alternative.

It is unlikely that any one of these infrastructure financing options will be altogether satisfactory. Polish cities' capital needs are just too large for a single source to meet. Therefore, it is crucial that city governments understand and make full use of all the infrastructure funding opportunities available to them.

CHAPTER 4

4 Legal and Regulatory Framework for the Delivery of Serviced Land and Housing

4.1 Introduction

The legal and regulatory environment will have a major impact on the ability of Poland's municipalities to develop effective shelter delivery systems. The regulatory framework is particularly important in promoting a major private sector role in the sector, an objective broadly agreed upon both at the central and local government levels.

This section undertakes to sketch out the basic regulatory principles and trends which will affect municipality/private sector relationships and serve as the environment within which AID's municipal advisory program will operate.

First it must be noted that Poland's legal and regulatory system is continuing to evolve. Much of the legislative and regulatory agenda is still under consideration and the outcome is uncertain.

Nevertheless, the basic local self-government legislation has been enacted giving broad housing sector responsibilities to the municipalities. The only other new comprehensive legislation affecting the sector which has been enacted is the Land Management and Expropriation Law and this has only become law at the end of last year, leaving many questions of interpretation and implementation yet to be answered.

Legislation establishing the country's policies and procedures with respect to the reprivatization is still being debated. The outcome will have a critical effect on the process of transferring property ownership and control to the municipalities. Only when this issue is resolved will local government be in a position to broadly exercise, for better or for worse, the responsibilities in the housing sector assigned to local government by the decentralization legislation.

Comprehensive revision of the laws affecting the rental housing sector have also not yet been enacted. Thus the municipalities are uncertain as to the constraints which will apply in determining rents for communal housing and the rights of existing tenants, issues which need to be addressed in making decisions regarding the rehabilitation and privatization of municipal properties.

At this time, the focus on changes in law and regulation continues to be at the national level. In the main, however, the trend is to free-up the system, introduce greater flexibility and place more responsibility on local officials to find solutions to local problems.

However, the detailed revision of national law and regulation continues to move slowly and local authorities have been given few guidelines regarding their new responsibilities. For this reason, there is little attention now being given to formalizing regulatory policies and procedures at the local level. Few if any local ordinances are being drafted. Thus the decentralization process is by no means completed nor has the regulatory framework at the national level yet been formally streamlined or clarified.

For example, Poland has a national building code and physical planning laws. Although these are under review by a commission set up by the Ministry of Construction, and will likely be liberalized, it seems probable that the country will still continue to operate under national, rather than local, building and zoning standards.

This section of the report discusses the overall national legal framework with particular reference to recently enacted and expected changes.

4.2 Legal Framework

4.2.1 Local Self Government and the Division of Authorities

The basic decentralization legislation has been enacted establishing local self-government and the division of authorities between the central and local government. The basic laws include the Local Self-Government Act of March 8, 1990; the Law of March 22, 1990 on Territorial Organs of General State Administration; the Law of May 10, 1990 on implementation regarding Local Government and Local Government Employees; and the Law of May 17, 1990 on Division of Competence between Organs of Local Government and State Administration.

However, this legislative package is not wholly self-enabling. Other legislation dealing with specific subjects, such as rental housing laws, physical planning laws and building codes remains in effect. Self-government units are still obliged (at least technically) to follow the rules and the guidelines of laws which have not yet been revised and which limit the otherwise broad authorities given to the local level by the decentralization legislation.

The local government councils themselves are required to retain certain authorities as matters of exclusive jurisdiction which cannot be delegated to the municipal line agencies. For example, only council itself can approve local land use plans and the purchase, sale, mortgage or long-term lease of real estate by the city. In addition the council itself must approve the establishment of joint stock companies in which the gmina participates and the exercise of the municipality's borrowing authority.

The council is limited in its ability to enact local tax measures since the law requires a local referendum for any discretionary taxation by gminas. The possibilities for enacting other revenue measure, however, needs to be further explored and considered.

The gminas are also empowered to undertake other responsibilities delegated to them or agreed upon by instruments of the central government authority and may generally "engage in economic activity" if public need so requires.

As noted, however, gmina authority only runs to matters not reserved by law for other units of government. The gmina, like a state in the United States, is a government unit of general jurisdiction. Thus the reserved powers of other government entities and central government regulation may circumscribe and restrict the capacity of the gmina to act effectively in the housing sector.

4.2.2 Land Management

The recently revised Law of Land Management and Expropriation (Law of April 29, 1985, as amended through October 29, 1990) is the first comprehensive revision of legislation specifically concerned with local government's role in housing and urban development. This law provides the basis for a municipality to acquire and develop land for multi-family development and set aside land for subdivision and single family housing. The rules for land acquisition, the first refusal rights of tenants and existing users are also spelled out in the law.

The right to expropriate land for public purposes, with due compensation, is afforded to the gminas, although compensation claims are to be determined by the administrative authorities (voivodships) of central government. In addition, the law enables the gminas to control and promote development by imposing tax penalties on organizations which have been allocated public land for development but fail to carry out the project within the specified timeframe. Alternatively the gminas are empowered to reclaim such properties when development obligations are not met. Local governments are investigating the application of this provision of the law to urban housing cooperatives.

The law still reserves to the Council of Ministers at the national level the authority to determine the terms and conditions of the sale of properties owned either by gminas or by the national government (i.e., the state treasury). These provisions may constrain the gminas in seeking to freely dispose of municipal property or recover the costs of repair and renovation of dwellings under their control or administration. (For example, the yearly fee permitted for residential property allocated under a 99-year "perpetual lease" is only one percent based on appraised value. While the municipalities may be able now to reappraise property values annually, this limitation may still affect the municipality's ability to recoup its maintenance and other costs.)

A major change in the law is to establish the principle of competitive bidding or "auctions" for the sale of publicly-owned land. The law also permits new owners, whether private investors or cooperatives or other enterprises, to use land so acquired for any purpose, provided the use is consistent with the master plan and building code requirements. These new provisions are key to allowing the gminas to greatly liberalize the pattern

which prevailed under the previous administrative system of land allocation and strict and detailed government control over the development process.

New guidelines dealing with the system of competitive bidding for the sale of public lands had not yet been issued by the Ministry of Physical Planning and Construction. (Previous regulations seem to have had limited applicability or impact.) Nevertheless, in the absence of such guidance, some municipalities are proceeding on an *ad hoc* basis, trying to follow the apparent intent of the basic legislation. There is a good deal of uncertainty about the auction system and to what extent it would permit a municipality to maximize the public benefit in terms of financial return and developer obligations (such as developer provision of public facilities).

4.2.3 Rental Housing Legislation

Poland's movement toward a market economy in the housing sector is largely reflected by the extent to which the Civil Code becomes applicable to landlord-tenant relationships. The Civil Code essentially provides for a contractual system in which the parties are free to negotiate their own arrangements. This contrasts with the old system of "special treatment" legislation which legislatively controlled these relationships as determined under the structure of state administration and control of housing.

There have been four different types of rental housing in Poland: communal, enterprise, cooperative and private. Only private housing has been fully subject to the civil code and freely negotiated leasing arrangements. Communal housing has been governed by the Law on Rental of Housing of 1974. The Law on Cooperatives of 1982 has governed cooperative housing.

The draft Housing Law of 1990 (which has not yet been enacted) would result in major modifications in the state allocated housing sector. It would permit rents to be increased to cover maintenance and repair costs and reduce and improve the targeting of subsidies. (Interim rent increases recently approved are still regarded as inadequate.) The forms of management of the organization for communal housing would also be expanded to include new types of smaller tenant/owner based cooperatives, public-private joint ventures and other types of associations.

In addition, the expected development of condominium ownership forms and individual mortgages, is expected to support a greatly expanded private ownership structure to the housing sector, eventually changing the structure of rental housing. As the legislative reform progresses, the expectation is that the centrally controlled communal housing structure will become more of a system to be managed at the local level. Local authorities would then theoretically have greater flexibility in managing public housing and maximizing opportunities to promote privatization.

4.2.4 Land Transfer, Titling and Registration

The legal mechanisms for land titling, registration and transfer are well established as a technical matter. They are based on a registry system typical of European countries. Under this system, a document is established for each plot of land in a record book maintained by the Courts (until a recent amendment of the law these records were maintained by the State Notary). For each parcel of land there is recorded a legal description of the property and all relevant ownerships and encumbrances. The system is set forth in the Law on the Real Estate Register (1982, 1983) and the Law on Managing Real Estate Register by the State Notary Offices (1984, as amended 1990).

Of course, under a system of state ownership of most properties, the registry system was not very critical. This is clearly changing and it will be important to assure that the recoding system will be able to keep up with new demands. For the present, however, it appears to be policy and documentary problems which hinder the process of turning state properties over to local authorities. This in turn is seriously delaying the implementation of market economy and private sector policies expected once the local authorities are in control of state-owned property.

For example, the issues related to reprivatization—the rights of previous private owners of property—are yet to be resolved. The issues include whether property will be returned to former owners or whether they will be obliged to accept compensation possibly in the form of bonds. Questions about valuation procedures and guidelines, documentation requirements, and statutes of limitation must be addressed by the legislature. The land issue is also caught up in the broader considerations relating to reprivatization of business enterprises and assets.

Until titles can be cleared and properties can be transferred into private hands or to municipal authorities, there will continue to be major impediments to the ability of local government to broadly assess and implement comprehensive local development strategies. Until then, the process will be oriented more toward targets of opportunity and special cases where the potential for project development emerges.

4.2.5 Planning and Project Approvals

Under existing law, there are several formal levels in the master planning process with accompanying standards issued by the Ministry of Construction. These levels include the national, the provincial (or voivodship) level and the local level. Of course, until the enactment of local self-government, even the local level plan represented the decisions of appointed centralized authorities. The planning process will be changed substantially with the advent of newly empowered locally elected officials. In any event, even the existing plans affecting the municipalities visited by the team were regarded as much outdated and subject to *ad hoc* modification upon action duly taken by town councils. Proposed revisions of the Physical Planning Law will doubtless serve to formalize this transfer of authority and responsibility. However, extensive modifications of the

law do appear to be needed to provide the impetus toward establishing local procedures and ordinances to deal with local planning needs and processes.

Both the planning process and the approval process for projects will change radically as project development becomes increasingly undertaken by private developers on properties acquired on market terms. In the past, most land never entered the private market, but was controlled by the state and allocated on a long-term lease basis to a state-controlled enterprise or cooperative. The recipient of the land allocation was required to build a project as assigned and designed by the government.

Under that system, the development process reflected a specific decision by the government authority that a particular parcel of land was to be developed in a manner and according to plans drawn up by the government's architects and planners. Thus, for example, a cooperative would in effect be assigned responsibility for carrying out a project in accordance with government instructions on land owned by the state.

The changes under way now will result in a system where increasingly project developers will acquire land directly in their own name, either by directly negotiating the purchase of land already in private hands or from local authorities on the basis of public auctions. Under these circumstances, the developer can prepare its own plans and develop the property as it sees fit, as provided only that the proposed plans are within the terms of the master plan and consistent with building code requirements.

The inspection process to insure compliance with such requirements appears to be relatively undemanding as far as government's role is concerned. Under the Physical Planning Law and the regulations issued thereunder, the developer is responsible for having a duly licensed architect/engineer certify that the work is in accordance with approved plans and code requirements. Government inspection is carried out on an exceptional basis and did not seem to be regarded as a constraint. In fact, some officials commented that lax government inspection may be one reason for the relatively poor standards of construction in Poland.

As indicated above, once the control over state lands is transferred to the gmina level, the developer-oriented system will increasingly become the norm. In theory, communal housing, subsidies and rent controls will continue only as a transition phase and as "safety net" systems for the poor.

Of course, this evolving system does not eliminate all government approval requirements, both at the national, provincial and local level. There continues to be debate about the extent to which the approval process should or should not be streamlined and the extent to which responsibility for certain approvals should or should not be transferred to the local level.

These issues will be resolved eventually, but even now the trend toward local responsibility and autonomy is apparent. For example, even under existing law, many functions

previously exercised at the voivodship level have now been delegated to the gminas which have the capacity to exercise the functions. The larger gminas thus already have been assigned responsibility for approval of project site and preliminary plans. Where the gmina is small and does not have the capacity, regional offices have been established to provide the technical skills needed, but not to centrally control the process.

The issues still unresolved appear to be largely apolitical, although elements of bureaucratic turf are inevitably involved. For example, there are policy issues as to the extent of the Agriculture Ministry's responsibility to assure protection of farm and forest land, as well as questions of the extent to which planning and construction rules should be standardized. In any event, and for better or for worse, the standards and processes relating to the housing sector may be greatly simplified if the proposed "Housing Crisis" legislation, described below, is enacted.

In terms of normal project approvals under the present system, however, it is estimated to take between two and two-and-a-half years to prepare a multi-family housing project for implementation. (See **Table 4.2.1** for a full description of the project approval process.) This reflects such factors as (step 1) 150 days for the municipality to determine the location for the project followed by the preparation of preliminary investment proposal by the investor which must be approved by the municipality before confirmation of the allocation of the site.

Only at this stage can the investor proceed to develop a detailed implementation plan, obtain the land, proceed to get other necessary government approval, and finally receive a building permit. The major time lags under this system appear to involve the site allocation procedure and the two-step process of developing preliminary plans ("ZTE") and implementation plans for a series of approvals. Both of these bottlenecks would be eased under the simplified approval process proposed under the draft Housing Crisis law.

4.2.6 The "Housing Crisis" Proposal

In late April, a draft "Housing Crisis" law prepared by the Ministry of Construction was submitted to the Council of Ministers. This legislation would modify existing law and provide simplified procedures for local government to exercise control over the housing development process. It seeks to expedite the transfer of land for housing construction, streamline procedures for approvals and reduce the tax burden on home builders and home owners. The law is proposed as a temporary matter, to remain in force only through 1995 unless later extended.

The law would appear to expedite the planned formal authorization for local government councils to enjoy greater independence from Ministry of Construction guidelines in approving local land plans and regulations. The legislation would give the municipality broad authority to determine where housing development is permitted and the conditions for housing construction, and to provide at the local level regulations to protect the environment and assure availability of infrastructure.

TABLE 4.2.1
 SCHEDULE OF ESSENTIAL ACTIVITY OF AN INVESTOR
 IN MULTI-FAMILY HOUSING CONSTRUCTION
 at the state of preparation and projecting the investment process

Until now		Expected simplified version	
0. Motion to point out localizer:	Investor	0. Notion to issue terms of building on the given territory, including proposal of housing program and pointing out of terrains interesting from investor's point of view	Investor
1. Pointing out of location	Gmina - around 150 days		
2. Gathering of materials for projecting stage (research, maps, technical conditions)	Investor - around 150 days	1. Defining terms and conditions of building	Gmina - around 10 days
3. Preparation of elements of ZTE*, including urbanistic concept	Investor - around 150 days	2. Obtaining property rights to the land	Investor - around 90 days
4. Concluding contract relating to mutual duties of "gmina" and the investor	Gmina - around 30 days	3. Gathering of materials for project preparation (research, maps, technical conditions of joining existing infrastructure)	Investor - around 150 days
5. Issuing decision of specific localization of the investment project	Gmina - around 30 days	4. Preparation of and coordination of project documentation	Investor - *** around 150 days
6. Developing implementation plan	Investor - around 150 days	5. Concluding a contract defining mutual obligations of gmina and the investor	Gmina - around 30 days
7. Confirmation of the implementation plan	Gmina ** - around 60 days	6. Issuing the decision permitting construction including confirmation of the project documentation	Gmina - around 30 days
8. Obtaining the decision to get land on perpetual lease	Gmina ** - around 90 days	* ZTE (technical and economic groundrules) - equivalent to a preliminary investment project with cost-study, providing several ways of its implementation	
9. Finishing up the remaining elements	Investor - around 60 days	** performed by gmina as matters commissioned by Regional (State administration) Office, with consent of Voivoda	
10. Coordination of ZTE *	Investor *** - 90 days	*** Coordination by the investor or the Designing Bureau with proper enterprises and institutions	
11. Confirmation of ZTE * connected with the choice of specific variation of the project	Voivoda **** - around 30 days	**** In 1990, this particular activity ceased to be performed by Voivoda. Presently, the ZTE (technical and economic groundrules) are confirmed by the investor	
12. Developing land-surveying aspects of implementation plan	Investor - around 30 days	Attention: acts listed under 2,3,6,8,10,12,14 in presently binding schedule, as well as listed under 3 and 4 of the expected, simplified version, are usually commissioned by investor to be performed by a specialized Designing Bureau	
13. Issuing the building permit, based on confirmed implementation plan, including land-surveying aspects	Gmina ** - around 30 days		
14. Technical projects of particular buildings within the investment plan	Investor - around 180 days		
The combined time for preparation of an investment project until the moment of its implementation, on condition several activities are carried out simultaneously, 2.0 to 2.5 years			

The proposed legislation also appears to increase the capacity and flexibility of local authority in obtaining and transferring land for housing development. For example, provision is made for local government to apply for central government or voidvodship subsidies for the purchase of land for housing construction (although information on how such subsidy programs would operate is not available.) Local government and the voidvodship both would be given increased authority to reclassify some (but not all) agricultural lands for housing development without Ministry of Agriculture approval. Finally, local government would be empowered to sell or lease land to individual cooperative members without following competitive bidding requirements, a provision which should make it possible for the municipality to streamline the process of providing land to individual families.

The project approval system is also simplified and streamlined under the proposed legislation, essentially reducing the number of submittals required for project approval and streamlining the timeframe within which the process takes place. **Table 4.2.1** outlines the comparative details regarding the project approval steps now required and those necessary under the proposed legislation.

It should be noted that the "Housing Crisis" legislation, as presently proposed, does not address the problem of infrastructure finance. This appears to be one of the major constraints in the sector, from both the private and public sector point of view. It should also be added that there is serious concern that the draft legislation could lead to abuses in the development process, for example, in such areas as environmental protection and the conversion of agricultural land to urban uses. There is opposition to the proposed law in some government quarters and it is by no means certain that this measure will be enacted as now written.

4.2.7 The Construction Industry—Privatization and Competitive Procurement

A number of the state-owned construction firms are planning to undergo privatization, especially the smaller firms whose ownership is in the hands of the municipalities. The Act on the Privatization of State-owned Enterprises of August 1990 would govern such privatization just as it governs privatization of any state-owned enterprise in Poland.

From the perspective of the municipality, the primary interest seems to be the promotion of competition and modernization of technology in the construction industry. (Similar interests also appear with respect to the design and architecture firms, but privatization in such professional fields seems to be proceeding more easily and smoothly than in companies involving the building trades.) In addition, the municipalities have an interest in privatization of the state enterprises they administer in order to reduce the financial and other obligations which they have as owners of these enterprises.

Under the privatization laws, the management and employee council of a state-owned enterprise may petition the Ministry of Ownership Changes to be transformed into a

private company. In that case, the "founding body" or owner (i.e., the municipality in the case of gmina-owned enterprises) need only be consulted. If the founding body petitions for privatization, however, it must obtain the consent of the management and employee council. In all cases, consultation with the assembly of employees is required.

In most cases, the ownership and capital structure of privatized companies will be difficult to work out. Resolving issues of valuation, negotiating with potential joint venture partners, and considering employee participation options will become critical to the process. It appears that these firms, as restructured and reorganized, will have an important role in the housing sector along with the emerging group of small private sector builders.

Accordingly, the privatization process will also be of concern to municipalities as they promote competitive housing construction strategies in terms of both public and cooperative sector housing.

In this connection, it should also be noted that the World Bank will require competitive bidding for construction financed under its program. Regulations requiring competitive bidding generally for public sector housing projects are currently under consideration by the Ministry of Planning and Construction. There is scant experience and few guidelines for this kind of competitive procurement process and clearly the municipalities will need assistance in implementing these requirements.

4.2.8 Local Construction and Mortgage Finance Institutions

Mortgage finance, to the extent it now exists in Poland, is essentially a monopoly of the state-owned Savings Bank known as the PKO. While the PKO has branches in municipalities throughout the country, it is unlikely that assistance envisaged under this specific technical assistance and training program would encompass working directly with this institution. Clearly there are major constraints in the housing mortgage finance system which need to be addressed in Poland. However, it appears that these constraints should be dealt with in the context of a broader, parallel effort dealing with the housing finance system.

In the case of construction financing, however, there are local banks which should be involved in the local housing sector. In some cases, there is interest on the part of municipalities to establish municipal banks in which the gmina would have an ownership interest. Such banks are envisioned as providing short-term construction financing for projects that the municipality is interested in promoting or in which it is itself participating.

There are no legal constraints to municipalities entering into such banking ventures, as long as they are deemed to serve an appropriate public purpose. Other than this general requirement, the normal banking laws relating to capitalization, etc. would apply. On the face of it, however, it appears that municipalities should not be encouraged to become involved in banking and financial advisory services provided at the municipal level. The problems would be two-fold. First, there would be too much potential for distortion of

banking/financial judgments given the political and governmental agendas of the municipalities. Second, the municipalities would be hard-pressed to efficiently and effectively run banking institutions without having to resort to costly outside assistance from the local or foreign banking communities. The differing roles of local government and banking institutions suggest that institutional separation, with each side recognizing the need for a partnership approach to municipal development, is preferable to local government involvement in the banking industry.

On the other hand, financial advisory services designed to assist municipalities and/or local developers in packaging projects for presentation to financial institutions should be a high priority for assistance programs at the local level. Such assistance would help assure that bankable projects are forthcoming to take advantage of the financial systems which will emerge as a result of the World Bank and other financial market activities.

4.2.9 Taxation and Tax Incentives

The whole question of taxation in Poland and its relationship to municipal finance is beyond the scope of this report. The general tax structure is determined at the national level, and the municipalities have only begun to focus on prospects for increasing revenues, through taxation or otherwise, at the local level. It is generally agreed that real estate taxes and charges should become a more important source of revenue than in the past. This will follow from the reintroduction of private property concepts and treatment of land as a "commodity" having value.

The municipalities are preparing for a real estate tax system based on market values of properties and for this reason, among others have assigned top priority to land appraisal and valuation issues. Nevertheless, it should be noted that the maximum tax rate is still set by national regulation and this maximum rate has already been adopted by most municipalities.

The tax system is also viewed as an instrument to induce development of properties which have been allocated to investors but on which construction has not begun. As noted above, the municipalities have the authority to reclaim and resell such properties. They are also considering tax penalties to motivate land development. In fact, there is consideration being given to national legislation on the subject as an anti-speculation measure.

Finally, it should be noted that, as indicated above, local tax measures not authorized by national law are subject to referendum under local self-government legislation.

4.2.10 Cooperative Housing

Legislation affecting housing cooperatives has already been modified to encourage transformation of these institutions into private sector-oriented, voluntary associations. The concept is that cooperatives should cease to be a component of state controlled allocation, administration, and organization of the housing sector, and indeed the old style cooperatives have clearly failed in that function.

The revisions to the Law on Cooperatives of 1982 were enacted in the Law of January 20, 1990 on changes in the organization and activities of cooperatives (Official Journal of 1990, No.6, Item 36). These included the elimination of the structure of control over cooperatives with a system of cooperative unions and associations of unions through which the state and provincial voivodship exercised state authority.

In addition, the law also provides a procedure for the breaking up of cooperatives into smaller units or new cooperatives which can take over management of existing housing developments.

At the local level, it has become clear that the formation of new cooperatives on a voluntary basis is being encouraged by municipal authorities as a means of moving around the relatively moribund traditional cooperatives. This has introduced the possibility of flexibility in technology and urban design which is being fostered by local authorities. In addition, it is providing the opportunity to organize new projects on a sounder financial basis by marketing them to families which can afford to pay more up front for housing.

An important further step in the evolution of cooperative housing will be the development of condominium ownership patterns which could contribute significantly to the role of housing in a market economy. Consideration is now being given to introducing the condominium concept through contractual arrangements rather than awaiting legislative provisions to provide the necessary legal foundation.

CHAPTER 5

5 PRINCIPAL CONSTRAINTS AND BOTTLENECKS TO FACILITATING THE PRIVATE SECTOR PRODUCTION OF HOUSING

The present section describes and analyzes the constraints and bottlenecks impeding the private sector production of housing in Poland. It is divided into three parts.

The first part points out two distinctive features of Poland's local government that, while not directly shelter-related, will nonetheless influence its capacity to facilitate the private sector production of housing. The second part describes and analyzes the range of elements that comprise Poland's housing project development process from the standpoint of whether it constrains private sector provision of housing. Finally, the third part highlights those specific elements of the development process that will impede local government in Warsaw, Gdansk, Torun, Siedlce and Lodz from successfully carrying out their legislated role in facilitating the production of housing in a market-driven economy. (See Annexes B.1-5 for detailed assessments of these five cities visited by the PADCO team.)

This identification and analysis of constraints establishes the basis for the technical assistance and training program proposed under separate cover.

The following sections use the shelter delivery or development process as the framework to structure the discussion of the constraints and bottlenecks impeding the private sector provision of housing.

5.1 Non-Shelter Related Obstacles of Local Government

There are non-shelter related obstacles inherent in Poland's local government that will impede timely decision-making on critical local development issues.

First, there are organizational problems. The collective executive of municipal government is a controversial institution because it mixes legislative and executive functions, thereby greatly weakening the latter branch of government. Furthermore, in Warsaw, the two-tier, gmina/Union structure of local government seems to satisfy no one. Jealous of their new independence, the gmina mayors are reluctant to make unrestricted financial contributions to the Union government. Yet, except for transfers it receives from the national government due to Warsaw's capital city functions, the Local Self-Government Act foresees the Union becoming wholly dependent on its constituent gmina for funding.

Accordingly, when gmina discuss matters among themselves or with the Union, it can be difficult to make decisions on behalf of Warsaw's general population. For example, not long ago, one gmina delayed construction of Warsaw's first subway because the planned

line did not serve its territory. The gmina made its displeasure known through its at-large member of the Union's collective executive and by refusing the Union all financial support for subway construction. The fact that legislation defining self-government for Warsaw still is pending in the national legislature further complicates the situation. At present, the exact content of the Warsaw self-government legislation is unknown. However, most observers agree it will increase to at least nine the number of constituent gmina (and thus the amount of intergovernmental squabbling).

A second peculiar problem confronting Polish municipalities has to do with the size of city councils. All the councils are quite large, resembling mini-legislatures. That impedes their ability to take decisive action. The past practice of stifling free discussion under the former regime now results in very long council sessions. In addition, the splintering of the Solidarity Movement appears to be causing a breakdown in party discipline. Long-winded debates and the collapse of party cohesion may prove to be temporary "growing pains" and part of the learning process for democratic local government in Poland. Nevertheless, both factors slow the councils' ability to react decisively to questions brought before it.

5.2 Overview of Constraints and Bottlenecks

This section examines those elements of the development process that impede the provision of housing at the level of Poland's local government.

5.2.1 Managerial/Administrative Weaknesses

A major problem affecting Polish cities is a severe shortage of well-trained and experienced managerial, professional, and technical staff. Under the previous regime, a provincial authority (the voivodship) was responsible for delivering services to the populace. Thus, cities had only small, administrative staffs. Furthermore, individuals without the appropriate political party affiliation generally found they had limited access to higher education, to entry-level government positions, and little opportunity to advance to even the lowest managerial levels.

The new local self government act, which became law in March 1990, returned power to local governments after almost half a century of centralized communist control. The many newly-elected local government officials and their organizations now face substantial challenges. They must build institutions to adequately represent their constituents; they must design policies to promote community and economic development; and, they must manage their locality's development process, identify resources to finance development, manage the public housing stock, build public facilities, finance technical infrastructure and stimulate private enterprise. Government officials must also learn how to manage new responsibilities and reorient municipal staff to new roles.

The absence of democracy in Poland for almost half a century has resulted in an eagerness, but ill-preparedness, to face such issues. How effectively they are addressed will be the measure of the locality's success in political, economic and physical development.

To be successful, local government officials will often need technical assistance and training in effective municipal management techniques such as organizing an office, dealing with personnel matters, and preparing strategic plans and budgets.

5.2.2 Land Management Issues

5.2.2.1 Land Titling, Registration and Transfer

The mechanics for the titling, registration and transfer are, in principle, well-established in Polish legal codes. Under existing Polish law, the court system is responsible for maintaining a record for each parcel of land. The law requires that the court record should contain a legal description of the plot, all relevant ownership transactions, and any encumbrances. (See Section 4.2.4 on the legal framework for land registration.)

Unfortunately, Poland's system of land titling and registration fell into considerable disarray and disuse under the post-World War II communist regime of state ownership of land. Much of the state "nationalization" and reallocation of land parcels, particularly in urban areas, went unrecorded in the registry system. Today in Poland, there is much confusion and little relationship between the current occupant or user of a land parcel, the parcel's pre-WWII boundaries, and the latest information on the parcel contained in the land registry.

The team is of the opinion that resolution of the above problems related to Poland's system of land titling and registration are presently of a policy and informational, rather than structural or mechanical, nature. For example, prior to embarking on a program to rationalize the land registry system, the issue of the rights of previous private owners (reprivatization) will have to be resolved. Will land be returned to former owners or will they be compensated in some way? The team understands that seven separate draft laws, which run the gamut from returning all land to prior owners to full market-value compensation, are currently circulating in government for comments.

It appears prudent to await the results of the land inventories before recommending any major structural changes in the registry system. The property inventories being carried out by local governments will pinpoint discrepancies in property boundaries and descriptions, as well as between current land use and ownership. Closure on these two outstanding items will permit a realistic evaluation of the structural and mechanical requirements to properly rationalize and modernize the country's system for land titling and registration.

5.2.2.2 Transfer of State Property to Local Government

The State Treasury is presently in the process of transferring significant quantities of public property, including land, housing, buildings and economic enterprises, to local government. The conveyance of this property is a complex procedure and cuts

to the core of the current debate raging in Poland regarding the issue of prior ownership of property.

Changes in Poland's land tenure system over the last one hundred years have significantly complicated this intended transfer. In particular, following World War II, many businesses and much private property in Poland was "nationalized"—in some cases illegally—by the communist government. With the return of democracy to Poland, the original owners or their next of kin are making claims for the return of this property. To bring current usage into conformity with rightful ownership local governments are required to carry out inventories of public property prior to the transfer of state lands.

In the main, local government is ill-equipped to carry out these land inventories on a timely basis. It suffers from a lack of trained staff in sufficient numbers, incomplete and outdated mapping that only indicates land use and not property ownership, and a deficiency in automated data processing and mapping capacity.

During the communist years, all mapping at the local level was produced by the state. Individual cities had only very limited information about the tenure patterns of land within their boundaries. Continual changes in the country's land tenure system resulting from the various partitions, German occupation and the communist nationalizations following World War II only served to cloud the land ownership question. Given these dislocations, the most up-to-date maps only indicate land use and not land ownership.

The final delineation of state-owned land and the eventual transfer of local government's share will only take place upon completion and approval of the ongoing inventories. Many of the most complicated cases will only be resolved through the courts and following the enactment of legislation establishing the country's reprivatization policies and procedures. In the meantime, local land markets, particularly with respect to the allocation, sale or auction of public land, are paralyzed.

5.2.2.3 Regulatory Framework

Land use planning and development controls in Poland should, and are in the process of, undergoing a thorough and fundamental reorganization and reorientation. (The ninth draft of a new physical planning law is currently in preparation.) Plans developed under the centralized system operational during the last four decades relied on detailed specifications of "optimum" land uses, which often bore little relation to investment capacities or adequacy of public facilities. Plans had other flaws such as being inflexible in adapting to changing conditions, unrealistic in their treatment of land as essentially valueless (see section 5.2.2.4 on "Land Valuation"), and confiscatory in "reserving" land for future use without payment of compensation to owners.

5.2.2.3.1 Land Use Planning

Traditional Polish land use planning embodied the almost universal concepts of regional plans (plany regionalne), local master plans (plany ogólne) and detailed sector plans (plany szczegółowe). As in the U.S., these plans provided an ever-increasing level of detail regarding what kind of development should take place where. Development plans, however, unlike U.S. practice, stopped short of producing zoning plans, zoning ordinances, subdivision regulations, site plan review procedures, and a host of other regulatory and incentive mechanisms which legally define the specific conditions under which development could be permitted on any plot, as well as define mechanisms to ensure compliance with applicable ordinances. Also, under the centrally-driven system, little or no attention was given to concepts of strategic planning, community outreach or citizen participation in planning, the relationship between land use planning and economic development, market analysis and the analysis of financial resources, growth policy issues or the relationship between quality of life and economic development.

Technically, the physical planning law of 1984 and other older regulations remain in effect even though they are outdated in many cases and continue to hinder development. The extent to which Polish local governments will be able to restructure their planning organizations to address these issues will be the extent to which they will be truly able to direct and control development within their jurisdictions.

5.2.2.3.2 Development Approvals, Building Codes and Permits

Under the previous regime, the development control system hindered efficient development. Planning approvals were granted to the applicant, not tied to the parcel of land. Thus, approvals were not transferable if the land was sold and a new owner would have to repeat the lengthy and cumbersome approval process.

In the U.S., development regulations and building codes all require respective approvals and permits and have legally enforceable timeframes associated with them. In Poland, the absence of comprehensive, well-conceived development regulations and building codes cause most development to be based largely on approvals negotiated between the city architect and the developer as to the character and conditions acceptable for each development. Being loosely conceived, the system is open to inequities and much personal interpretation on standards as well as on approval timeframes. This system has caused the well-intentioned plans of many Western businessmen to founder at this early stage in project development. In addition, land use laws are national in scope and application, disregarding regional and local economic, demographic, physical and other differences. The uncertain outcome of this inefficient and time-consuming approval process has pushed most new single-family private housing development to the periphery, or beyond, of Poland's urban centers.

There is also much confusion about the set of regulations on "architectural norms" issued by the Ministry of Physical Planning and Construction (MPPC) in 1975. Many of the regulations are either unnecessary or outdated. These regulations are responsible for delays in development projects. Current procedures involved in obtaining building permits are

particularly long and complicated. The counter productivity of these regulations has caused many practicing architects, primarily at the local level, to resist complying.

5.2.2.4 Land Valuation

In the decades following World War II, the centrally driven economy spawned a system where land and improvements, almost entirely taken over by the government, had no real market value. As political conditions change, and the market system struggles to develop, this historic lack of land values and the consequent problems in establishing realistic current values becomes an impediment to foreign as well as local developers eager to acquire real estate for development.

Some of the major factors affecting land values in Poland today are closely tied to other issues discussed in this report. They are:

- Inadequate utility systems and infrastructure which depress real estate values and deter investors whose projects rely on such infrastructure.
- Vague, outdated and unrealistic land use policies continue to depress real estate values and remain impediments and major obstacles to land development.
- High interest rates and the banking industry's inexperience in mortgage lending continue to retard development and depress land values.
- Claims to ownership of land expropriated in 1945 create confusion and depress land values due to the uncertainty of land ownership.

5.2.3 Project Planning and Design

5.2.3.1 Market Analysis and Affordable Designs

Poland's centrally-planned economy relied on the interminable queue as the demand mechanism for the allocation of housing. This approach nurtured the strong belief among Polish housing officials that the market would consume whatever is produced, regardless of the price. Unfortunately, local government, cooperatives and the incipient private housing developers have carried over and applied this flawed design approach to many of the projects recently developed for financing under the HFP/World Bank program.

Polish developers generally lack an understanding of how housing is designed to meet the preferences and affordability of the prospective end user. The basis for all building design in Poland remains a catalogue exercise of selecting from alternative "KNR" materials and labor costs and the "ZZK" physical project descriptions. In general, this system makes no attempt to link market factors with the physical design process. With one exception, none of the developers actively involved in the HFP/World Bank program has carried out research on the end users of their proposed housing projects. The old "queue mentality" of an unlimited demand still prevails.

It will prove difficult to change the design philosophy of Polish state and cooperative developers. This philosophy eschews market analysis and consideration for client preference. It is understandable why, therefore, the end product results in a mismatch between what is wanted and produced. The introduction of market-driven design techniques into Poland's housing development process will be a necessary ingredient to begin to address the financial limitations and preferences of the consumer and financial risk factor of the developer.

5.2.3.2 Building Technology and Materials

With the exception of its arms-length relationship as administrator of certain public sector construction enterprises and planning and design offices, local government will not play a primary role in introducing new, more efficient and cost effective building technologies into Poland's construction sector. However, local government can influence the introduction of new building technologies through its role in the development approval process for projects and as a catalyst in structuring public/private partnerships for the provision of housing. Furthermore, local government, and particularly vice mayors for technical matters and the staff of architectural departments, must understand the interaction within a market-driven housing sector between the availability and use of appropriate building technologies and materials and the ability to meet consumer preferences and affordability considerations.

Poland's post-World War II residential construction sector has utilized a mix of "traditional" masonry and large, pre-fabricated concrete panel technologies. During Poland's communist era, traditional technology was used by owner-builders and small, private construction companies to produce primarily single-story housing located in rural areas and on the periphery of urban centers. On the other hand, pre-fab panel technology was the domain of the state construction enterprises. State enterprises, vertically-integrated along major functional lines (i.e., panel production, transport, assembly, finishing, etc.), are called "kombinats". This technology and organizational structure was used to produce the public and cooperatively-developed housing blocks that dot Poland's urban landscape.

The influence of the large kombinats declined during the 1970s and 1980s. This period saw the emergence of smaller, more specialized state enterprises and the growth and amalgamation of private construction companies. These new companies preferred to build using the traditional brick and concrete slab technology. The aesthetic, quality and cost advantages of the traditional technology (anecdotal evidence seems to suggest that traditional technology is up to 20-30 percent cheaper than pre-fab technology) has had a dramatic negative impact on the output of the state-run kombinats.

The impetus provided by private builders to the resurgence of traditional building technologies has only served to highlight and exacerbate the inefficiencies of the pre-fab systems. As Poland continues its shift to market-driven housing development, the demise of the heavy, pre-fab panel systems, if not the large state enterprises themselves, will only accelerate.

The traditional form of masonry construction, however, also requires the introduction of technical improvements and innovations. As applied in Poland, this technology has changed little over the last 50 years. It is a slow and inefficient construction method, and thus time-consuming and costly. Technical improvements are required in terms of the use of new materials (particularly insulation), standardization of materials (block sizes, lumber, etc.), pre-assembly or pre-fabrication of lighter structural elements and building components (trusses, stairs, door/windows, etc.), the introduction of reusable concrete formwork and "ready mix" concrete, and the comprehensive training of workers in construction skills. Other residential building technologies also need to be examined.

The problem of obsolete building technologies is compounded due to Poland's historically inadequate and unreliable supply of building materials. This is caused primarily by inefficient production and distribution policies and facilities. Current plentiful and inexpensive material stocks are deceptive. They are ample only due to low demand. When the economic situation improves, and presumably demand for construction materials increases, the country's supply capacity will be quickly exceeded, resulting in rapid price increases and material shortages.

Granting access to necessary imports of building materials and equipment would encourage and facilitate innovation and efficiency in the local materials sector. Encouraging research and development of alternative building technologies would assist in alleviating the shortages of traditional building materials when current constraints on demand are removed.

5.2.4 Financing Technical Infrastructure

Coupled with the previously-discussed housing finance and land management issues, the inability of local government to service new residential development with adequate technical infrastructure is probably the single most important factor currently constraining the production of housing in Poland. Municipalities do not have sufficient funds to extend existing trunk infrastructure even relatively short distances of a half mile or less. Proposed projects located on or beyond the periphery of Poland's urban centers (the cooperative development taking place on Gdansk's southern fringe is a good example) are most likely several years or more away from full utility connections that would permit occupancy of the site. Furthermore, in otherwise well-located, in-fill sites served with technical infrastructure, systems are operating at full capacity or are overloaded, forestalling any further user connections.

Insufficient local resources to finance trunk infrastructure is not a phenomenon unknown in North America and Western Europe. Similar to many local jurisdictions in these countries, Poland suffers from a lack of an adequate local revenue and tax base to finance capital investment. (This subject has been discussed in Chapter 3.) Two other critical factors, specific to the Polish context, however, aggravate this situation.

First, the team understands (without as yet being able to cite the legal reference) that local government is able to recover for infrastructure installation an amount equivalent to only 50 percent of the value of land allocated to cooperative or other private developers. (The team was unable to ascertain the basis—whether market or other—for this land valuation.) In actuality, infrastructure can easily cost three or four times the assessed value, even market value, of land.

Secondly, the state utility enterprises (particularly water and heating), which are in the process of being transferred to local government, do not price their services to fully cover the costs of operation and maintenance, nor the costs of initial capital investments. These services are provided to all users at one standard, subsidized rate without individual metering. With the transfer of these ex-state entities to local government and the concomitant reduction in state subsidies, means for introducing the principles of full cost recovery in the installation of trunk infrastructure and the delivery of water and heating will have to be immediately explored at the national level. At the same time, ways to generate additional local revenues through innovative infrastructure financing techniques, including development impact fees, tax increment financing, special districts, development exactions, etc., should also be investigated.

Even with World Bank loans and subsidies from the national government, Poles will have to raise most of the funds for the provision of trunk infrastructure locally. Given their land holdings, legal responsibility, role in privatizing construction kombinats and communal housing, and interest in establishing a private banking system, Polish cities could be pivotal actors in the fundraising process. To play a decisive part, they must be more adept on both the revenue and the expenditure sides of their budgets. That means improving municipal management generally, raising the level of budgetary debate by focusing analysis on key issues, and insuring that top officials retain overall control of policy. Although slight differences in capabilities exist among them, at present, Polish cities are not well-equipped for such tasks.

Polish municipal budgets chiefly serve financial planning and accounting functions. They show where money ought to come from and where it ought to go. City treasurers, finance directors, and budget officers usually have extensive accounting experience and to all appearances are good at their work. However, as Poland moves toward genuine local self-government, these officials will need additional, analytical skills.

In the resource-scarce environment of Polish cities, budget analysis will have to do a better job of forecasting revenues and expenditures. Land sales and leases, as well as the privatization of communal enterprises and housing, will put a premium on fiscal impact studies and the ability to tie them to economic development and land-use plans. Finance officers will want to conduct present value, cost-benefit, cost-effectiveness, and cost-revenue analyses to specify trade-offs among competing policy alternatives. Likewise, the use of program and performance budget formats and fund accounting will be important in highlighting issues and helping elected leaders set clear priorities.

As they begin to invest more, cities will have to have meaningful capital budgets. Furthermore, linkages between capital and operating budgets will become necessary for cities to prepare adequately to meet the follow-up costs of their investments. Greater capital spending also will require financial condition evaluations, familiarity with bonding issues, and expert debt management.

Justifications and performance indicators will be essential elements in explaining the rationale behind policies, giving department heads direction, and evaluating their success. With cities more in control of their own funds, there will be greater demand for managerial accounting projections. When municipalities realize they can earn substantial income from idle balances, good cash management will be in demand. None of these essential, core skills for modern budgeting and financial management was evident in any of the gminas visited.

5.2.5 Construction of Serviced Land and Housing

Over the past four decades of centralized economic management, virtually all construction in Poland was undertaken by large, state-owned and operated enterprises. These state enterprises often took the form of large, vertically-integrated construction companies or kombinats. The state enterprises were responsible for undertaking the construction of all government projects including the large housing estates that today form the vast majority of Poland's housing stock. (In 1990, state enterprises accounted for 65 percent of the housing units completed.)

Following the introduction of a free market economy in Poland, there is a trend to privatize and restructure these state enterprises whose protected position in the economy has largely been eroded, as well as to encourage the development of the private housing construction sector.

The fledgling private housing construction sector is composed of some 160,000 private construction entities, most operating at the scale of small companies employing 2-10 workers. There are also beginning to emerge larger, better organized and better equipped private construction firms. Since there are no licensing requirements in Poland, and no bonding mechanisms yet in existence, the competence and reliability of these firms is often questionable. Recent growth of private sector construction firms has been handicapped by a number of factors. Among these:

- Collapse of the housing market due to poor economic conditions leading to low levels of investment;
- Shortage of financing for construction projects and for expansion of building operations;
- Building technologies concentrating on heavy, durable construction rather than light, less expensive methods offering greater advantages to the smaller, private enterprise;

- Shortage of construction workers with traditional building skills and skills specifically oriented towards new, cost-saving technologies and quality control;
- Lack of knowledge and experience in the management and administration of construction projects.

If the private construction sector is to be developed, these conditions must be redressed.

In addition to the previously-discussed technological constraints that impede the development of a private construction sector, the lack of knowledge and experience in Poland today in the field of management and administration of construction projects is of equal, if not greater, importance.

5.2.5.1 Construction Management and Administration

This field was much neglected in the last decades due to dominance of state-owned construction enterprises that faced no local competition, had access to low interest sources of credit and had preferential access to building materials. As a result, there was little incentive for design efficiency, cost control or responsible management and administration.

The development of skills and knowledge in this fields, while clearly not the direct responsibility of local government, will be a critical ingredient to fostering the timely execution of private developer projects.

Finally, proposed changes in the Polish law dealing with the competitive bidding process will impact local government's role in facilitating the provision of housing by the private sector. Knowledge of the competitive bidding process will be particularly relevant for those local governments that are participating in joint ventures with private developers under the HFP/World Bank lending program. Unfortunately, the communist-dominated regime of the last 40 years developed little experience in organizing competitive bids that include the preparation of procurement guidelines, the establishment of bidders' qualifications, and the drafting of requests for proposals.

5.2.5.2 Competitive Bidding

Since 1945, Poland's state-owned construction industry had a virtual monopoly on building. The competitive bidding for construction work on the open market was virtually unknown and the mechanisms for facilitating the process are not yet in place. In addition, the training of Polish architects places heavy emphasis on conceptual and visual design to the detriment of the production side of the business—developing working drawings, bills of quantities, specifications and other contract documents—on which a western style bidding process is based.

The legal framework for competitive bidding of housing construction projects is in the process of reform. The old law lacks consistency in that it applies only to state-owned

enterprises, excluding private entities, partnerships and individuals. The new law will apply to the entire housing construction sector, but only if the project involves refinancing or guarantees from state or local government budgets.

The proposed law provides for either a written or oral bidding process, which can be open or limited to a short-list of bidders. The new law contains a number of exemptions from the bidding requirement. However, there is no exemption from competitively bidding small contracts.

Discussions held in the five cities visited by the team indicate that all parties involved in the development process—developers, state construction enterprises and private builders—give lip service to participating in open competitive bidding for contracts. However, the know-how for developing a system in which the process can actually take place and where the various parties are equipped to play their respective roles is not yet in place and operational.

5.3 Specific Local Government Impediments to the Private Sector Provision of Housing

The preceding two parts of this section presented an overview of the full range of obstacles and issues that will have to be addressed in order for private builders and developers to play a major role in the provision of housing in Poland.

This sub-section takes a more focused approach to enhancing the role of private builders and developers. It concentrates on the capacity and capabilities of the five Polish cities visited by the team to carry out their role in the delivery of serviced land and housing as defined in the March 1990 Local Government Act. It identifies those critical obstacles and bottlenecks that impede the delivery of housing in these five localities, particularly from the standpoint of maximizing the participation of the private sector in this process.

The team's principal findings and conclusions of this analysis are presented in tabular form. **Table 5.3.1** summarizes the principal impediments to the private sector provision of housing in the five municipalities visited. (**Annexes B.1-5** provide detailed, individual assessments of the five cities.)

Table 5.3-2 then identifies those specific bottlenecks and constraints that are within local government's purview of functions and responsibilities. This table prioritizes the local government-specific bottlenecks in terms of those requiring the most urgent attention. The evaluation and prioritization of the constraints and bottlenecks affecting the provision of housing in Warsaw, Gdansk, Torun, Siedlce and Lodz establish the basis for the proposed AID-financed municipal advisory program.

TABLE 5.3.1
LOCAL GOVERNMENT
REVIEW OF OBSTACLES TO THE PRIVATE SECTOR PROVISION OF HOUSING
WARSAW – GDANSK – TORUN – SIEDLCE – LODZ

CITY/ OBSTACLE	Institutional Structure of Local Government	Managerial/ Administrative Capacity	LAND MANAGEMENT					Project Planning/Design		Financing Technical (off-site) Infrastructure	Construction of Serviced Land/Housing	
			Land Titling, Registration and Transfer	Transfer of State Land	Regulatory Framework		Land Valuation	Market Analysis/ Feasibility Studies	Building Technologies/ Materials		Construction Management	Competitive Bidding
					Land Use Planning	Development Approvals/ Controls						
WARSAW	Two-tier, gmina/ Union local govt structure complicates division of responsibilities in areas of land use and infra- structure provi- sion and coordi- nation; ques- tions have arisen as to which tier takes the initia- tive in these areas and how development conflicts be- tween the two are resolved	Strong at Union level for Vice- Mayors for tech- nical matters and technical depart- ments; varies at gmina level; gmina councils are new with citi- zen members in- experienced in local government; overly cautious in decision-making; need period of adaptation	System out-of- date due to failure to record much of state "nationaliza- tions" over last 40 years	Process pro- ceeding very slowly at gmina level due to un- resolved reprivatization issues and documen- tation problems; voivodship land office unable to process requests for transfer of state land on timely basis	Union govt carry- ing out update of city's general master plan under 1984 Planning Act; gminas will prepare own detailed plans in accordance with general plan; little relationship between land use planning and economic development	Gminas responsi- ble for this func- tion; approval process paralyzed in most gminas pending results of land inventories and resolution of reprivatization issue	Very limited capacity	Capabilities in this field almost non-existent in city planning and design offices	City planning and design offices aware of inefficiencies of large, pre-fab systems; city- administered construction enterprises still using this tech- nology; naive acceptance of current supply and stabilized price of building materials	Major revenue problems con- cerned with provision of infrastructure	Limited experi- ence of city- administered construction enterprises	Limited ex- perience
GDANSK	Normal "growing pains" of newly created local govt consisting of large, democ- ratically elected city councils	City management is very new; local situation is highly politicized; senior city officials ap- pear unable to come to grips with city's princi- pal housing and urban develop- ment issues in the context of the new financial and economic real- ities of local govt administration	Proposed com- puterization and mapping of on- going land in- ventory will be used later as basis for main- taining records of land registra- tion and transfer	City aggressively pursuing land in- ventory to identi- fy ownership and to update map- ping; recently privatized state mapping firm carrying out effort with US \$2.5 mil- lion budget, which is only partially funded	City evolving toward a more flexible ap- proach to land use planning; however, modifi- cations to exist- ing detailed plans at district level still difficult to obtain	Cumbersome and time-con- suming approval process to gain access to city land, including preliminary loca- tion approval, negotiation with infrastructure agencies, final location approv- al, and review of arch/engr project plans	First local (per- haps first nati- onally) class of 20 land valuers recent- ly graduated to assist in new requirement of auctioning of state land	No sign of ca- pacity in either city entities or state or private design offices	Possibly due to a lack of suit- able land, city has not em- barked on in-fill program; coop development on southern fringe predominantly multi-family with some single family and TH; mix of large, pre-fab and tra- ditional tech- nologies	City has pre- pared major in- frastructure and transport invest- ment program; execution of sewerage and heating compo- nents required to serve new coop development on southern fringe; sufficient and timely; financial resources in doubt	Major develop- ment quagmire on southern fringe of city reflects lack of understanding of project phasing with availability of trunk infrastructure and land ac- quisition	No mention of any expe- rience in this area

**TABLE 5.3.1
LOCAL GOVERNMENT
REVIEW OF OBSTACLES TO THE PRIVATE SECTOR PROVISION OF HOUSING
WARSAW – GDANSK – TORUN – SIEDLCE – LODZ**

CITY/ OBSTACLE	Institutional Structure of Local Government	Managerial/ Administrative Capacity	LAND MANAGEMENT					Project Planning/Design		Financing Technical (off-site) Infrastructure	Construction of Serviced Land/Housing	
			Land Titling, Registration and Transfer	Transfer of State Land	Regulatory Framework		Land Valuation	Market Analysis/ Feasibility Studies	Building Technologies/ Materials		Construction Management	Competitive Bidding
					Land Use Planning	Development Approvals/ Controls						
TORUN	Normal "growing pains" of newly created local gov consisting of large, democratically elected city councils	Strong Vice Mayor and department heads have articulated clear and appropriate development policies and priorities for city; city's attitude is oriented toward solving own problems; leadership in place to achieve policies	Land inventory exercise has produced few problems in reconciling registry and court records regarding the plot boundaries of the current user versus ownership	Land transfer less of a problem here than in other cities; land surveys and documentation will take some time, but transfers from voivodship expected to work fairly well	City has pursued very intelligent approach to growth management; emphasis on in-fill; recent recovery of 170 ha. site from Soviet military has presented city with opportunity to revise growth plans to a more efficient, northerly direction	City officials not sure how project approval process will work under new system, including auction of public land; operational guidelines not yet received from central gov't	Expertise not available in municipality; support in land valuations provided by voivodship office	No experience evidenced in municipality; private developer of joint-venture for WB financing carried out rudimentary survey of prospective and user; 3-4 savvy local builders clearly have intuitive sense of potential market	Most advanced city in terms of shift back to traditional technologies; well-entrenched "Kombinat" still building with pre-fab technology on city's eastern periphery, but extensive in-fill construction by state and private enterprises almost exclusively traditional brick and block	Similar to other cities, town facing budgetary problems constraining its ability to finance infrastructure; city-private WB joint-venture has proposed inclusion of minimal off-site costs in financial plan	Private coops doing small, in-fill projects, appear knowledgeable re project management methods	No mention of any projects having been competitively bid
SIEDLCE	Normal "growing pains" of newly created local gov consisting of large, democratically elected city councils	Less overall technical experience in city's senior officials (reflective of Siedlce's smaller size) results in greater role for voivodship offices in matters dealing with urban development and housing; council committees depend on outside expertise	Land titling and registration less of a problem compared to other towns due to amount of land in private hands	Most vacant land for housing in private hands; most land never nationalized due to its predominantly agricultural nature	Master plan out-of-date due to city's moderate size and rapid growth; city wants to move away from rigid approach to planning (emphasizing multi-family dwellings) to more flexible view of housing encouraging private participation	Authority for development approvals still voivodship; relationship appears to be working okay; still very time-consuming to change agri or industrial use to residential; altho less difficult to obtain use changes within residential category	Although much of Siedlce's land is in private hands, there are no signs of an active land market, nor knowledge of land values or valuation	No sign of any experience or expertise in this area	Extensive single-family units constructed with traditional methods, while previous and ongoing multi-family dwellings constructed with pre-fab systems	Due to an overall lack of financial resources to address severe infrastructure deficiencies in city-center and industrialized eastern sector, city has wisely focused on in-fill sites and the redesign/densification of coop projects to meet current housing needs	Recent small infill project development has tended to reduce delays in project completion related to price escalation of building materials and access to off-site infrastructure	Only city of five visited that has experimented with competitive bidding; competitively bid site development for WB project; believes it will be more difficult to bid building construction

**TABLE 5.3.1
LOCAL GOVERNMENT
REVIEW OF OBSTACLES TO THE PRIVATE SECTOR PROVISION OF HOUSING
WARSAW – GDANSK – TORUN – SIEDLCE – LODZ**

CITY/ OBSTACLE	Institutional Structure of Local Government	Managerial/ Administrative Capacity	LAND MANAGEMENT					Project Planning/Design		Financing Technical (off-site) Infrastructure	Construction of Serviced Land/Housing	
			Land Titling, Registration and Transfer	Transfer of State Land	Regulatory Framework		Land Valuation	Market Analysis/ Feasibility Studies	Building Technologies/ Materials		Construction Management	Competitive Bidding
					Land Use Planning	Development Approvals/ Controls						
LODZ	Normal "growing pains" of newly created local govt consisting of large, democratically elected city councils	Overall strong leadership at level of Vice-Mayor and technical department heads, knowledgeable in pursuit of appropriate development policies; city has clear idea of what should be done	Land registry system in disarray and will require a major overhaul; new maps needed that show both the ownership and use of land based on redefined boundaries and clearly written property descriptions	Continual changes in land tenure systems over last 100 years leading to a lack of clear information about property ownership has complicated dramatically the transfer of state land in Lodz; Lands Department staff of 44 is working to coordinate information from various map sources and to update data on property ownership	Work has begun on a new master plan that should be presented for review/approval in 1992; objectives of new planning approach is to provide more flexible guidelines that will lead to greater private sector participation in city development	Impression exists that approval process, both in terms of revisions in planning and zoning and in specific building plans, is not a particular problem; public land sales via auction problematic due to lack of clear operational guidelines from center	Active private land markets found on fringe of urban area and in areas of traditionally private agricultural land holdings; city council recently approved 4-tier fee structure as basis for bid prices for land	No experience noted in relevant municipal departments nor former state planning and design offices	City residential construction has been dominated by large state Kombinat; introduction of new technologies and private builders has been blocked by their construction practices	Land suitable for development and serviced by primary infrastructure currently adequate to meet city's needs for 5-7 years; however, city has very limited financial resources to provide secondary infrastructure to new housing developments	No sense that large state construction enterprises employed these techniques in past	No mention made of competitive bidding

**TABLE 5.3.2
SUMMARY AND PRIORITIZATION OF LOCAL GOVERNMENT IMPEDIMENTS
TO THE PRIVATE SECTOR PROVISION OF HOUSING
WARSAW – GDANSK – TORUN – SIEDLCE – LODZ**

CITY/ OBSTACLE	Institutional Structure of Local Government	Managerial/ Administrative Capacity	LAND MANAGEMENT					Project Planning/Design		Financing Technical (off-site) Infrastructure	Construction of Serviced Land/Housing	
			Land Titling, Registration and Transfer	Transfer of State Land	Regulatory Framework		Land Valuation	Market Analysis/ Feasibility Studies	Building Technologies/ Materials		Construction Management	Competitive Bidding
					Land Use Planning	Development Approvals/ Controls						
WARSAW	■(I)	■(I)	■(III)	■(I)	■(I)	■(II)	■(II)	Local Government will not be directly involved in this area, but will, however, play an important role, through its project review and approval function, in the introduction of market-driven project design concepts	■(I)	Local Government will not have a primary role in this area, but will rather serve as a catalyst in the structuring of public/private partnerships for the provision of serviced land and housing		
GDANSK		■(I)	■(III)	■(II)	■(II)	■(II)	■(II)		■(I)			
TORUN			■(III)	■(II)	■(I)	■(I)	■(I)		■(I)			
SIEDLCE			■(III)	■(III)	■(II)	■(II)	■(II)		■(I)			
LODZ			■(III)	■(I)	■(I)	■(II)	■(I)		■(II)			

■ = Priority Constraint or Obstacle

Priority Level: I Highest—immediate action recommended in formulating advisory program
 II Intermediate
 III Lower—in terms of severity of obstacle or urgency/timeliness of remedial action

ANNEXES

ANNEX A

SCOPE OF WORK

To Evaluate Technical Assistance Needs of Representative Municipalities to Facilitate the Production of Housing:

The team will visit the cities of Warsaw, Gdansk, Lodz, and Torun—all of which are expected to be cities that will have housing projects financed by the World Bank. These cities have recently assumed the responsibility for the provision of housing in their communities both in terms of public housing for the lower-income families and in developing and/or facilitating the process of housing production.

The team will review and evaluate the organization and staffing of the four cities with regard to the process of facilitating housing production. The areas to be covered will include but not necessarily be limited to land management, land titling, urban planning, design and construction of infrastructure and the project approval process. While the goal is to maximize the production of housing by the private sector including both private developers and cooperatives, public/private partnerships and public corporations are other possibilities.

The team should make recommendations as to what types of external assistance can be usefully employed to improve the cities' ability to function more effectively and expeditiously in the housing sector.

These recommendations should take into account (1) perceived needs to reorganize or restructure the housing function; (2) the need to improve procedures; (3) the need to improve the budgeting and financing process; and, (4) the need to structure training programs for municipal employees.

The result should be a proposed long-term program of TA focused specifically on each city and a broader program that would be relevant for a larger number of cities. That is, the team should consider the possibility of both resident advisors and short-term expertise as well as the needs for training. It might consider the possibility that a resident advisor might provide assistance to more than one city.

In developing its recommendations, the team should coordinate, to the maximum extent possible, with the development of a program which will be focusing on training needs of municipalities in housing and related services. Special attention should be given to the necessity for Polish language fluency for both the resident advisors and for short-term consultants.

Composition of Team and Level of Effort

The team will be composed of four individuals as follows:

Team Leader (Housing Generalist)

Responsible for the overall report and for the management and administrative aspects of the process.

Urban Planner

Responsible for regulatory and procedural aspects of promoting housing production.

Legal Specialist

Responsible for regulatory and procedural aspects of promoting housing production.

Finance Specialist

Responsible for municipal finance aspects of housing and infrastructure development.

The above mix of responsibilities is illustrative and the contractor may propose variations subject to AID approval. For instance, the Urban Planner might be proposed as Team Leader and the Legal Specialist might be proposed to deal with administrative/legal aspects, e.g., the issue of land titling.

In addition to the above, the contractor should include on the team capability in the Polish language either obtained through a U.S. contractor or a local Polish consultant.

The level of effort will consist of the following for each team member:

- Pre-field background work - 3 days
- Field work - up to 3 weeks

This will include one day in Warsaw for meetings with the Housing Finance Project (HFP) prior to visiting the individual cities, and one day of meetings with the HFP at the conclusion of the field work. Six-day work week authorized in the field.

Draft Report Preparation

Two full weeks for preparation of draft report. This will include two days for debriefing/discussions in RHUDO/EE.

Final Report Preparation

Based on RHUDO/EE comments, two days for preparation of final report.

11'

ANNEX B

TABLE OF CONTENTS

B.1	WARSAW	1
B.1.1	Introduction	1
B.1.2	Municipal Management and Strategies for Development	2
B.1.3	Regulatory Framework	5
B.1.4	Urban Land	7
B.1.5	Urban Infrastructure and Services	14
B.1.6	Financing and Cost Recovery	20
B.2	GDANSK	24
B.2.1	Introduction	24
B.2.2	Municipal Management and Strategies for Development	27
B.2.3	Regulatory Framework	27
B.2.4	Urban Land	29
B.2.5	Urban Infrastructure and Services	31
B.2.6	Construction of Serviced Land and Housing	32
B.3	TORUN	34
B.3.1	Introduction	34
B.3.2	Municipal Management and Strategies for Development	35
B.3.3	Regulatory Framework	36
B.3.4	Urban Land	38
B.3.5	Urban Infrastructure and Services	40
B.3.6	Construction of Serviced Land and Housing	44
B.3.7	Financing and Cost Recovery	47
B.4	SIEDLCE	48
B.4.1	Introduction	48
B.4.2	Municipal Management and Strategies for Development	49
B.4.3	Regulatory Framework	50
B.4.4	Urban Land	51
B.4.5	Infrastructure and Services	53
B.4.6	Construction of Serviced Land and Housing	54
B.4.7	Private Developers	55
B.5	LODZ	56
B.5.1	Introduction	56
B.5.2	Municipal Management and Strategies for Development	57
B.5.3	Regulatory Framework	58
B.5.4	Land	59
B.5.5	Infrastructure	65
B.5.6	Construction of Serviced Land and Housing	68
B.5.7	Financing and Cost Recovery	70

ANNEX B

B.1 WARSAW

B.1.1 INTRODUCTION

B.1.1.1 Demographic and Economic Background

There are 26 towns or gminas in the Warsaw voivodship with a total population of 2.3 million people. The 1990 population of the city of Warsaw is 1.655 million or 72 percent of the total voivodship population. City boundaries include an area of 485 square kilometers and a total of some 581,000 housing units.

Time did not permit even a cursory investigation of the economic trends and development potential of Warsaw and its seven gminas. Of the two gminas visited, the FSO auto plant, the Polfa pharmaceutical company, and the television manufacturing operation in Warsaw's Praga-Polnoc gmina are laying off workers. At best, down-sized versions of these enterprises may outlive Poland's transformation to a Western-style economy. For the future, gmina leaders are betting on successful development of a nearby freight airport, small businesses, and a major commercial district.

The other Warsaw gmina studied, Mokotow, is largely a bedroom district. Still, it has factories making elevators, electrical equipment parts, and integrated circuits. It also is the site of the city's main power plant and sewage treatment facility, which detracts from its economic prospects. A large piece of vacant land less than one mile from Warsaw's Old Town, though, could make Mokotow a prime location for high-density development. If its mayor is correct, development of that property will change Mokotow into a center for commerce, culture, education, health care, and trade.

B.1.1.2 Housing Characteristics and Levels of Urban Services

Out of the total number of 581,000 housing units mentioned earlier, roughly 47 percent belong to cooperatives while 39 percent belong to the state and are now being transferred to the gminas. Some 97,000 units in the housing stock were built prior to World War II, and many are in poor physical condition. Funds paid by inhabitants to live in these units amount to only a very small part of their maintenance costs. There is a need for temporary housing in order to relocate families while modernizing dilapidated buildings.

At present, 200,000 people are waiting for some 50,000 flats in Warsaw. Certain housing laws also will be changed as this is seen as one of the critical areas in Poland's shift to a free market economy. Some of the necessary changes already have been addressed in the housing law.

2, Annex B

Basic infrastructure in Warsaw is more or less adequate to meet current needs in terms of quantity, but seriously deficient in terms of quality. This is particularly true for water supply and sewage which use very outdated technologies. The central heating system also has reached its limits in terms of its ability to supply heat. Reductions in heat losses from buildings and more efficient industrial use may enable the system to provide an adequate amount of heat for a few more years. Deterioration of the existing system is a major concern that is being addressed by a World Bank project.

Capacities for Warsaw's infrastructure have been based on density considerations from the city's master plans. Attempts to increase these densities may result in major modifications to some of this infrastructure. Most city enterprises do not decide their own investment priorities but simply supply trunk infrastructure and services to areas under construction.

The relative inflexibility of the various infrastructure systems, particularly central heating, will lead to greater deficits in the future and potential housing areas that are without services. Greater flexibility in the provision of infrastructure will become a reality only when market prices for these services are charged to consumers. This will require considerable time and skill to achieve.

The process of providing infrastructure in Warsaw is clearly one of evolution. A major area of concern involves management relations between institutions that provide services to the entire city: including water supply, sewers, transportation, etc. Exactly how these institutions will work with individual gminas in the future needs to be established since they really do not operate at the gmina level.

The provision of infrastructure in the near future is likely to focus on the development of three main areas of large-scale development:

- the Sierkierki Curve in Mokotow which has been planned for 25,000 to 30,000 people at a total cost of around \$1 billion;
- the areas of Goctaw and Julianon which involve private land owners; and,
- the city's business center that includes the area of the central railway station; the central board of the railroad is now discussing with the gmina concerning the provision of infrastructure in this area.

B.1.2 MUNICIPAL MANAGEMENT AND STRATEGIES FOR DEVELOPMENT

Warsaw previously was divided into seven districts that recently became separate municipalities or "gminas". Gminas are the basic element of urban self-government. The seven gminas include: Srodmiescie (center); Praga Poludnie; Praga Polnoc; Mokotow; Zoliborz; Wola and Ochota. The City of Warsaw is composed of these seven gminas and has its own legal status as the "Union of the Warsaw Districts". The Warsaw City Council is comprised of representatives of the seven gminas. The executive body of

75

the Union is headed by the President of Warsaw, now selected by the Council. Before the legislative change, the President of Warsaw had also been the chief executive of the voidvodship and a representative of the national authority

The division of responsibilities between the Union (or the City of Warsaw) and the gminas is not all that clear-cut. The Ordinance establishing the city charter was signed only by the Prime Minister in February and has not yet been tested. However, in theory, the city is assigned responsibility for matters resulting from the status of Warsaw as the capital and local self-government matters which involve city-wide, rather than simply gmina level, concerns.

The city is given specific authority for "organizing" the preliminary work on spatial organization and town planning and responsibility for periodic assessment of the plan's implementation. Responsibility for housing investment as such, however, is a gmina level rather than city function. Even in this case, the city is still given the function of establishing housing policy guidelines.

The city does have major responsibilities for infrastructure, specifically including construction and maintenance of water and sewage systems (both treatment and transmission) and central heating systems. Actions undertaken by the gminas that may affect the physical infrastructure of the city must also be coordinated with the city.

The changing relationships caused by the emergence of local self-government in Warsaw is exemplified by the role of the Warsaw Office for the Development of the City (WODC). This government agency had previously administered (under a state appointed city president) all development of towns and housing estates in the capital region. Its functions included development of plans for housing construction and infrastructure, selection of investors for new housing construction, arranging for project preparation and oversight of implementation. This office essentially served as the developer and manager of housing and infrastructure in Warsaw on behalf of the state under the previous political system.

The WODC charter is now being revised to reflect the new allocation of responsibility to elected officials in the gminas and the evolution of a market-based, rather than administered, housing development system. Under the new system, the WODC will act more as an agent of investors and local government officials than as an instrument of state policy. It will provide professional advice and services instead of having line management responsibility for project technical and economic plans, contractual documents and monitoring.

Within this context, neither the city nor the WODC should be as directly involved in planning and implementing housing projects as in the past. The former system of administrative allocation of property and strong control by administrative authority over

4, Annex B

the development process will be replaced. The future role of the city, as a local government authority or the WODC as a technical arm of the city administration, still remains to be clarified.

One key responsibility of the city is clear. It should move forward as quickly as possible with a review of the city's master plan in consultation with the voivodship and the gminas. The existing master plan dates from 1982 and is badly in need of revision. Major questions exist with respect to future development in this area, including issues regarding the use of land reserved for agriculture or forests. (Land in the Warsaw region is subject to particular restrictions by the Ministry of Agriculture because of its high fertility and productivity.)

The question of encouraging single-family housing and low-density, low-rise apartments, as an alternative to large, high-rise construction, also needs to be addressed. The city could use assistance in carrying out surveys and computer models to consider land availability and infrastructure requirements as a basis for policy decisions and planning.

The Warsaw region is also undertaking a land ownership inventory preparatory to transferring public land holdings to local authorities. As elsewhere, this process is going slowly as the authorities struggle with the as yet unresolved reprivatization issues and documentation problems. Technical assistance to help modernize the land registry systems and to provide training in land appraisal techniques could be particularly helpful in meeting Warsaw's priority needs.

Finally, the city's problems in addressing its responsibilities for provision of infrastructure should receive priority attention. Clearly, there are major revenue problems concerned with provision of infrastructure. Under existing law, the municipality is required to pay for trunk line and off-site infrastructure without charging the project or the project investor.

In some cases, cooperatives or other developers apparently can advance infrastructure financing up front in anticipation of repayment by the city. Nevertheless, the metering system and other aspects of collecting utility charges are inadequate. Short-term assistance in reviewing the infrastructure expenditure and revenue process could lead to further useful technical assistance intervention. This may also be a useful area on which to focus given the relationship between the city's responsibility for infrastructure and the gminas' responsibility for housing production.

The city of Warsaw and its constituent gminas (and their relationship to the voivodship) could provide an opportunity to develop regional authorities and intergovernment coordinating mechanisms. If it is decided, as seems appropriate, to target technical assistance at the level of the city of Warsaw, it could be useful to undertake a program to assist the city in working out intergovernmental and coordinating mechanisms for regional housing and urban development.

B.1.3 REGULATORY FRAMEWORK

B.1.3.1 Land Use Planning and Zoning

Consecutive master plans for Warsaw have been developed in 1964, 1969, 1979 and 1982, with the 1982 plan currently in force. All of these master plans have included directional plans for a period of 40 to 50 years, perspective plans for a period of 10 to 15 years, and phasing plans for 3 to 5 years. They all are based on the overall spatial orientations of the 1961 plan and support the same key assumptions for land use in the city, namely that:

- the banks of the Vistula River, passing through the center of town, will remain as green areas free of construction;
- residential, industrial and recreational functions will be separated through the creation of specialized districts and mono-function complexes; and,
- the city will be built in the form of "belts" of housing estates separated by open green area "wedges" that stretch from agricultural land on the periphery of the city to the downtown area.

The 1961 plan also included plans for the city's seven districts. A physical development master plan for the downtown area of Warsaw was drawn up and ratified by the National Council of the Capital City in 1983. Master plan proposals and land use plans for the other six districts of the city were developed in 1988 and now are awaiting ratification.

Major disadvantages of the belt-like development produced by Warsaw master plans have been the creation of unbuilt, fully-equipped enclaves in areas facing strong pressures for development, longer and more costly infrastructure networks, and increased travel time to the city's center.

All of Warsaw's master plans have undergone modifications in their land use prescriptions during implementation. The majority of these changes have been in favor of housing. Revisions to the 1982 Plan, for example, have resulted in the addition of 490 hectares for residential land use. To achieve this, reductions have been made of 218 hectares for open or green areas, 55 hectares for services, 152 hectares for municipal technical services, and 65 hectares for agricultural land.

A major disadvantage of the 1982 Plan, however, was that it did not take land ownership into account. This is one reason why many private investors have found the plan to be too inflexible. As a result, modifications are being made to the plan that allow as much flexibility as possible within current laws. The first stage in developing these modifications is to determine the immediate needs of the local population. This is being done by presenting the plan to the population, identifying and reviewing possible changes, and obtaining citizen response. Very specific land questions are involved. A report on the results of this citizen involvement will be presented and discussed with the Warsaw Council and the gminas. Additional remarks will be introduced over a three to four month period and final modifications presented to the Warsaw Council for approval, and then

13

once again to the public for their information. At this point, the revised plan will become a legal document. A completely new plan will be developed beginning next year.

New legislation and separate plans for Warsaw's gminas as yet have not been formally approved. Most planning officials feel, however, that zoning regulations will provide the most effective approach in guiding the city's future development. These may involve a tightening of regulations in areas of high priority and concern (eg. areas of environmental, cultural importance, etc.), and a loosening of regulations in other, less critical areas in order to stimulate housing development.

The city is introducing new techniques to the planning process and encouraging greater computerization at all levels. Elements of this basic approach include development of more flexibility in the administration of urban plans, and the application of more modern land management techniques that are geared to free market conditions. Until now, land was very cheap and its value not included in investment costs. Now that land prices are to be established by the market, they are increasing rapidly with corresponding increases in the costs of urban development.

B.1.3.2 Subdivision and Project Approvals

The Technical Department of the voivodship is responsible for managing physical infrastructure within the city of Warsaw that includes: central heating, water supply, sewage disposal, sewage treatment, solid waste, transportation, green areas and cemeteries. The department is involved in the planning, monitoring and maintenance of these systems, while also acting as the coordinating unit in planning investments.

The office works on investment planning and phasing based on five-year detailed plans that follow the guidelines of the overall Master Plan. It is also involved in managing the maintenance of infrastructure.

The department controls 10 city-owned enterprises that deal with:

- Public Transportation
- Heating and Power Stations
- Municipal Water Supply and Sewage
- Municipal Refuse Disposal
- City Taxis
- Cemeteries and Burials
- Parks, Woods and Green Areas
- Subway Construction
- Construction of the Northern Water Supply System
- Maintenance of City Public Baths.

The Technical Department sees the need for additional assistance in defining procedures for restructuring enterprises, improving management practices, and advising on the

disposal of solid waste, and methods of environmental protection. In addition, the administrative systems of the enterprise are old and need to be updated.

B.1.4 URBAN LAND

B.1.4.1 Land Market Characteristics

To all extent and purposes, there has been no formal private land market in Warsaw since the end of World War II. Most of the land has been owned and used by the State Treasury, or leased to cooperatives and/or individuals. Outside of a limited number of villas for a select few, there also has been very little demand for land for single-family housing. This is due to several reasons that include the loss of tradition for single-family housing, the provision of infrastructure from central sources (eg. heating, water supply, gas, etc.) which makes the development of single-family housing areas difficult, and, quite simply, the lack of land zoned for single-family housing.

The major amount of serviced residential land has been assigned to housing cooperatives. This approach is not simply a phenomena of the centralized planning approach, given that the cooperative housing movement in Warsaw began in the early 1920s. The Warsaw Housing Cooperative (WSM), for example, was founded in 1921 and is still active today. Early designs for residential complexes that were drawn up by the WSM represented some of the most progressive urban development and housing concepts of the 1920s. Because these concepts were well adapted to the centralized planning approach, they later became the predominant form of housing provision during the post World War II period.

During this period, land markets within the city of Warsaw were controlled by the state. The result has been that 47 percent of all housing units now belong to cooperatives and 39 percent belong to the state. The system has essentially gone bankrupt, however, since funds paid by inhabitants to live in these units amount to only a very small part of their maintenance costs.

Land markets also were affected by the fear that Warsaw was overdeveloped. This led to the creation of a government office in the 1960s to decrease the city's growth, and to administrative reforms in 1975 that increased the number of voivodships from 17 to 49 in order to employ more people outside Warsaw and to encourage decentralization.

Currently, active land markets can be expected to develop in areas already identified as high-priority areas for housing. These include Ursynow and Natolin in the southern part of the city, Tarchomin in the north, and Goltaw and Juliana in the southeast.

B.1.4.2 Land Tenure and Registration

Four basic types of property and land tenure are emerging in Warsaw that include: state, gmina, association, and private property. After World War II, all public property belonged to the State Treasury. The majority of state-owned land, however, is now in the process of being transferred to local municipalities or gminas. Some public land needed for city functions will be transferred to the Warsaw Council or association, while the State Treasury will retain land for:

- national and voivodship roads
- military installations
- main sources of water
- property belonging to national and voivodship levels of government
- all major manufacturing installations run at the voivodship and national levels
- other areas with national implications
- large parks, forests, nature reserves, etc.

A major property issue in Warsaw concerns the area located within the city's 1939 boundaries that was more than 90 percent destroyed during World War II. The government assumed ownership of all properties in this area in 1945 in order to facilitate the city's reconstruction. Some 8,000 hectares and 40,000 properties were involved and have remained in government hands since that time.

Changes in property ownership laws are being considered that would either return these properties to their previous owners or pay them compensation. An inventory of the affected properties was started at the beginning of the year and a major effort will be made to compensate those former property owners still living in Poland. Previous owners will need to apply within a specific period of time in order to receive compensation, which may be paid through government bonds. No decision or law has been issued to resolve this issue. To date, 7,000 applications have been received for the return of property to private ownership.

The processing of these applications involves comparing pre-World War II property registers with post-war documentation to determine former land use and ownership. Discrepancies are examined and reasons for these discrepancies determined. If necessary, more careful examination is carried out by notarial offices under the jurisdiction of the courts and outside the domain of city administration. The current Ministry of Housing and Construction, for example, covers parts of seven, privately-owned, pre-war estates. The register needs to show the exact boundaries of each of these estates in order to determine the amount of compensation to be paid to their original owners.

In carrying out this inventory, pre-war buildings and property are considered together. The situation concerning post-war building, however, is more complicated. There is no new law defining compensation in these cases. Under previous laws, individuals could claim

the retention of land rights or compensation but, in most cases, without success. Ten different drafts for a new law are now under consideration to regulate the transformation of these property rights. They range from full compensation at market prices to no compensation at all.

Somewhat different policies were followed for land outside the city's 1939 boundaries. Much of the government-owned land in these areas was acquired with only very little compensation paid to previous owners. A small amount of land outside the 1939 boundaries also was taken over by the state under an agricultural decree which gave land to the peasants. No claims have been received for this land and the manner in which it will be treated remains uncertain.

The enabling legislation for state land to be transferred to gminas was passed in May 1990. Gminas, therefore, already have the legal authority to own the land being transferred to them. All that is needed is confirmation from the voivodship office concerning the actual transfer of land. There are 53,000 properties within this category in Warsaw and an additional 22,000 in the rest of the voivodship. Decisions for the transfer of this land are being made on a case-by-case basis.

The procedure works as follows. The gminas register properties and apply to the voivodship for the land to be transferred. The gminas must: 1) check if the land really belongs to the state; 2) prepare a map and short description of the property from the cadastral survey; and, 3) examine the legal status of the property, i.e., whether it is included in the real estate registry and/or notarial office.

Differences that exist between any of the related documents must be examined and reconciled. Once this is done, the value of the land to be transferred is estimated. This is only a rough calculation and does not signify a purchase price, since the land transfer transaction is carried out without any payments. It is important, however, to establish the value of the land in case the gmina later decides to sell or lease the property.

The process of transferring land to the gminas is very long and time consuming. Since it began in September 1990, 9,000 applications have been made and final decisions taken on only 2,500 properties. Two factors have hampered resolution of the other 6,500 cases. First of all, the new department involved with the transfer of land employs only eight people, a staff much too small to handle the large number of applications. And secondly, 3,000 cases have been returned to the gminas because of inadequacies in the information provided in the applications.

Once an affirmative decision is made, the gmina must have itself written into the land registry book as the owner of the property. There are seven notarial offices in Warsaw to do this, essentially one for each gmina. The town of Warsaw has one office run by the court which can hear appeals in the first instance. The second instance for appeals is the National Board for Ownership Transfer which is a national level commission working under the Council of Ministers. Claims in the eastern area of Poland that now belongs to

the USSR also are directed to this second instance of appeal. The third and final instance is the Chief Administrative Court.

In general, gminas have claimed as much land and property as possible for their own. This has led to disputes between gminas, the Association, and the State Treasury which, not surprisingly, also have claimed as much land as possible.

In cases where land is transferred to the gminas, this is done assuming that the land legally belongs to the state. The resolution of any claims of previous private ownership will depend on laws still to be passed. As previously mentioned, gminas are trying to obtain as much property as possible under the assumption that no compensation will be necessary, or that the state will pay compensation by issuing bonds. In the eyes of some government officials, however, the sequence followed in this property transfer is incorrect. In their view, disputed lands to be returned to private owners should be transferred directly to these individuals and not through the gminas. Since the transfer of lands to gminas was easier to execute from an administrative point of view, legislation to this effect was the first to be approved.

For agricultural land, many larger farms have been divided into smaller plots and given to farm workers. Coupled with inheritance practices, this has led to very long and narrow agricultural land holdings. A system to deal with land reparation has been in place since 1968 and the law amended in 1982. Any reparation of agricultural land is the responsibility of the voivodship. Almost every village has a land fund to deal with this matter and the legal framework to address this problem already exists. What is more difficult to work with is the mentality of the people, their strong attachment to the land and their basic mistrust of the government. Owners of agricultural land belong to the peasant/worker class and generally are not very interested in working in partnership with the government.

B.1.4.3 Availability of Land for Housing

Three new areas of major development have been identified in the Warsaw Master Development Plan. These are: the neighborhoods of Ursynow and Natolin, which are now roughly half completed and planned to house a total of 150,000 people; Praga Polnoc, including the areas of Tarchomin and Nowodowory, and Praga Poludnie, for which construction has not started. There is also a number of small infill areas within the city that could be developed for housing, as well as several areas planned for commercial use that are not fully developed and where land use could be changed to residential.

Most new housing construction in the city has been stopped for about two years and no building permits, for example, have been issued during the last few months. This is because most state-owned land now has a questionable ownership status. In addition, private sector housing, and even some cooperatives, must now buy land at market rates which currently are unclear. Overall, few housing investments have been continued during the last few months.

The city's Planning Department, hopes the government can reinvigorate the current housing situation by making land available for residential development. Private land is expensive, and only land earmarked as residential land in the Master Plan, in principle, can be used for housing. The Mayor, however, can indicate other land that the local population can use for housing. Reserving land for infrastructure such as roads, is also of key importance. Otherwise, the gmina must pay market prices for this land.

For small areas on the edge of Warsaw, the city planning office suggested that it may be possible to have the voivodship pay a third of the land development costs, the gmina pay a third, and the final third paid by shares purchased by local inhabitants. Those who buy shares would be able to purchase land at a somewhat lower rate. The intention is to sell these shares to individuals and not developers. Additional funds to the gmina would come from selling its own land at market rates. Of the land being transferred to the gminas, however, it is estimated that only about 5 percent is, in fact, without buildings. The tendency is to transfer land to the gminas that already has buildings on it.

The voivodship office makes decisions concerning the application of laws protecting forests and agricultural land. They also supervise the preparation of land registry maps that are drawn for the gminas. These maps are made on commission from the administration which transfers work to surveying offices that can be either public or private.

The office in the voivodship responsible for the transfer of state land receives the maps and processes the documents from the gminas. This office makes use of the GIS program, ARC-INFO, although the application of this program is still in the early stages and needs to be adapted to the Polish environment. The office has a total of 20 people, including a computer expert and three personal computers. Staff members need training and assistance in introducing the new system to the seven gminas.

B.1.4.4 Land Acquisition and Prices

Under the communist system, there was a state policy of compulsory land acquisition at very low prices. Previous owners, however, have the right to reclaim their land if no development occurs within a specific period of time. Land that has been taken over by the government for specific projects, therefore, has a deadline for the start of construction. These dates are included in the formal decisions to assign particular sites to investors. The decision to expropriate the land can be invalidated if no action is taken before this date.

Situations involving the return of property to previous owners is only in the pre-processing period. As yet, no satisfactory legal framework has been established to initiate proceedings. If a compensation law is passed, it will be necessary to determine who is going to pay the compensation and in what form. The State Treasury most likely will be responsible for paying this compensation.

Another responsibility of the voivodship land office is to signal any problems that involve the land ownership rights of state-owned enterprises. By law, enterprises should own the

land on which they are located. The office also undertakes the overall coordination of state-owned properties.

B.1.4.5 Construction of Serviced Land and Housing

The team's interviews and discussions regarding Warsaw's residential construction sector focused primarily on the role of state enterprises in the provision of housing. However, given the scale of this sector in Warsaw, time did not permit more than a cursory overview.

The construction sector in Warsaw was previously dominated by seven major state enterprises. These large state enterprises were organized on a vertical basis to provide a full-range of construction services including project planning and design, production of building materials, transportation and erection, and finishings. This type of vertically-integrated state construction enterprise is called a kombinat. The original seven Warsaw kombinats tended to serve the city district in which they are located. In their heyday, the individual kombinats often employed over one thousand workers. They undertook construction projects for all the economy's principal sectors—industry, health, education and housing

Warsaw's kombinats date from the 1950s. During the peak period of the 1960s, they produced more than 20,000 apartments per year. Output of the Warsaw kombinats was in great demand during this period. Given their monopolistic position within a specific geographic area of the city, the kombinats were able to dictate the price and design (i.e., building technology) of their product. Potential developers ("investors" in the Polish context) had little choice but to accept the large, pre-fabricated panel technology promoted by the Warsaw kombinats.

The influence of the Warsaw kombinats, however, began to decline during the 1970s. This decade saw the emergence of smaller, more specialized construction firms that were, however, still state-run enterprises. This new type of state enterprise had the capacity, and often the preference, to build using the traditional brick and concrete block technology. The aesthetic, quality and cost advantages of the traditional building technology (anecdotal evidence seems to suggest that traditional technology is up to 20 percent cheaper than pre-fab technology) has had a dramatic negative impact on the output of the building material departments of Warsaw's kombinats.

The transition from pre-fab to traditional technology has only served to highlight and exacerbate the inefficiencies of the pre-fab plants. The required scale of production and outdated equipment of the old pre-fab plants are not appropriate for the cost-effective production of the lighter, smaller structural elements called for in traditional technology.

The demise of vertically-integrated, state kombinats has occurred simultaneously with the sustained growth in Warsaw's private construction sector. While a time series on public versus private residential production for Warsaw was not available to the team, the results for the last two years are telling. From a figure of 29 percent in 1990, the percentage of

all residential development carried out by private builders in Warsaw, including private building cooperatives, increased to 57 percent in 1991.

The resultant decline in production, and thus revenues, has hastened the break up of the kombinats. The principal drain on kombinat resources has been the obsolete pre-fabrication plants. One Warsaw kombinat, visited by the team, has moved aggressively to address the inherent problems of the old, state-dominated construction sector. The new "Holdbut" (ex-Wschod) kombinat has undergone structural, as well as a name change. The company recently recruited a new general manager through a competitive search process. The enterprise is in the process of restructuring. Ultimately, it wants to spin off its functional departments (erection, finishings, transportation, etc.) into separate, independent entities. Its goal is to have 65 percent of its share capital in private hands.

It has currently taken the first steps along the road to privatization. Over the next several months, Holdbut plans to restructure into a single proprietorship with participation of the State Treasury. Already management and workers have purchased 20 percent of the assessed value of the company for Zl. 7 billion (US\$700,000) at a preferential price. The major advantage that Holdbut has over Warsaw's other kombinats—which the team understands are also discussing the possibilities of privatization—is that it divested itself of its pre-fab plant a number of years ago. It currently is involved only in construction.

Holdbut's revenues are generated principally from the production of housing, although it is also involved in the construction of other types of buildings such as hospitals. It currently has about 500 employees. Holdbut delivered 400 flats last year worth an estimated Zl. 60 billion (US\$6 million). It has various projects under construction, of which the team visited two located in the northern part of the Praga Polnoc district.

While Holdbut is capable of using any type of building technology, 100 percent of its current contract backlog is based on pre-fab panels. Holdbut purchases the required panels from a factory located near its job sites in Praga Polnoc. The two sites visited by the team had been under construction for a number of years. Frankly, these two projects (4-5 storey multi-family buildings) suffer from all the poor design and construction deficiencies witnessed on pre-fab projects visited in the other four cities.

To the credit of the new management team, Holdbut wants to move away from a total reliance on pre-fab construction. It would like to reintroduce masonry construction with light-weight, pre-fab floor sections on buildings of up to six storeys. On taller buildings up to 11 storeys, it would like to use a cast in-place, reinforced concrete structure with masonry in-fill. For this to be feasible, Poland's construction industry must have easy access to "ready-mix" concrete and modern and reusable formwork.

Warsaw's kombinats are under the administration of the Union Government. There are currently 30 construction-related companies under the direct supervision of the Department of City Development (one of the four departments under Vice-Mayor Dziekonski's tutelage). The mayor of the Union Government appoints the manager of the kombinat and

is responsible for all decisions regarding privatization, liquidation, etc. The state enterprises, however, are responsible for day-to-day operations.

B.1.5 URBAN INFRASTRUCTURE AND SERVICES

Most individual towns in the voivodship of Warsaw have their own systems for infrastructure. The central area of Warsaw has very old networks that date before World War II with most of these needing to be rebuilt. To even attempt to do this will require a great deal of coordination, since gas, power supply and telecommunications are all under the direction of different Ministries. In many cases, the gmina will make final decisions on infrastructure, while the city's Technical Department will act as consultant and coordinator.

B.1.5.1 Roads and Transport

Warsaw's transportation system has been modernized to allow people to reach large housing complexes that have been built on the outskirts of the city. There are now around 1,500 buses, 600 trams, and 22 trolley buses. The public transportation sector employs around 10,000 people. In addition, about one quarter of the taxis in Warsaw are owned and operated by the municipality, while the other three quarters are privately-owned. Prices are the same regardless of the ownership status of the taxis. A north-south subway is also under construction but work has been delayed due to financial difficulties.

B.1.5.2 Water Supply

Warsaw is adequately supplied by piped water that comes from two main sources: the Vistula River running through the center of the city, and the Wieliszewo natural reservoir located to the north. Most water currently is drawn from the Vistula River using two different methods. The 110-year old central water system, which serves the major part of the city, takes surface water from the Vistula River and provides roughly 550,000 m³ of water per day. Another 200,000 m³ of water per day is taken from the water table directly under the Vistula's riverbed that is created by infiltration. Water from this source supplies Praga, or the eastern side of the city. The other major source of water, and one which is planned to become more important in the future, is the Wieliszewo reservoir created by the junction of the Bug and Narew rivers. Because the Wieliszewo source is more recent, it currently supplies a much smaller proportion of the city's water. A second development phase, however, will double this amount. A small amount of underground water from wells makes up from 5 to 6 percent of the city's water supply and is of relatively good quality.

Existing problems in piped water supply relate more to the quality of the water than its quantity. Water from the Vistula is very poor in quality, containing a high degree of salt (roughly half as much as seawater) and bacteria. There has been a general tendency in the past to balance quantities of water from the different sources in order to improve the average quality of water within the system.

Another problem in water supply is that the east side of the river is roughly 30 meters lower in elevation than the west side where the major part of the city is located. This means that pumping stations are required to raise the water piped to the left side of the city. In addition, taking water from the water table under the Vistula riverbed is only a low-capacity solution that serves a small area of the city and has limited future potential. Changes in water purification techniques also are needed that include ozone treatment. The combined result of these deficiencies is that the entire water system needs modernizing.

The city enterprise for Municipal Water Supply and Sewage was founded 110 years ago and now employs around 3,000 workers. Since its beginning, the agency has been responsible for collecting and purifying water, and for sewage evacuation and treatment. There are 200 professional staff members in the enterprise's management department and 700 workers in the 11 separate enterprises under its monitoring and control. Beginning in 1975, the enterprise assumed responsibility for all towns in the voivodship. More recently, however, the agency has been made responsible only for the city of Warsaw. This includes some 2,500 kilometers of water pipe and roughly the same length of sewers.

The central water system, however, continues to cover satellite towns, particularly to the southwest. The remaining satellite towns use underground water, although it is planned that eventually all satellite towns will be supplied from the central system.

The Dutch are providing assistance in water supply management. Additional assistance is needed in managing investments and providing overall financial advice to the enterprise.

B.1.5.3 Sewage Treatment

Water supply and sewage evacuation essentially go together. Plans for the development of these networks are made in accordance with the city's Master Plan.

Until the early 1960s, Warsaw's only sewage system was a 110-year old system built by the English engineer Langley at the same time as the original water supply network. This was a unitary system in which sewage and stormwater drainage were carried through the same pipes and then dumped into the Vistula River through 12 outflows. The ratio of sewage to water was approximately 1-to-1. Urban growth in the 1960s, however, caused this unitary system to become increasingly inadequate. A new separate system, therefore, was established, both for Warsaw and its satellite cities.

Despite these improvements, Warsaw's sewage system today is not in very good shape. There is only one sewage treatment plant for the entire city and this has been in operation for only one year. The new plant employs a two-stage treatment that includes both mechanical and biological processes with a capacity to treat 250,000 m³ per day. This can be expanded in the future to treat 400,000 m³ per day.

The sewage plant however, serves only the eastern side of the river and has several major drawbacks. Because the plant took almost 15 years to build, its technology is no longer up-to-date or even adequate in some of its aspects. The most noticeable manifestation of this inadequacy is the sludge that develops on the surface of the effluent. There is no easy way to dispose of this sludge, and no viable solutions are readily available. In general, there is little local knowledge or experience in dealing with problems of water purification.

An even greater deficiency is that sewage for the main, or western part of the city, is dumped directly into the Vistula without any treatment at all. Two new plants have been planned to address this problem. One will be located to the north where the Vistula exits the built-up area of the city, and the second will be located to the south of the city before the river enters the town. The treatment plant to the south has the highest priority and construction bidding is now under way. It is estimated that this plant, along with major trunk lines, will cost more than \$100 million. The northern plant will be more expensive because it is much larger. The government is actively seeking foreign capital to construct both of these plants. Current advisors have come from Sweden, Australia, and Germany. The Swedes are particularly interested in the pollution aspects of this system because the Vistula drains into the Baltic Sea which is already heavily polluted.

If a private investor or developer wants to develop a project outside the area currently served by the sewage system, he is required to consult with the city enterprise for advice. Once he obtains his site, he then consults with urban planners concerning zoning matters, and with the city enterprise for general directives. When full agreement is reached, the developer can start the detailed designs for infrastructure that incorporate the existing system, establish densities and estimate the costs of development. Once completed, infrastructure systems will be taken over and maintained by the respective enterprises. The gmina council will participate in any decision-making that involves the provision of either trunk lines or secondary infrastructure.

B.1.5.4 Electricity

The city is divided into four electricity or energy zones, with two zones on each side of the river. Those for the western side of the city cover the city center/administrative buildings, and three gminas. Those for the eastern part of the city cover Praga Polnoc and Praga Poludnie with overlaps in some of the smaller administrative boundaries. There are many single-family houses in Praga Poludnie with inadequate infrastructure.

A state-owned enterprise founded by the Ministry of Energy is responsible for the supply and distribution of electricity within the city. All equipment, therefore, belongs to the state and not the city. In addition, Warsaw's electricity enterprise serves only the city itself. This is unlike the situation for the other 32 such enterprises in Poland that generally serve both key cities and their surrounding areas.

The electricity enterprise is basically free to make its own investment decisions and determine where to locate or improve networks, provided that they conform to the basic

outlines of the Master Plan. This may be one reason why over-capacity exists in some areas, while service in other areas remains less than adequate. In most cases, however, there is a genuine effort to provide electricity to areas of new construction and to base investment decisions on reality. All investments are made through the central office, although the eight sub-offices in Warsaw can make proposals to the central office for development projects.

The enterprise not only supplies energy, but is responsible for collecting money and recovering costs. Roughly, 750,000 individual and commercial/industrial users are metered. The electricity enterprise reads not only its own meters, but also those of the gas company. Sub-offices are basically collection centers and do not have financial independence. In addition, the central office also is responsible for the operation, maintenance and investment in the high voltage network. The voivodship directorship is responsible for street lighting.

There are serious environmental issues related to electromagnetic fields created by high-tension lines in Juliana in Praga Poludnie. Because the enterprise's financial situation has deteriorated considerably during the last few months, it also is anticipated that state imposed prices will soon be raised.

B.1.5.5 Central Heating

The central heating system in Warsaw is one of the most extensive heating supply networks in all of Europe. There are currently three heating plants in the city. The Siekierki power plant on the west side of the river supplies that side of the city with both domestic hot water and heating. The Zeran power plant on the eastern side of the river supplies both Praga Poludnie and Praga Polnoc with hot water and heating. The third plant at Kaweczyn, which is still under construction, will supply the city with hot water, heating and energy. These plants use two main fuel types that include fuel oil and coal.

Both hot water and hot water heating are provided through the same pipes. Surface water from the Vistula is used in the system, and there is a high percentage of salt in the water. This provides a very poor quality of water that rapidly corrodes the metal pipes and makes the system difficult to maintain. A continuous cycle is created that includes trying to improve technical quality, eliminate breakdowns and reduce corrosion.

There is also a large deficit in heating, with demand reaching as high as 20 percent more than the full capacity of the system. The temperature in the pipeline is regulated according to the outside temperature and there is no guaranty that heat will be supplied when this temperature drops to below minus twenty degrees centigrade. In order to keep the system operational, there is a need to improve both the performance of heat transmission and the quality of technical maintenance. Very specifically, valves that extend or close off areas need to be improved or replaced. Some new valves, in fact, will be purchased through the World Bank project. There is also a need to develop other sources of hot water that can take over part of the load and increase flexibility within the system.

Another problem concerns extending the system to newly developing areas. In the past, servicing these extensions was coordinated by a single institution and treated in the same way as water supply. The investor would make an application for services, demand would be estimated and approval given if the project met all the criteria. This process could take a few days or, in extreme cases, up to two months. Private contractors would install the connections with inspections carried out by the heating enterprise. Fees would be charged for both inspections and connections. It is anticipated that gminas will play a greater role in this process in the future.

Some areas that have not been serviced include satellite towns that have smaller plants or use individual coal ovens, and the western and northeastern zones of the city that have not been connected to any system.

Separate entities exist for the generation and distribution of heat in Warsaw that operate under different authorities. The heating enterprise, for example, is not involved in the generation of heat but has responsibility for the networks that distribute it. The heating enterprise has some 3,700 employees of which 2,780 are laborers and 920 are administrators and technical experts. In the past, the enterprise also maintained heating plants in satellite towns provided these plants were not also power plants.

The enterprise for heating distribution must buy heat from the power plants just like any other consumer. It then must recover costs from consumers or obtain government subsidies to pay for it. The power plant covers its real costs and is not subsidized. Similar situations exist in most large Polish cities.

A large amount of the heat that is produced goes to cooperative housing units. Payments received for these services, however, are insufficient and often amount to only about 10 percent of the real costs of supplying this heat. The lack of individual metering is one reason that cost recovery for cooperative housing units is so poor. The absence of individual meters also prevents the enterprise from extending credits or discounts for more efficient use of heat. The main reasons that the system is not individually metered is the shortage of meters and high cost of their installation and maintenance.

Apartment units, therefore, are metered only by building. Residents are charged an average rate for heating that is based on the square meter area of the apartment. The rate for domestic hot water is added to this and based on the number of inhabitants. Bills are paid to the cooperative or city, which then pays the enterprise. Single-family housing units are individually metered and consumers pay directly to the enterprise. The same is true for commercial and industrial users. The enterprise then pays the source of energy or power plant.

Roughly 5,000 workers are involved in the construction and maintenance of this network. The system is shut down during a two-week period in the summer for repairs. During this time, no hot water is available.

B.1.5.6 Gas

The gas company for Warsaw serves roughly one quarter of the entire geographic area of Poland. It is responsible for the transport of gas, the maintenance and operation of high-pressure gas lines, and the supply of gas to different towns in the area. It provides services to roughly 1.3 million individual consumers and around 400 large industries. This compares to about 5 million individual consumers and 1,200 industrial users for the entire country. The largest city served by the enterprise is Warsaw with about 600,000 consumers.

Gas has been used in Poland for 135 years and is currently the cheapest form of energy. The Ministry of Gas Works, for example, was established at its current location in 1856 as one of the country's first Ministries. At that time, gas was produced from English coal and used primarily for street lighting in the old city and along streets leading to the royal palace. Gas began to be used in buildings when gas cookers were introduced in the 1880s. Gas was produced by coal until 1970 when the system was converted to natural gas. The conversion period lasted from 1970 until 1978. There are still 150 gas lanterns in touristic areas of the city which are costly to maintain and operate.

Warsaw is supplied only with natural gas that comes from the USSR and enters the town from the east. There is a closed ring of high-pressure gas that circles the town. This is reduced from 55 bars to 4 bars in a middle-pressure ring and piped to reduction centers where it is converted into low-pressure gas. Industrial users receive gas directly from the transport or distribution systems. In terms of volume, this amounts to roughly 40 percent of the gas consumed. Users on the outskirts of the city are supplied with middle-pressure gas and a gas pressure reducer in every building. This approach is most commonly found in single-family housing but also can be applied to apartment buildings. A small structure can be built that reduces gas pressure to 60 m³/hour. The system is put together using welded steel pipes that require special installation.

Almost all consumers have individual gas flow meters, although a small number of apartments have a common meter due to a shortage of meters. In these cases, individual users living in the apartments have to square their own accounts to make a single payment. Yearly consumption per inhabitant is around 140 m³. Inside the city, gas is used only for cooking. Outside the city, it can be used for heating and hot water as well. In these areas, the average consumption can reach as much as 5,000 m³ per year.

Potential consumers of gas submit their applications to the gas office which then verifies technical conditions and the capacity of the system to meet the projected new demand. If the length of the required connecting pipe is more than 15 meters, the consumer generally must install the connecting pipe at his own expense.

The process is similar though somewhat more complicated for potential investors/developers. A potential investor should apply for gas supply connection about two years before actual construction of a project is scheduled to begin. Many of the conditions under which gas will be connected are negotiated between the investor/developer and the gas

enterprise, which is interested primarily in selling gas to more consumers and in providing other money-making services. Arrangements can be made depending on the size of the project and the potential number of consumers. In one case, for example, the gas enterprise supplied between 20 and 30 kilometers of gas line to the city at its own expense. The gas enterprise also may install 200 to 300 kilometers of small diameter pipeline for social purposes per year. This mainly involves housing cooperatives.

The approval process takes about two weeks. This year, the gas enterprise invested about 75 billion zloties compared to 22 billion zloties for the previous year. Part of this increase, however, was due to re-estimation of asset value, and the company actually is investing only about 30 percent more.

B.1.5.7 Solid Waste

The Municipal Enterprise for Refuse Disposal has several responsibilities that include: collecting sewage from areas that are without treatment, turning bio-degradable material into compost, providing light maintenance and cleaning of streets, and winterizing streets including snow removal, salting and sanding. The city of Warsaw has experienced problems in the past with solid waste collection and disposal.

Land fill is the major means of disposing of solid waste and will continue to be used as long as necessary. Because Warsaw's topography is relatively flat, land fill in a few areas has been piled into hills, covered with earth and used for skiing in the winter. A major problem, however, is that relatively close-in disposal sites are no longer available. Currently, the largest land fill area is located 38 kilometers outside the city.

B.1.6 FINANCING AND COST RECOVERY

B.1.6.1 Water Supply

While single-family housing units are metered individually, most cooperative and communal apartments, however, are not. Billings are determined by the size of the apartment and/or the number of inhabitants. All commercial and industrial enterprises are metered.

The cost of water is subsidized by the state for the part not recovered from private individual users. Funds are used to finance repairs and for new investments. A special development fund exists for new investments with 60 percent of the funds coming from private users, 30 percent from industry, and 10 percent from other services.

Rates for water consumption have risen considerably over the past few years even though they are still heavily subsidized. In the early 1980s, the rate was 20 pras per m². This has now increased some 10,000 times to 2500 zloties per m². These price increases have not resulted in any decrease in consumption for individual consumers since the

actual cost of water continues to be quite small given actual levels of consumption. Commercial and industrial users, however, have begun to reduce their consumption because of the higher rates. Commercial and industrial users in the past had not been interested in buying cheaper, lower-quality water since the cost of water was already low. With higher prices, however, there is growing interest in selling lower-quality water to industries.

A water law is still binding concerning the unauthorized tapping into the water system. This law is based on the premise that everyone has the right to water. If unauthorized tapping into the system does occur, the enterprise can take the offender to court for a petty offense. Fines in this case are very small and once paid, the enterprise must legally supply water to the offender.

B.1.6.2 Sewage Treatment

Sewage disposal, like other infrastructure services, has different rates for residential and commercial/industrial consumers. Rates for commercial/industrial consumers are roughly two times those for individual users. Industrial enterprises also have been encouraged to develop closed water circulation systems. Since industrial enterprises have the poorest quality of sewage, the building of local plants is becoming a necessary condition for the development of new factories.

B.1.6.3 Electricity

Prices for electricity are imposed by the Ministry of Finance. These prices do not cover the combined costs of generating and distributing electricity. In fact, the difference in the cost of purchasing electricity and selling it to the consumer is too small to provide any funds for development. Investment costs are comparable to those in the West, while user rates are seven to eight times lower.

In the past year, the enterprise sold 114 billion zloties worth of electricity and purchased an amount worth 95 billion zloties. The difference is only 19 billion zloties, which is barely enough to cover maintenance costs, operating costs, overhead, etc. The enterprise does not pay dividends, and is not charged any income tax because it doesn't make a profit. In addition, no capital allocation charges are paid.

Even though the cost of energy is low, it remains an important consideration in the average family budget. The basic price of electricity for individual users is 230 zloties/kw hour. Apartments with electric heating pay 250 zloties/kw hour per day, and 95 zloties/kw hour per night. Small business users pay 400 zloties/ kw hour, while big businesses pay 400 zloties/kw hour or more depending on the voltage.

The enterprise for electricity distribution, however, has trouble recovering even these small payments, in particular from commercial/industrial users. Enterprises currently owe 70 billion zloties, while individual users owe 69 billion zloties. Under the old system, the enterprise could order banks to transfer payments directly from the accounts of commercial/industrial users. Payments from individual users amounted to only around 30 percent

of total income of the enterprise which meant that problems in recovering these payments did not have a great effect on the enterprise's cashflow.

The law allowing direct deductions from bank accounts, however, has been rescinded and bills now must be presented directly to the user. Pressure to pay is placed primarily on the credibility of large enterprises, which doesn't always work. One industrial user, for example, is 20 billion zloties behind in its payments. The enterprise cannot cut off the supply of electricity to non-paying industrial consumers since this would prevent them from producing goods, leading to a reduction in their incomes and even less likelihood that they would make their payments.

Individual and commercial/industrial users of less than 30 kilowatt-hours settle their bills at the enterprise's sub-offices. There is one sub-office in every administrative district to collect payments and serve customers. The east side of the river has two sub-offices, while the west side has six sub-offices of which three are located in the central area. Bills for users of more than 30 kilowatt-hours for either low- or high-voltage electricity must be paid at the main office.

Individual users are responsible for requesting their own connections. According to the 1964 law on energy, a title or lease to the property must be presented when applying for a connection at a sub-office. Requirements for a connection are described clearly in printed form and available to the public. Payment for the connection depends on the distance between the network and the connection point. For individual users, the enterprise will install up to half a kilometer of cable without charge. For connections requiring cables longer than that, the user must put in the cable himself, have the work inspected by the enterprise, and then formally transfer ownership of the cable and connection to the enterprise. No compensation is paid to the user for the installation, and the enterprise must pay 40 percent of its value to the state as a tax upon taking it over.

B.1.6.4 Central Heating

There is also a difference in rates between commercial/industrial users and private housing consumers of heating. Public users pay the full price of consumption, while individual users receive subsidies from the state that are established by the Ministry of Finance. Subsidies have been provided by the state budget under the stipulation that they benefit individual private users. The current goal, however, is to raise the prices of all urban services in order to reduce state subsidies as quickly as possible. Some enterprises, however, continue to be subsidized by as much as 50 percent. The intention is to reduce these subsidies to 25 percent or less during the next year.

Without state subsidies, however, the heating enterprise will face serious financial problems in resolving differences between consumer prices and the cost of heating from the supplier. Full-cost recovery from all users may not be possible due to discrepancies between salaries/incomes and the actual costs of heating.

95

The heating enterprise is receiving both technical and financial assistance from the World Bank to prepare a master development plan for the heating system and to carry out major improvements. A \$300 million plus World Bank program has been designed to assist Warsaw and other cities in Poland. The enterprise office in Warsaw acts as the counterpart agency for the overall project. An important objective of the World Bank project is to reduce subsidies and establish a market-based approach to the supply of heating.

In the past, the heating enterprise had no influence over heat losses in individual buildings. New regulations have been passed, however, that create standards for admissible heat losses and set limits above which losses will not be tolerated. Improved wall construction and insulation will be needed to meet these standards in new construction. Existing buildings may be provided with a wall treatment capable of reducing their heat losses.

B.1.6.5 Gas

The gas company has ongoing difficulties in attempting to match the prices and tariffs charged to consumers by the enterprise, which are set by the state, with the cost of gas from the USSR, which is negotiated and subject to frequent increases. The enterprise currently pays 1,000 zloties for each cubic meter of gas it buys from USSR. It then charges individual consumers 410 zloties per m³ and industrial users between 700 and 750 zloties per m³. The majority of consumers meet their deadlines in making these payments. When delays do occur, a warning notice is sent and interest charged on any late payments. The enterprise eventually can cut off users, but this has occurred very infrequently in the past (only 30 out of 600,000 consumers).

The difference between the cost of gas and the prices charged to consumers creates a serious deficit for the enterprise that can be resolved only through subsidies or by selling other services. The enterprise currently tries to earn money by providing additional services that include:

- installations for thousands of new consumers each year;
- repair services which has become a marginal activity due to a lack of equipment;
- other fees such as documentation fees; and,
- commissions on gas line construction that include the repair of failures due to activities involved with other infrastructure, eg., installation of the subway, etc.

The World Bank is helping to restructure the organization of the enterprise in order to develop greater financial independence and reduce subsidies. By 1995, for example, consumer prices for gas should reach market levels and the enterprise will be treated as a free market activity. As a result of analyses carried out by World Bank and Polish experts, the gas enterprise has committed itself to restructure its operations on an everyday basis. It now has about 1,400 employees working in Warsaw. Part of the program will focus on increasing gasification while reducing dependence on coal, and improving service to northern Poland. The World Bank has granted the credits and set the terms of the program.

B.1.6.6 Solid Waste Disposal

The city enterprise for dealing with solid wastes is underfinanced. Its job is made even more difficult by the fact that industrial users do not separate waste in any way. Nor is the private sector ready to undertake a major role in working with solid wastes. Some smaller companies, however, have bought trucks and obtained contracts to collect solid waste in a few neighborhoods. From its point of view, the city would welcome greater private sector involvement in solid waste collection and disposal. This includes private sector investment in the construction of additional treatment plants. Currently, the city enterprise is experiencing a shortage in its trucks and equipment.

Plans are now under way to develop a composting plant that will treat roughly a third of Warsaw's garbage by the year 1993. A second composting/incinerator plant is planned for 1994 that will service a large part of the eastern half of the city. Additional plants also are anticipated that will be built and financed from the state or voivodship budgets. Fees paid by residents will cover only a small part of the costs of operating the system. For cooperative and communal housing, these costs are included in the rents and priced by cubic meter of refuse or square meter of apartment.

B.2 GDANSK

B.2.1 INTRODUCTION

B.2.1.1 Demographic and Economic Background

The city of Gdansk encompasses a total land area of some 26,208 hectares (262 km²) and a population in 1990 of approximately 464,600 inhabitants. Gdansk is, in fact, part of a tri-city agglomeration that includes Gdansk, Sopot and Gdynia. These three cities cover an area of around 500 km² and include about 960,000 people. Gdansk, therefore, has roughly half the total area and population of the agglomeration. The voivodship of Gdansk ranks third in population and industry in the country.

Gdansk's most important industries are shipbuilding, petroleum refining, and manufacturing chemicals and fertilizers. Those industries currently are attempting to restructure themselves. Due to their high production costs, the chemical and fertilizer firms have limited prospects for success. The shipyards and refineries should fare better, especially if foreign investment can increase worker productivity. Historically, a wealthy commercial and trading center, Gdansk's prospects might improve with a return to traditional strengths like shipping, marine insurance, commercial banking, and commodity exchange. However, with a similar size and economic structure, neighboring Gdynia is a serious potential rival for the dominant position on Poland's Baltic seacoast.

B.2.1.2 Urban Development and Land Use

The old city of Gdansk and a 19th century expansion immediately to its north-west now comprise the city's commercial center. Much of this part of the city is built on sediment in a low lying area. Expansion to the north is limited by the flood plain of the Baltic Sea, and to the west by the adjacent city of Sopot, a small, summer resort town. New residential development for an estimated 150,000 people therefore, has been planned directly to the south of the old city. This is an area of rolling hills which makes the provision of infrastructure difficult and expensive. The planning decisions to develop this area and initial infrastructure investments were made in the early 1970s.

B.2.1.3 Summary of Housing Characteristics and Levels of Urban Services

Gdansk has a total of some 161,000 housing units. There are approximately 140,000 apartment units, of which 57,600 (or 41 percent) are currently the responsibility of the municipality, 64,000 (or 46 percent) are under the control of cooperatives, 6,600 (or 4.8 percent) are company flats, and 11,400 (or 8.2 percent) are privately owned. Of the total number of apartments, 20,900 or about 15 percent were built prior to 1918.

Recent household statistics for Gdansk show that there are 2.9 persons per family, 3.36 persons per apartment and 1.15 families per apartment. This translates into a current housing deficit of around 15,000 units if the goal of only one family per unit is to be achieved. Estimated population growth until 1995 will be only around 5,000 people or 1,800 households.

Despite the city's rather modest population growth, officials in Gdansk are concerned that the city is lagging behind other Polish cities in the provision of housing. The national average for the production of apartment units, for example, was 5.5 apartment units per 1,000 inhabitants, while that for Gdansk was only 4.9 per 1,000. Local officials also suggested that the annual requirement for new housing should be based on the annual number of marriages, which was 6.5 per 1,000 inhabitants. Based on these calculations, their estimate of the potential housing deficit in the year 2000 will reach 88,000 units if current trends continue.

Last year, 4,731 new housing units were produced in Gdansk. They included 1,612 single-family units and 3,019 apartment units. There are currently 124,000 applicants for new housing registered with some 20 cooperatives. Many of these applicants have been waiting 20 years or more for a small apartment.

The need to queue for an unknown number of years in order to obtain a housing unit has produced both financial and social problems for households. Those whose turn finally comes to receive a new housing unit must be ready to make the move and complete payments for the remaining 80 or 90 percent of the cost of the unit. In the past, these payments had to be made in cash, since credit was not available. Under this system, between 10 and 15 percent of households who were assigned new housing have been unable to make their payments.

Uncertainty is also caused by the fact that projects take a long time to implement. It is not uncommon, for example, for a project to begin more than three years after it has been prepared and approved. Most cooperatives are not professionally run, have no set deadlines, and frequently experience construction schedules that are much slower than planned or anticipated.

Within this context, the city also needs to manage the existing communal housing stock much more effectively. This will begin with the inspection of low-standard flats and their sale to present inhabitants or demolition to make room for the construction of new replacement units. The basic intention is for the city to withdraw from the ownership of apartment buildings and reduce the municipal housing stock to a minimum. Proper rent policies could be established as this change is carried out.

The construction of additional stories on top of existing apartment buildings has been included as one of the main elements in the city's housing development strategy. This should help to reduce the amount of land that needs to be developed. A preliminary list of 162 existing municipal buildings where these additions would be possible has been established. The new apartments to be produced will be relatively high-standard units sold through auction. It is anticipated that about 240 new apartments will be created in 1991 by expanding 20 buildings. The average surface of these units will be 55 m² and their price equal to 1.4 million zloties per square meter. The municipality currently has partners to carry out this project, but needs a credit of some 18.48 billion zloties to put it into operation.

If all of the cooperative housing projects to which land has been assigned in the southern part of the city were implemented in their entirety, they would provide a total of 21,300 housing units or several times the estimated annual housing need for the city.

Problems exist with the use of prefabricated concrete slab technology for multi-story construction on hilly sites. Lightweight building materials, better insulation, etc., are needed to replace the rigid construction approach of this outdated technology. The development of small-scale building material suppliers is necessary to produce these materials.

In terms of the level of urban services, about 97 percent of all apartment units in Gdansk are connected to a piped water supply, more than 92 percent are connected to sewers, and almost 92 percent have gas connections. Central heating is generally available, although not all residential development has been phased with this element of infrastructure. Gas distribution in the city is generally acceptable.

Infrastructure networks throughout the city, however, are old and, in some cases, unusable. The most difficult networks to expand, improve and/or modernize involve sewage disposal and the central heating system. Given the long-term development imperative of the southern area of the city, there is a need to develop new technologies for infrastructure that are more appropriate for the small-scale, private sector approach to the provision of housing. While doing this, concern should also be given to the protection of the natural



environment, energy savings, and health protection. Technical assistance in different infrastructure technologies and management is required.

B.2.2 MUNICIPAL MANAGEMENT AND STRATEGIES FOR DEVELOPMENT

Like the other cities visited during this assignment, the city of Gdansk is trying to avoid servicing or acquiring new land by using existing serviced land to the maximum. A major element of this approach is to build additional floors on existing communal apartment buildings that can support it. The necessary technical evaluation to do this has been completed, and the city already has put together a program for the next several years. Little if any additional assistance is needed.

The municipality also would like to see cooperatives scaled down into smaller, more flexible associations. Four or five people, for example, could undertake their own housing project on city land in areas that require only short infrastructure connections. It is important to keep in mind that even large cooperatives that include several thousand members most often are run by elected members of the cooperatives and not businessmen concerned with making a profit. This has a strong effect on the efficiency at which cooperative housing is produced and reduces or eliminates any inherent advantage in maintaining large cooperatives.

Gdansk also offers a good opportunity to test the idea of well-defined public/private sector relationships dealing with such issues as the future development of Granary Island, an area across the canal from the old city which presents opportunities for public/private mixed use, commercial, and office development.

B.2.3 REGULATORY FRAMEWORK

B.2.3.1 Land Use Planning and Zoning

The planning system in Gdansk is basically similar to that for other large cities in Poland. There is a general, medium-term master development plan, structure plans for larger areas of the city, and detailed plans for specific neighborhoods. Because Gdansk is an international port and part of the tri-city agglomeration, however, there is greater emphasis on regional planning. Indeed, some of the city's problems and their solutions go beyond the competence of the city council, and are better solved at the national level, where all regional plans in Poland are approved. Basic city master plans, however, require approval by the city council.

In general, all of the current plans are far too rigid and lacking in flexibility to enable private sector development to take place in a planned and orderly fashion. The municipality of Gdansk, in particular, needs to develop greater expertise and involvement in developing the content of its planning documents as well as in their implementation. This

- 100

should be done while suppressing any tendency to overplan a local economy that currently ranks third in Poland in terms of its activity.

There currently are 40 qualified planners in the voivodship of Gdansk. Discussions with just a few of these planners have shown that they are intellectually and professionally capable of planning the future development of the city. What is lacking, however, is the necessary exposure to new planning approaches and techniques that can be used to stimulate private sector participation in city development. A series of presentations, workshops and roundtable discussions between local and western planners would be extremely useful in this regard.

Investors follow a project development process that essentially is defined at the national level. The voivodship in the past, and now the municipality, maintains responsibility for approving the siting and detailed land use of the proposed projects. To start, the potential investor presents a rough site plan of the project for review and approval. This is checked against the proposed land use in the area, accessibility to infrastructure and facilities, etc. Each agency involved must sign off on the proposed project. Once it is verified that the project corresponds to existing planning considerations and infrastructure provision, a request is made that a permit be issued.

After the permit is issued, another decision is made based on the actual implementation plan for the project. Once this second approval is given, the developer can initiate measures to acquire use of the land. In the case of land assigned by the state, approval is given to start construction and a deadline set for this to take place. If no construction begins before this date, the assignment of land to a particular investor or cooperative can be reviewed and rescinded. Though this process is very time-consuming, it has been established by national law and cannot be altered by individual municipalities to meet their own requirements. At present, there is little that local authorities can do to improve this process.

Private sector architects and managers working with cooperative projects expressed concern about delays inherent in this project approval process. Particularly difficult for investors was the requirement for preliminary approval on the selection of a location for the project and then consultation with the infrastructure agencies even before preliminary approval at the local level. This must be done before the preparation of general plans for the project and their submittal with applications for construction permits.

This process also has made it risky to acquire land before approvals have been obtained. It is expected that the proposed "housing crisis" legislation will streamline the process. However, it would still be difficult, particularly in view of Gdansk's present development strategy, to obtain serviced land. The need for new off-site infrastructure to support that strategy and the lack of financing for such facilities will continue to be a major constraint.

B.2.4 URBAN LAND

B.2.4.1 Land Markets Characteristics

There is considerable expectation in Gdansk that real estate markets soon will begin to develop. As in other Polish cities, the basic strategy is to increase the number of privately-owned housing units which, in 1980, for example, was only 13 percent of the housing stock. Roughly half the housing units are currently in private ownership, while the other half are government subsidized and under the control of the city, cooperatives and factories. City officials feel that the situation can be improved by creating greater competition on the supply side.

There is little knowledge among city staff and officials about urban land management and/or the development of appropriate policies. This is certainly one area in which technical assistance to the city would be very important. The city of Gdansk also should evaluate the status of infrastructure provision and development in the southern part of the city, and determine ways in which this development can be pursued more efficiently. Reassigning areas of land to investors that are ready to build, encouraging cooperatives to phase and/or group their activities to benefit from existing infrastructure, etc., may all be part of any new approach.

B.2.4.2 Land Tenure and Registration

Three major categories of land ownership are emerging in Gdansk that include state, communal and private ownership. An inventory of state land was initiated in the Fall of 1990 to determine which land would become the property of the city, and which would remain in the possession of the Treasury. It is estimated that some 12,000 single-family housing plots, and 54 factories, eventually will belong to the city. Whether or not any of these properties had previous private owners currently is unknown. The task of developing the inventory has been given to a private company that works under city supervision and is using the ARC-INFO GIS system. The estimated cost of the inventory is 25 billion zloties. The city already has 8 billion zloties for this project and has been promised another 3 billion zloties by the state. There are now 200 people working on the project. Land inventory maps, including the boundaries of city property, should be completed before the end of the year.

The identification of city-owned property is important for the municipality to be able to collect any fees and payments that are due for the use of its land. Roughly 30 percent of public land within the city is occupied and/or used free of charge. A good example is that the city receives payment for only about 10 percent of the land it owns around the harbor. Part of the problem is due to the fact that city maps are considerably out-of-date and the municipality is not fully aware of the status of its property. Developing a computerized land inventory is only part of a larger process leading to an effective land registration and documentation.

Beginning roughly two years ago, people could own buildings on state land while leasing the land from the government through a 99-year, perpetual lease. To obtain such a lease, investors would pay a 25 percent downpayment of the expert valuation of the land, and then make annual payments of roughly 1 percent of its price (i.e., square meter price times its size). As much as 3 percent of the price can be charged for land uses other than residential, based on conditions set by individual gminas or municipalities. Square meter prices are modified each year. The law establishing this formula was passed at the national level and has been generalized throughout the country.

Another new land acquisition law was introduced on December 5, 1990. Prior to this law, private sector investors or developers legally could not buy urban land because most of it was owned by the state and could not be sold. Some privately-owned agricultural lands, however, could be bought and sold. In addition, influential people with perpetual leases could use the land for their private villas virtually forever. Even though apartment units could be sold to individuals, the city maintained ownership of the land by issuing only a leasehold agreement to the cooperative or investor.

B.2.4.3 Availability of Land for Housing

Most of the land in the new residential area to the south of the city's center has been planned and assigned to housing cooperatives for construction. These cooperatives have very different capabilities related to implementing their intended projects and many of them have been assigned more land than they can reasonably develop in the near future. Topographic conditions also make the area difficult to service with infrastructure. The entire approach has led to rather scattered development and the very inefficient provision of infrastructure.

B.2.4.4 Land Acquisition and Prices

Prior to recent changes, the city would expropriate or buy land from private owners and then assign these lands to different housing cooperatives and/or investors. Private owners were obliged to sell their land to the state at very low prices. As of December 5, 1990, investors now can acquire land from private owners and lease government land based on an open bidding process. In the past, land was reserved for the use of larger cooperatives. If no investment took place before a certain date, the government could take the land back, although this did not occur very often. The government also can expropriate land to be used for multi-unit flats. No courts have been established specifically to address land issues. Prices for land are generally now negotiated, with the government trying to obtain land for as cheap a price as possible. If land is to be used for single-family housing, the original owner has the right to obtain a plot.

Expertise in land valuation is very new and there are now only a few people trained to do this. Several successful transactions with cooperatives recently have been carried out with the cooperatives Zagomincka and Jasmin. The price of serviced land is about \$150 per square meter as related to the built-up area of the unit. The price of construction alone is about \$250 per square meter. The total cost of a flat with developed land, therefore, is about \$400/m². It should be remembered that cooperatives have open membership and

that members make deposits until at least 20 percent of the estimated cost of a unit is paid.

Although there is very little experience and knowledge of land prices, private landowners recently have been paid the equivalent of between \$6 and \$15 per square meter for their land. Leaseholds from the state currently run around 22,000 zloties (or equivalent of \$2.5 per square meter per year).

At this time, the city would prefer not to become involved in the purchase of land. The city will be mostly occupied with managing public land falling under its control, and disposing of it for development. It was thought, however, that under the new Land Management legislation, an opportunity may exist for the city to become actively engaged in land market operations. The city expressed interest in exploring the possibility of developing its real estate and benefitting from the appreciation in value. The first group of land appraisers have just completed their courses and the city wants to begin a system to collect and maintain market price data.

B.2.5 URBAN INFRASTRUCTURE AND SERVICES

In general, infrastructure provision in the existing built-up area of the city appears to be satisfactory.

B.2.5.1 Water Supply

The city has three sources of water. Surface water from the Gydinia River serves about one third of the city's needs and is rather poor in quality and taste. Deep wells located to the west and south of the city supply two thirds of the city's water supply. Major supply lines have been connected to these sources based on the proximity of development.

B.2.5.2 Sewage Treatment

Separate drainage systems are in place for sewage and storm water. Some parts of the city continue to have problems of flooding. There is no treatment of sewage and the existing system is seriously overloaded. A new system is now under construction, but unfortunately employs out-of-date technology that includes only the mechanical treatment of sewage. The city currently is installing new sewage collectors to serve the newly-developing southern periphery of the city.

B.2.5.3 Electricity

Electricity comes from local sources and is basically adequate in quantity and distribution to satisfy overall demand. The duration of the current financial crisis, however, will have an impact on the amount of industrial activity that takes place and on the future provision and costs of electricity. Substantial energy sources exist just outside Gdansk.

B.2.5.4 Central Heating

There are four coal-fired heating plants in Gdansk with only two operating effectively. The old, central plant needs to be replaced and construction of the third plant has not been completed. Smaller, older plants cannot be closed until proposed new plants are completed and operational. Central heating plants cause serious air pollution problems throughout the city.

B.2.5.5 Gas

Gas currently is used almost exclusively for cooking. It is supplied to the city from the main gas pipeline from Russia. Given uncertainties in the political and economic situations of both countries, there is serious concern about creating any greater use or demand for gas.

B.2.5.6 Solid Waste

Solid waste removal and the location and maintenance of dumping grounds present the same problems in Gdansk as they do in other Polish cities. This is potentially an area of major environmental concern, and one in which technical assistance would be very beneficial.

B.2.6 CONSTRUCTION OF SERVICED LAND AND HOUSING

Since the 1970s, Gdansk's new residential development has occurred on the city's southern periphery. This new development is taking place on a mix of state and private land. The bulk of the state land has been allocated or promised to a number of cooperatives, which will act as the developer of the land. Most of the private land still has to be purchased. According to the recent amendments to the Land Management Act (October 1990), cooperatives are now obliged to purchase private land on the open market, without the intervention of municipal officials. In total, eight housing cooperatives project the construction of approximately 21,300 dwelling units for this sector of the city.

However, the majority of these cooperative housing estates cannot be completed and handed over due to a lack of off-site infrastructure and internal roads and utilities. The principal components of off-site infrastructure that are lacking include central heating, whose nearest connection point is 1-2 kilometers from the individual housing estates, and a new sewage collector. The Gdansk local government is responsible for financing these off-site works.

Gdansk appears to offer few vacant land parcels within the urbanized fabric of the city to undertake housing projects of an in-fill nature.

Current unfavorable lending terms and conditions available in Poland's housing finance system and the lack of financing for off-site infrastructure at the level of local government have paralyzed Gdansk's public and private construction sector. Of the eight housing cooperatives proposing residential development for the city's southern sector, only the site

allocated to the "Orunia" cooperative has the necessary approvals and off-site infrastructure to be able to proceed with construction.

The "Orunia C" sector, visited by the team, has a 99-year lease for the construction of about 1,000 flats in a series of 4-5 storey multi-family buildings. Three hundred flats are already completed and occupied. Another 300 are under construction.

The cooperative's management organized a competitive bidding process to select the company to carry out the construction. The cooperative ultimately chose to make multiple contract awards in order to minimize risk and to gain access to a range of new building technologies. The criteria for the evaluation and selection of the winning firm(s) were: 1) cost; 2) track record of the builder; and, 3) type of building technology employed.

Initially, eight public and private builders submitted proposals. Out of this group, five firms were selected to participate in the construction. The five winners included three private builders and two state enterprises. The three private firms use traditional concrete block construction, while the state enterprises employ the pre-fabricated panel technology. According to the president of the cooperative, one of the private builders failed due to "a lack of experience that led to financial difficulties".

The voivodship for the Gdansk region identified 503 building enterprises. This total breaks down as follows:

■ Private	133
■ Joint public/private	167
■ Cooperative	110
■ State	93

Of the 93 state construction enterprises, 16 are under the administration of the voivodship, six under ministerial control, and the remaining (71) under the administration of the Gdansk and other gminas.

Of the 16 construction enterprises under the administration of the voivodship, one has been privatized to date. Two others are pending privatization and four have submitted application to be privatized.

The voivodship representative noted that the privatization process is going very slowly in Gdansk for the following reasons:

- Lack of credits to finance privatization (State Development Fund ceased to exist on January 1, 1991);
- Significant upward re-evaluation of state enterprise assets makes purchase less feasible;
- Difficulty in determining ownership of land occupied by state enterprises delays privatization process.

B.3 TORUN

B.3.1 INTRODUCTION

B.3.1.1 Demographic and Economic Background

Torun, home of Copernicus University, is situated some 210 kilometers to the northwest of Warsaw, roughly midway between Gdansk and Lodz. The city had a population of 200,900 in 1990, which is expected to grow at a moderate rate in the near future. The city anticipates a 12.5 percent growth in population from now until 1995, i.e, from around 200,000 to 225,000 inhabitants. The city covers a land area of 11,575 hectares of which some 6,917 hectares, or close to 60 percent of the total area, has been zoned for residential use. An additional 100,000 population could be accommodated if two large military reserves to the north (Soviet) and south (Polish) of the city were also made available for residential development.

The old city of Torun covers an area of 57 hectares and includes about 1,200 buildings that have been identified as having historic significance. These include five buildings that are on the UNESCO World Heritage list. The city is particularly concerned about the rehabilitation of this historic area. A central heating supply is now being installed to replace antiquated, individual plants in order to reduce the adverse effects of air pollution on historic buildings.

A chemical fiber industry, gingerbread bakery, textile and clothing factories, electronics plant, and university are Torun's main employers. Famous throughout Poland, the gingerbread bakery and the university have secure futures. Although they have some financial problems, the textile and clothing factories also are able to manage. In contrast, the chemical fiber and electronics operations are in trouble. The former exported chiefly to the German Federal Republic, while the latter sold most of its production to the Soviet Union. For different reasons, orders from the two countries have declined drastically. It is questionable whether either industry can survive in Torun because the former regime taxed away the profits they needed for modernization. Lying close to the proposed trace for a Gdansk-Budapest superhighway, Torun nevertheless has development potential. It could grow into a regional transportation hub and communications center. Furthermore, the progress it has made in stimulating the growth of small businesses could lead to the emergence of substantial service and construction sectors.

B.3.1.2 Urban Development and Land Use

Torun's historic character and intellectual resources have benefitted the city in charting its growth and development. Municipal authorities currently have rather clear ideas on how the city's physical growth should occur. While expansion of the city was previously planned to take place in an easterly direction, this is no longer the desired solution since much of the land in this area is privately held and borders on industrial areas subject to air pollution. Infrastructure problems related to the provision of water, sewage, and heating facilities also occur in this area.

Alternative development possibilities have now come about due to the abandonment of a former Soviet military reservation situated at the northern edge of the city. This land is scheduled to become available to the municipality. It will present local officials with a unique opportunity to undertake full responsibility for the planning and promotion of new residential development.

B.3.1.3 Housing Characteristics and Levels of Urban Services

There is currently a total of 59,450 apartment units in the city. Roughly 15 percent of these units are communal apartments, 50 percent cooperative housing, 25 percent private housing, and 10 percent belong to companies. About 3,300 units, or 39 percent, of all communal housing units are in need of major repairs or should be replaced. About 7,500 private apartment units, or almost 50 percent of this category, are in the same situation. There is a considerable number of buildings within the old city that could be inhabited or used for commercial purposes following renovation. The demand for new housing and land development in the near future will be determined by both population growth and the need to improve conditions within the existing housing stock.

B.3.2 MUNICIPAL MANAGEMENT AND STRATEGIES FOR DEVELOPMENT

The municipality itself now has the primary responsibility for determining how its future development will take place. At present, there is no voivodship council sitting and the municipal authorities view the revision of the town plan as being within its own competence. The process envisioned calls for three documents covering the basic plan, environmental protection, and technical infrastructure.

City officials indicated that its Department of Technical and Investment Matters would be taking the lead in managing future housing and urban development. This department sees its purpose as engaging a wide range of participants in the development process. The idea is to encourage participation and expertise from outside the department in order to obtain a variety of views. The department would disengage from detailed planning of projects, concentrating more on providing support and promotion to investment in the housing sector. This Department will also be responsible for municipally-controlled infrastructure agencies, as well as other gmina-owned enterprises, including some construction companies. These agencies, e.g., the water company and the heating company, appear anxious to come under ownership and direction of the Torun municipality as it moves toward promoting increased private sector participation and investment in urban development.

The geodesic or land survey department of the municipality is currently involved in managing the city's land inventory. It performs a number of functions that include:

- identifying locations for future investments;
- ensuring that these sites are prepared for the intended investments;
- carrying out an inventory of sites to be sold or leased;

- preparing bid requests and contract documents for the sale or lease of land;
- establishing land price estimates and preparing leaseholds; and,
- selling communal housing units.

Like other Polish cities, the basic strategy of the Torun Municipality is to minimize expenditures for technical infrastructure by concentrating new housing development in areas that are already serviced by primary infrastructure. The municipality also would like to use funds obtained from the sale of land to finance infrastructure and the renovation of municipal buildings. The sale of municipal property would include the competitive sale of land and communal housing stock.

Town officials noted the problems they faced with relocation housing in the case of condemned property, but this was not identified as a critical issue. For new projects, the town officials noted that they could expropriate land for new roads, communal infrastructure, and multi-family dwellings, and they had the right of first refusal in the case of land sales by private holders. But, even with expanded private sector development, the town (rather than investors) has to buy land needed for roads and off-site infrastructure. Thus, even if the investor buys land to be used for roads, for example, it is entitled to reimbursement by the municipality out of its budget.

The municipality is also aggressively promoting infill of existing land within the urban area, working in one case with a foreign joint venture partner and, in other cases, supporting projects sponsored by small cooperatives using private builders or state companies. (The state enterprises, it should be noted, include at least two which appear to be seriously moving toward privatization.)

Single-family housing development is favored by local authorities and zoning for this purpose is not difficult to obtain, although it must be approved by the town council. However, here again, there were no local ordinances governing the subdivision process.

B.3.3 REGULATORY FRAMEWORK

B.3.3.1 Land Use Planning and Zoning

Torun's current master plan has been prepared according to national guidelines and approved by the municipal council. The physical planning component of this plan basically concerns land use. The legal framework and authority of the plan are based on the Act of 1989. Even this relatively recent act, however, is outdated in light of ongoing transformations in the management and development of Polish cities. Previous planning approaches, for example, did not consider the importance of market conditions, nor ways to encourage private sector investment in development. Similar criticism can be made for administrative procedures. The old system, for example, did not allow land use changes to occur very easily, a situation which should be addressed, at least from a legal point of view, in any new system. The degree of independence that medium- and smaller-sized

towns, such as Torun, will have in establishing their own development plans is not yet clear.

Torun's Department of Town Planning has three sub-departments that include: 1) urban planning and architecture; 2) geodesic and land economy; and, 3) the state supervision of planning. The main task of this office is to coordinate the physical development and architecture of the city. The office provides both general approvals and detailed indications for specific users based on local plans. The department also verifies that planned and actual land use correspond, that investments have been completed and are being used, and that any previous problems have been resolved.

It is anticipated that new planning laws will determine the way and form of general development in the future. Although these may continue to include limitations on what may or may not be built in certain areas, greater emphasis will be placed on the possibilities of investment and environmental protection.

This means that the now outdated 1984 plan, which was based on "administrative planning" principles, will be replaced by a new system that includes a more "general planning" document. City authorities recognize that one of their major new challenges is to move away from the notion that the municipality has to directly specify and control the city's development. In light of this, the municipality intends to sell land transferred to it, rather than manage this land through a system of leases. The need to train officials to accomplish this was strongly supported.

Town officials here, as elsewhere, found it difficult to envision how the process of project approval would work under the new system. Under the old system, it was explained, the investor would receive guidelines from the city for the project to be constructed on a certain state-owned site. The investor would enter a "rights and obligations" agreement with the mayor's office stipulating the expectations of each party with regard to the project. The investor would then carry forward his design work, obtain approvals from various authorities dealing with environment, sanitation, and infrastructure matters. At this point, the land would be administratively allocated to the investor.

Under the new system, however, the investor will obtain public lands through auction, a process for which there are as yet no guidelines (other than a requirement that the town council itself approve the sale or long-term lease of gmina property). Furthermore, there is no indication yet how the rights and obligations agreement (including responsibilities for community facilities) with the municipality will be structured under the auction system.

B.3.4 URBAN LAND

B.3.4.1 Land Markets Characteristics

Virtually no private land market has been in operation in Torun since the end of World War II. In order to create and make land markets work more efficiently, city officials have indicated that new tax regulations and an up-to-date land inventory will be needed. They believe that elaborating an effective tax system on serviced land would encourage a relatively quick sale of vacant parcels by their owners.

B.3.4.2 Land Tenure and Registration

Three types of land/property ownership exist as a result of the May 1990 law. These include: state, private and municipality (or gmina) ownership. What makes the situation somewhat complicated, however, is that property ownership can apply separately to buildings and land. Cases of particular concern involve the old city's historic monuments for which there are frequently different owners for the land and buildings.

State and municipal property were given separate status as a result of the May 1990 law. Most land in Torun now belongs to the municipality or to the private sector. Only property related to state enterprises remain in the hands of the state. Municipal property now can be sold or leased for periods of more than three years based on decisions by the municipal council.

In order to establish the legal status and/or ownership of a subdivided property, its title must be included in a registry maintained by a special agency set up to deal with land matters in the Ministry of Justice. There is also a registry kept by the municipality concerning the actual subdivision of the land. The two registries have different purposes and each change related to the property should be included in both registers. Since subdivision plans are approved by the municipality, an affidavit from the municipality is needed to change anything in the registry. Agreements on the sale of land, however, can now be kept in private land offices and do not have to be registered in court.

B.3.4.3 Availability of Land for Housing

A major criteria in determining whether land is suitable for housing is the availability of infrastructure. The city has identified several areas for future residential development based on their proximity to existing trunk infrastructure. It is estimated that a total of 30,450 apartment units could be provided within these areas.

The city also will be able to recover large land areas in the coming years that were used by the Russian and Polish militaries. The Russian military base immediately to its north, for example, provides an area large enough for the construction of some 25,000 to 30,000 apartment units. At least part of the Polish military site to the south of the city may also become available in the future.

Currently, however, the city does not possess any available housing sites that already have infrastructure in place or would be easy to develop. Roughly 80 percent of the city's land already has been allocated to small cooperatives. The performance of these cooperatives has been uneven, with about 10 percent of the allocated land continuing to be vacant.

The remaining tracts of city-owned land are undeveloped and require several years of financing for infrastructure. An estimated 250 billion zloties are needed to service these areas while the city can afford no more than about 20 to 30 billion zloties per year. The city could sell some of the land it has available for housing in areas where there is a mix of private and municipality property.

The city will focus its initial efforts on completing the development of areas already allocated to investors. Special attention also will be paid to infill development between existing housing blocks. The technical feasibility of doing this for specific sites will be confirmed, including an analysis of potential participation by private developers. The municipality is also carrying out an inventory of potential new sites.

The city will attempt to provide smaller sites for auction that can be used by small cooperatives and other private sector housing developers. There also are tracts of land within the existing urbanized area that could be sold at fairly low prices. These include: Osiedle in Southwest Jozefa Street, the third phase of Osiedle Koninchy, Osiedle Kazacka, Osiedle in Paznanska Street, and infill construction throughout the city.

The city council must approve the general land use of an area as well as the subdivision of specific boundaries into individual plots. The smallest plot size for row houses has been set at 180 m². Development between streets can be phased but must be carried out according to approved standards.

City officials do not believe that creating new satellite areas would be effective due to the natural constraints that exist to Torun's spatial expansion. The total population holding capacity of the immediate area defined by a number of physical constraints is estimated to be around 600,000 inhabitants. These constraints include a ring of protective woods and good quality agricultural lands to the north and east, a wooded area and the right-of-way for a major new international highway exist to the east, and a Polish military area to the south.

B.3.4.4 Land Acquisition and Prices

Different regulations exist for acquiring land under each of the three types of ownership: state, private and municipality. Private investors and developers, for example, are now free to buy land from private owners. Only the municipality, however, is responsible for local roads and must acquire land for this purpose. This can be done through simple purchase or by the exchange of land. There also may be cases within the limits of a particular site where the investor is responsible for developing the roads. The

voivodship office has a specialist to determine market prices and assist the municipality in land valuation for the purchase of land for roads.

In selling or leasing land to the private sector, the municipality is constrained by formal procedures relating to public land and buildings. A period of three to four months is needed to prepare for the sale or lease of public land, and two weeks for announcing the auction. The municipality has 38 professionals in the division who deal with land.

Roughly 70 percent of previously owned state land is to be turned over to the municipality. The transfer of these lands is based on administrative decisions by the voivodship and should be completed by the end of the year. Specific information will be required for each piece of land; and, for this reason, it is important to determine the exact status and boundaries of each property. Once the voivodship has reached a decision, it is entered into the registry.

About 20 hectares of land, or between 10 percent and 15 percent of the total area of state land that the municipality can expect to receive, actually has been transferred and registered. The most significant transfer of land may involve military camps around the city that include a total of about 4,000 hectares of land. About 1,600 hectares of this land can be developed for residential purposes.

The transfer of property to the municipality appears to be less of a problem in Torun than elsewhere. Land surveys and documentation would take some time, but the transfers from the voivodship to the municipality were expected to work fairly well. Prospects for purchases of land from private owners was somewhat more problematic, however, involving not only surveys and checking of the registers, but also land valuation and price negotiation. No particular problems were identified in terms of reconciling the town registry records with those of the courts. In any event, as elsewhere, any claims or disputes would be resolved by the courts and the registry would be made to conform with the decision.

The law of December 5, 1990 also included important changes to the way in which government manages its land. Prior to this law, the leasing of government land was regulated by the legal provisions of administrative law. These activities now have been placed within the framework of civil law. This means that the municipality can operate as manager of the entire town while acting as intermediary in the change of land ownership. The municipality of Torun is convinced that it should sell its land and property and concentrate on providing municipal infrastructure.

B.3.5 URBAN INFRASTRUCTURE AND SERVICES

The municipality is responsible for making sure that areas within the city are provided with infrastructure. Particular attention is given to areas identified for housing. The municipality is now responsible for both the supply and distribution of heat, water supply and sewage. Sources that supply these services, however, are undergoing reorganization with the policies of the municipality and local enterprises being coordinated.

The municipality collects and uses information from these local enterprises to assist them in coordinating their investment efforts.

The basic investment process in infrastructure involves identifying areas for future investments based on their land use classification, existing infrastructure conditions, and proximity to trunk infrastructure. The municipality is interested particularly in areas where trunk infrastructure is easy to provide.

Water supply and sewage present the greatest infrastructure constraints to the provision of new housing in Torun.

B.3.5.1 Roads and Transport

Although the municipality would prefer to assume responsibility for all roads within its boundaries, it currently is responsible for only about 30 percent. The municipality, however, is negotiating with the voivodship for jurisdiction over all streets. The road system within the city appears to be adequate. Only one bridge links the two sides of the city that are divided by the Vistula River, however, and this single connection may prove to be inadequate if considerable population growth and expansion occur in the southern part of the city.

B.3.5.2 Water Supply

Seventy percent of the city's water supply comes from an intake and purification plant on the River Desnick located to the northeast of the city. The quality of this source is deteriorating rapidly due to the runoff from nearby agricultural lands. The remaining 30 percent of the city's water supply comes from several deep wells located within the city's boundaries.

There are approximately 700 kilometers of water supply pipes in the city. In the past, the water supply enterprise was responsible for Torun and several smaller municipalities around the city. A number of technical and administrative problems will be created when the city of Torun assumes responsibility for this enterprise. While dividing the enterprise according to municipal boundaries should benefit the city of Torun itself, it will cause serious problems for the surrounding smaller communities. The majority of professional staff, laboratories, and overall organization and management, for example, have been located in Torun which leaves the municipalities outside Torun without the technical staff or equipment to support the supply of water to their communities.

The enterprise for water supply approves individual projects in a similar fashion to that of other infrastructure agencies. Given the heavy reliance on land use planning, there have been few problems in the past. Some districts, however, are not assured of obtaining timely and/or adequate supply of water since water supply has not been geared to the development of specific projects. In some cases, there has been an estimated 5-year delay in water supply for certain areas of existing housing within the city.

Torun's water supply and distribution system requires substantial improvement and expansion given the increasing demand and the poor quality of the River Desnick source. Without these improvements, a water deficit is predicted by the year 1995. The city has commissioned a feasibility study for the installation of additional deep wells to the west of the town to meet the growing need for water. Financing is a problem, as with many proposed capital investments at the local government level.

There are also environmental protection and health issues related to water quality that could be resolved through the establishment of water purification plants. The northern part of town is not adequately served and areas targeted for housing will require substantial investments in water supply. One way to improve cost recovery would be to provide meters to individual apartments.

B.3.5.3 Sewage Treatment

The city has an existing combined sanitary and stormwater sewage system that serves close to 90 percent of all housing units. There is no treatment plant, however, and sewage is dumped directly into the Vistula River. Plans are under way for the construction of a treatment plant in the western part of the city. A new collector is under construction to link currently unserved, as well as undeveloped, areas of the city's northern sector to the proposed treatment plant. One way to help pay for these improvements would be to recover their costs through higher tariffs and prices. Current legislation, however, does not allow the municipality to do this.

B.3.5.4 Electricity

Torun's electricity network serves some 92 percent of all housing units. Electricity is provided from the national grid and supplied to the city through transformers. In the past, almost two thirds of the costs of electricity were subsidized by the state. Only about one third of these costs were paid by consumers. Owners of apartment units are scheduled to pay the full 100 percent of the cost of electricity by 1992.

City administrators feel that a major improvement to the system would be introduced if the Grumbocyn heating plant also produced electricity.

B.3.5.5 Central Heating

Three large heating plants supply Torun and its surrounding communities with centralized heat. These plants belong to two separate business enterprises, one of which is the Meliorex thread factory. The overall system lacks modern equipment, requires better coordination between outputs from different suppliers, and is not flexible enough to change the direction of the flow of heat. It is in serious need of improvement. Plans are under way to control the direction of the heat flow through temperature regulation in the future.

Although 90 percent of the activities of the heating company in 1989 involved the city of Torun itself, it also distributes heat to seven other communities. Based on the results of negotiations with the mayors of these separate communities, the heating enterprise could

belong to the community of Torun as early as July 1, 1991. In this case, it would become the Torun Heating Company. In addition, the company currently is changing its organizational structure in anticipation of privatization. A major uncertainty is whether such a process would be accepted by the employees who might be reluctant to privatize for several reasons, including the potential loss of jobs, lower wages, a more limited social function for the enterprise, reduced employee influence on the activities of the enterprise, etc. If privatization is not accepted by the employees, the heating company can become a joint company with participation of the municipality. In this case, all property of the enterprise would be owned by the municipality. This arrangement would have to be approved by the city council.

The heating company has been cooperating with foreign companies since 1988. A contract was signed, for example, with a Swedish company (ABBA) for the installation of new heating pipes in the old city. This project began in October 1990 and is being financed by the Swedish government. Torun is, in fact, the first Polish town to take advantage of assistance from Sweden. The project will eliminate 200 existing boiler houses and six heating centers located in banks, university buildings and private houses in the old city. Until now, the fumes from these boiler houses have produced a level of air pollution that dramatically accelerated the deterioration of historic masonry. This project should be completed by 1992.

In 1989, the heating company in Torun also was selected by the Ministry of Building as one of the agencies to receive financial assistance from the World Bank. The city master plan for heating has been completed by a French consulting firm, RESEXPORT, and approved by the municipality. The plan was to have been officially accepted in Warsaw in May 1991, and sent to the World Bank in June 1991. Discussions on the loan probably will begin in September or October, with roughly \$7.2 million earmarked for Torun. In 1990, Signal Data also prepared the first project to install new equipment to measure and regulate the temperature, pressure flow, etc. The World Bank project will include the purchase of additional equipment to better regulate and stabilize the system. A 2 percent increase in user fees and tariffs will be applied to help pay for these improvements. In the past, some 85 percent of the cost of heating was subsidized with only 15 percent paid by the end users.

B.3.5.6 Gas

There was very little discussion during the field visit concerning the supply and distribution of gas in Torun. It was not identified as a major constraint to development. Gas is used primarily for cooking and roughly 80 percent of all housing units receive this service. It also may be used for heating in a few single-family houses and small apartment buildings. Funds to expand the gas system are limited.

B.3.5.7 Solid Waste Disposal

Solid waste is disposed at a dump located in the northeastern part of the city. The city does not have an incinerator, although some discussion is now taking place concerning the construction of such a facility and ways to sort and pretreat local garbage in order to make it suitable for burning.

B.3.6 CONSTRUCTION OF SERVICED LAND AND HOUSING

In 1990, there were 1,275 construction companies registered in Torun. This number comprises a mix of state and private enterprises ranging in size from a few to more than 1,000 employees.

With one notable exception, the team failed to identify any private developers of housing, as we know them in the U.S., that put their own capital at risk and invest in the buying and selling of land. Rather, Torun's private construction sector functions primarily as building and infrastructure contractors, carrying out a range of construction projects on a cost-plus basis for private (normally cooperative) and public (often municipal) investors.

The following sections summarize the principal characteristics of the city's state and private construction enterprises.

B.3.6.1 State Enterprises

B.3.6.1.1 Kombinat "Budowlany Torun"

The kombinat "Budowlany Torun" dominates Torun's residential and commercial construction sector. It is the only true kombinat in Torun, in that it integrates various elements of the housing delivery system including planning and design, the production of large pre-fabricated concrete panels, transport and equipment, and the construction of multi-storey building structures. It has been in business for over 40 years and employs more than 1,600 workers. This kombinat has the capacity to produce over 100,000 square meters of panels per year.

Kombinat Budowlany historically relied on sole-source contracts from local cooperatives and other state enterprises to meet its production quotas. Under the economic reforms of 1990, this kombinat will now have to compete with other state construction enterprises and private builders for new contracts. Probably due to a two-year backlog in construction contracts, the senior management of Kombinat Budowlany has not begun to address the harsh economic realities of these recent reforms. For example, senior management has not taken any steps to divest itself of any of its unprofitable elements (pre-fab panel plant) nor has it carried out any discussions regarding possible privatization.

B.3.6.1.2 Other State Construction Enterprises

Torun has several other medium-sized state construction enterprises that include the production of housing and the installation of infrastructure among the services they offer. These state enterprises often have been in business for 20-25 years and employ 200-300 workers.

Unlike the city's large, previously-described kombinat, these smaller state construction enterprises are already positioning themselves to address the realities of a market-driven economy. The majority build exclusively with traditional materials and techniques (brick and block with reinforced concrete floor slabs), which they are able to employ on smaller, in-fill sites. Two of these state enterprises have recently competed successfully for the construction of blocks of cooperative housing in the close-in Rybaki section of the city.

All are interested in privatizing their operations. One plans to be privatized by July 1. The others are discussing privatization options with employees. Employees of a state-owned enterprise are entitled to buy up to 20 percent of the total amount of company shares held by the State Treasury. The privatization efforts of the medium-sized state enterprises are hindered due to a lack of interested investors. Company employees, in particular, are finding it difficult to finance their prescribed share of a proposed privatization scheme, although it is offered on a preferential basis at a 50 percent discount. In the meantime, one of these state enterprises has plans to spin off its profitable transport and equipment department.

B.3.6.2 Private Sector

B.3.6.2.1 Private Builders

Torun is fortunate to have a number of well-organized, small- to medium-sized private builders. They range in size from less than five to more than 100 employees. Four or five of the largest builders produce about 100 units per year.

The team visited several projects being built by private contractors. They were of the mid-rise type (4-6 storeys) located on well-situated in-fill sites. Torun's private builders prefer traditional technology employing brick and cast-in-place reinforced concrete floor slabs. We understand that private builders are also producing single family housing in the form of townhouses. The investors are normally cooperatives that previously obtained land for these projects from the state.

The city's private builders, even the larger ones, have not resorted to formal lines of credit to finance their operations. They prefer, rather, to fund the purchase of materials and equipment from their own cashflows. Most, including the smallest builders, own their own equipment and, in some cases, produce their own building materials (i.e., MARBUT's production of concrete blocks and light structure elements).

Many of the city's private builders got their start in renovation and restoration work in Torun's Old Town. Subsequently, they expanded into the production of building materials and/or into the construction of individual, private homes. The small, private infrastructure contractors often carry out the most difficult or specialized jobs that the state enterprises do not want to, or cannot, handle.

B.3.6.2.2 Private Developers

While in Torun, the team identified one developer with an interest in housing. HANSA Industry, a Polish company with German capital, is proposing a joint-venture with the municipality of Torun to develop a 500-600 unit high-rise project with World Bank financing. The project will be located on an in-fill site in the Sieleniec district of the city. City officials mentioned that the Polish Savings Bank (PKO) will manage the World Bank funds for this project.

The manner in which this public/private joint-venture has been structured, and the way in which the project will be executed, provide interesting insights into the future role of the private sector in the delivery of serviced land and housing in Poland. The first interesting point, from the perspective of the city's future development, is that under the provisions of the recently-amended Land Management Act the city recovered the proposed site from a cooperative(s) that was unable to develop the site within the pre-specific period. The problem apparently originated with the cooperative's inability to finance the on-site and minimal required off-site infrastructure. (The team was told that heating and sewerage lines would have to be brought about one-half kilometer to the site.) The current cost of providing on- and off-site infrastructure is estimated at US\$2.5 and US\$0.5 million, respectively. The HANSA Industry proposal contemplates financing and recovering the cost of both on- and off-site infrastructure. HANSA's financing of the off-site portion of infrastructure is an interesting departure from the team's experience in other Polish cities. It is our understanding that Polish legal codes require local government to finance the installation of off-site infrastructure. A certain percentage of the total cost is then charged to the developer.

HANSA has prepared a concept plan for the scheme that does not envisage the use of large, pre-fabricated panels. Rather, HANSA plans to construct the proposed high-rise structure of traditional brick and reinforced concrete floor slabs. HANSA will play the role of investor and general contractor. It will carry out the site preparation and rough construction itself. It proposes to use private sector sub-contractors for the finish work. HANSA specifically mentioned that it would not use the services of Torun's kombinat nor other state enterprises.

What is a rare occurrence in the context of the Polish housing sector, HANSA has carried out a rudimentary, 1,200 person market survey of the prospective purchasers of the finished units. While the survey did not request information on household incomes, it did identify that, of the 600 respondents, 200 said they could purchase the unit in cash. The remaining 400 indicated that they would need partial financing. HANSA estimates that a

family from the latter group could afford a downpayment of about 20 percent and finance the rest for 20-30 years.

The three joint-venture partners have prepared a memorandum of understanding that establishes the contribution and responsibilities of each party. The project proposal is at a critical stage. A resolution has been prepared for submission to the city council requesting the transfer of the city-owned property to the joint-venture. The resolution was recently read in the council for the first time. Certain questions on "details" were apparently raised. A final vote is pending. It will be interesting to follow up on the outcome of this council decision as an initial indication of the willingness of local government to work with private sector entrepreneurs.

B.3.7 FINANCING AND COST RECOVERY

In taking over many of the responsibilities for urban infrastructure that previously belonged to the state, the municipality has inherited a number of supply and distribution problems in maintaining existing services and/or providing new services for town development. Many of these problems are related to the financial situation of the various enterprises and the high level of state subsidies that previously were provided. Infrastructure subsidies will not continue and it is important that urban services be placed on a self-sustaining basis as quickly and fairly as possible. Within this framework, the legal environment surrounding communal enterprises is changing rapidly. Several of these enterprises soon could be owned, at least in part, by the private sector.

According to local officials, municipal land management is currently in contradiction with laws concerning local taxes. It should be pointed out that the existing tax structure was established by the central government essentially for its own purposes. There are no fiscal mechanisms, for example, that can motivate property transfer in real estate. Nor do land taxes have any connection to the designated use of the area or the value of the existing infrastructure. The amount of the annual local tax for a detached house, for example, is equivalent to the cost of only 10 bottles of beer. From an administrative point of view, there are also too few people to carry out valuations. While it is anticipated that a complete change in taxation will occur in the near future, any introduction of new taxes must be agreed to by 50 percent of the population.

As a result, Torun, like the other municipalities, is facing a budgetary situation which severely curtails its ability to finance infrastructure for new projects. For lack of infrastructure financing, a prime infill site was given up by the enterprise to whom it had been originally allocated, and the municipality has now negotiated the previously mentioned joint venture with a Polish subsidiary of a private joint-venture German company. To make the project work, the partner will provide financing for off-site infrastructure, with the cost of the advance to be recouped through the market sales price. This contradicts information obtained in other cities that indicated that a project could not be charged with such infrastructure costs, even on a cross-subsidy basis.

170

The proposed joint venture project, which now awaits city council approval, is planned to be built and sold to homeowners in stages, with early cash sales and mortgage credit helping to provide working capital.

B.4 SIEDLCE

B.4.1 INTRODUCTION

B.4.1.1 Demographic and Economic Background

The gmina of Siedlce, with a 1990 population of 70,500, was the smallest municipality visited by the team. The city is located 71 kilometers to the east of Warsaw, midway between the capital and the Soviet frontier and serves as the center for a prosperous farming region. It also enjoys a small but promising industrial base. In contrast to other cities visited, much of the land available for housing originally was agricultural land and privately owned.

In the beginning of the 1980s, a decision was made to build the eastern industrial zone. The prospect of steady employment encouraged considerable migration to the city, which caused its population to grow from roughly 40,000 to 70,000 inhabitants over a 10-year period. Siedlce was the only city visited by the survey team that was experiencing such a significant growth in population.

The principal industries in Siedlce include clothing and textiles, light building materials, auto parts, and a foundry. All four industries are undergoing restructuring. The building materials company warrants the most optimism on account of its long-standing Western contacts. Without such contacts, the other enterprises must depend relatively more on their workers' low incomes to finance privatization and modernization. Already, Siedlce has 4,000 un- or under-employed workers. Through its own privatization efforts, the city tries to encourage entrepreneurially-inclined individuals among them to start their own businesses.

The city has 608 shops of which 85 percent (422) are in private hands. There are also 57 state-owned shops, and 57 cooperatives. Schools include 32 daycare centers for 3,000 children, 11 primary schools for 12,000 children, 9 secondary schools for 9,000 students, and 1 college for agriculture that has 7 departments, 400 teachers and 1,500 students.

For the long run, the municipality's proximity to Warsaw definitely is an advantage that lends it development potential for the wholesale and transportation activities of firms doing business in the capital, but not headquartered there. In view of its rural surroundings, Siedlce could become a center for food processing and packaging, too.

B.4.1.2 Urban Development and Land Use

Since the end of World War II, emphasis has been placed on the development of new housing on the edge of the city. The old, city center basically has been neglected and is now badly in need of improvements in its infrastructure. Major deficiencies exist in this part of the city in the provision of adequate water supply, sewers, communal building conditions, architectural aesthetics and health conditions.

B.4.1.3 Housing Characteristics and Levels of Urban Services

There are around 20,900 housing units in Siedlce, with cooperatives controlling 8,800 units or 42 percent of the total housing stock. There are roughly 3,400 communal housing units, or 16 percent of the total, and another 2,200 units of company housing. Finally, there are about 6,500 private apartment units and single-family housing units that make up the remaining 31 percent of the total.

According to the latest estimates, 90 percent of the housing units within the city were supplied with piped water, 83 percent were connected to sewers, 72 percent had heating, 75 percent had hot water, and 56 percent were connected to gas.

The rapid growth of the city and development of the industrial estate, however, have pushed supply requirements for these services beyond existing capacities. The existing heating plants, for example, produce only about 75 percent of the city's needs. Because industrial enterprises have cut back on their heat requirements due to diminishing capacity and higher prices, the situation has not become critical as yet. Nevertheless, bulk supply will have to be increased very soon. Similar problems exist for water supply and sewers. A critical issue facing the city, therefore, relates to the financing of additional bulk supply to meet the needs of new population growth.

B.4.2 MUNICIPAL MANAGEMENT AND STRATEGIES FOR DEVELOPMENT

The organizational structure of the city is similar to other municipalities under the self-government legislation. Because the city is smaller, there are fewer municipal employees and less technical capacity to deal with many key housing issues. Nevertheless, the town's executive body and town council (and the council's committees) are very active and seem to be effectively pursuing sound municipal goals in the sector.

City administration is organized into three divisions coordinated by the mayor. There are six departments. An executive group is involved in the day-to-day management of the city. That is chaired by the mayor and includes the vice-mayor, treasurer and secretary.

The city council serves as the city's legislative body. It has 36 representatives and meets once a month. All but two of the current representatives are men, and roughly two-thirds are members or past members of Solidarity. Seven committees work for the council and meet on a more regular basis. They include committees for:

- budget, investment, economic initiative and industry
- culture, sport and education
- public security and fire protection
- health and social care
- physical planning and environmental protection
- infrastructure
- special supervisory committee

Because these committees are made up of council members, they often rely on outside expertise for professional advice.

Most bills are prepared by management, discussed by committees, and voted upon by the city council. The process is an iterative one. The most important bill is the budget, which can be considered as the major planning work of the city council. Once a year, the council also expresses its opinion on implementing the budget.

Because of its small size, Siedlce is the kind of municipality in which the voidvodship and regional offices play a more important role than in larger cities where many functions relating to real estate development have been fully delegated. Thus, for example, a representative of the voidvodship, who is in charge of supervising the shift to local self-government, actively participated in the team's discussions with the municipality. This had not happened in the other cities that the team visited.

More specifically, Siedlce as yet has not been delegated full authority for project approval. The question of such delegation is under review during a trial period and city officials hope to receive a delegation of authority next year.

In the meantime, the attitude of the town council and executive board was that there were no particular problems in working with the voidvodship. They regarded voidvodship officials as being local people and quite reasonable and easy to deal with.

B.4.3 REGULATORY FRAMEWORK

B.4.3.1 Land Use Planning and Zoning

A master plan exists for Siedlce and basically is being followed. There is not enough staff, however, to modify this plan or to bring it up-to-date. Given Siedlce's moderate size and rapid growth, it may be more important to the city at this time to define and carry out an action oriented program that will address the deterioration of the city's center and promote greater private sector participation in residential development.

City officials, in fact, are revising their own ideas on how planning of the city should be carried out in the future. The previous plan and procedures have been too rigid to implement effectively, and essentially oriented towards multi-family, multi-storied buildings.

-127

The reaction to this public sector approach can be seen in the considerable number of individual housing units that have been built along the road to Warsaw on the western side of the city. City officials feel that lessons can be learned from these experiences and incorporated into a new planning process that will improve access to single-family housing and encourage greater private sector participation in urban development.

City officials also expressed concern about the large number of clearances from outside agencies required in rezoning land from agricultural or industrial uses to residential. The process currently includes a variety of approvals from voidvodship or ministry offices concerned with environmental matters, fire protection, infrastructure services, and so forth.

As noted by the town lawyer, there was no published list of steps and/or requirements for approval of zoning changes. As he put it, it would "take a book to list them all". He also stated, however, that under the proposed housing crisis legislation, required steps would be reduced to only six.

B.4.3.2 Subdivision and Project Approvals

The subdivision process has caused no particular constraint to the encouragement of single-family housing. In addition, small-scale, multi-family housing was being actively promoted, with some apparent success, in pursuing infill and multi-use projects. Land titling and registration was less of a problem in Siedlce than in other communities that were visited because of the large amount of land in private hands.

City officials felt they now had sufficient authority to deal with gmina properties, to decide about acquisition of additional land, enter into joint ventures and manage development effectively. The steps for proceeding with public projects were still not wholly under municipal authority, but this seemed to be more a matter of a need for technical assistance than an imposition of outside authority.

Promoting private development of projects, especially single-family or low-rise multi-family units, appears to be a clear municipal policy. The gmina administration has supported private landowners in their efforts to develop residential projects and plans to sell gmina-owned or acquired land for development by cooperatives.

B.4.4 URBAN LAND

The total area of city includes some 3200 hectares, of which 300 hectares are unusable, 700 hectares are privately owned and developed, 1200 hectares are assigned to cooperatives, and the remaining 1000 hectares are privately owned and basically undeveloped. This means that almost 60 percent of the buildable land within the current city limits is owned by the private sector. This high percentage of privately owned land is due to the fact that the state did not take over large areas of property at the end of World War II.

120

B.4.4.1 Land Markets Characteristics

Siedlce already has a fairly important private sector land market and significant experience in producing single-family housing. Since the city is surrounded by agricultural activity, some of the more traditional farmers, however, may be reluctant to sell their land because of emotional attachments to it. City officials consider that rural people can be more stubborn than they are. Changes in attitudes can be expected to occur, however, as confidence grows and freely functioning land markets develop. Current attitudes and extremely narrow landholdings, however, may make land consolidation difficult for private sector developers during the near future.

B.4.4.2 Land Tenure and Registration

Most of the land to be developed in Siedlce is already under private ownership. The proportion of city-owned property will decrease even further as the city sells its communal housing units to their inhabitants. These units previously belonged to the State Treasury but are now being transferred to the municipality as a result of the September 29, 1990 law. A property inventory is being carried out that will enable the voivodship to take decisions concerning the future status of all government property within the city. Unfortunately, this process requires considerable time and financial support in order to establish separate deeds for each property.

Once the ownership of each apartment building has been clarified, individual units can be sold to their inhabitants or other buyers. Each occupant has the right to buy the apartment at a price determined by the market less any increases due to inflation. The anticipated average price for a 40 square meter unit is 80 million zloties. One particular problem is that inhabitants continue to receive subsidies for heat and water if they do not own the unit in which they live. Once the apartment becomes their own property, however, they must pay the full costs of these services. The city of Siedlce needs to set prices for communal housing units that are fair to all inhabitants and do not discourage the private purchase of these units.

B.4.4.3 Availability of Land for Housing

The survey team was not made aware of any shortage of residential land in Siedlce. The city, in fact, has problems in prioritizing areas where it should support new housing development. New residential areas have been designated to the north of the city for 15,000 inhabitants, to the east for 8,000 inhabitants, and to the west for 20,000 inhabitants. Parts of this western area are now under construction. Other smaller areas also have been planned and approved for residential development. Since most new housing will occur on privately-held land, policies, planning regulations and housing programs should be developed accordingly.

B.4.4.4 Land Acquisition and Prices

The city's land inventory is scheduled to be finished by the end of 1991. When completed, this inventory will be submitted to the technical office of the voivodship for approval. Although state land previously was provided to investor/users on a leasehold basis, it is anticipated that a number of public/private sector partnerships will be created in the future. The city already has prospective investors with land who are interested in participating in the World Bank project.

Despite some optimism mentioned above, a wait and see attitude largely prevails among potential housing developers, and no one as yet has bought land from the private sector to undertake a specific project. Some legal ambiguity also remains concerning the ownership or leasing of more than one housing unit which requires clarification. In addition, the existing rent control law discourages the development of a rental market.

The municipality owns several small lots in the center of the city that have been reserved for community facilities. Some of these plots could be sold to developers and the revenues used to upgrade the infrastructure.

B.4.5 INFRASTRUCTURE AND SERVICES

The municipality is essentially responsible for the production and distribution of heat and energy; communal housing; green areas; municipal roads; and sewage treatment.

B.4.5.1 Water Supply

Water supply comes from wells maintained by a city enterprise. There are 34 wells located in a river valley to the southwest of the city. The original water source dates back to 1936. A second water source in the same area dates from the 1970s. Due to topographic conditions, the eastern part of the city is without water supply or sewers. A new water supply system in the area is under consideration, but this will require deep trenches and, as a result, will be rather expensive. Most investment for water supply in the past has gone to the western side of the city.

B.4.5.2 Sewage Treatment

Siedlce has separate sewer and storm water systems. A sewage treatment plant exists to the north of the city which was built in the 1970s and is now too small to meet the city's needs. Its capacity is around 13,000 cubic meters per day when roughly 25,000 cubic meters per day currently are needed. Sewage treatment also needs to be modernized. The existing plant uses 1950s technology that includes only mechanical treatment and aeration. This should be upgraded to include biological and chemical treatment as well. The eastern part of the city is without sewers. Once again, this area will be expensive to service because of the deep trenches that are required.

B.4.5.3 Electricity

No discussion was made of electricity in Siedlce, which appears to be adequate and well distributed throughout the city.

B.4.5.4 Central Heating

The central heating system is administered by a municipal enterprise and includes two plants. One of these plants has a 115 megawatt capacity and supplies the industrial zone (PDP) and 50 percent of the housing units. The second and older plant, which was the first in Siedlce, has been designed to serve roughly 40,000 inhabitants. This older plant was originally on the edge of town but now is located near the city center because the size of the city has almost doubled over the last ten years. Due to the highly polluting characteristics of this plant, city officials believe it should now be replaced.

B.4.5.5 Gas

Gas supply and distribution within the city appear to be adequate.

B.4.5.6 Solid Waste

The dumping area for solid waste is located 10 kilometers to the north of the city. This land, in fact, belongs to another municipality. The site is almost full and the city is looking for a new one. In order to obtain a new site, 4 billion zloties is needed. Only an amount for .5 billion zloties has been included in the budget. The city can obtain another 1 billion zloties in credits.

B.4.6 CONSTRUCTION OF SERVICED LAND AND HOUSING

Even though relatively small in the hierarchy of Polish cities (1990 population of 70,500), Siedlce has a full complement of public and private construction firms, including an incipient private residential developer. The following sections relate the findings of the team's one-day visit to Siedlce regarding this topic.

B.4.6.1 Public Sector

Our discussions identified six state construction enterprises in Siedlce. The number of employees within these enterprises ranges from 150 to 800. All of these state enterprises are administered by the city government, which in the Polish context is considered the "founding body". However, they view themselves as autonomous, self-financing enterprises. The city only appoints the enterprise's manager and owns the real estate occupied by the enterprise.

City officials indicated that all six state construction enterprises will have to be privatized. One is currently being liquidated. The city administration is of the opinion that the principal source of potential buyers for the companies' assets will come from their present employees, including management. As was mentioned in a previous city assessment, the employees have the option to purchase up to 20 percent of the assets of a state enterprise at a preferential price of 50 percent of assessed value.

As part of its privatization plans, the largest state construction enterprise in Siedlce, with 800 employees, has recently restructured into two major divisions—a construction company and a pre-fabrication plant. In the past, this company had constructed up to 600 flats per year. Under the referenced restructuring, the pre-fab plant will produce concrete panels for the its own use, as well as for sale to other state and private builders.

This state enterprise is considering two different approaches to privatize its activities. One is through a leasing arrangement for its machinery and equipment. The other is through a partnership with the City Treasury.

B.4.6.2 Private Builders

It was estimated that there are approximately 20-30 private construction companies in Siedlce with more than five employees. About 20 of these companies deal strictly with residential construction.

One of the largest private builders has 40 employees, but indicated that it has the capacity to expand to 120 employees, depending on favorable market conditions and the availability of financing. This firm uses primarily traditional (i.e., block and brick construction) building techniques, but also has the capacity to work with large, pre-fabricated systems. This firm is involved in all types of construction, including multi-family housing. Its largest residential project to date has been a 30-unit apartment complex. In addition, it has constructed individual dwelling units, an insurance agency, an office building, the new city bus terminal, the post office headquarters, and the cultural center.

B.4.6.3 Competitive Bidding Process

The city has recently used the competitive bidding process to develop a parcel of land it owns. The first round of bidding attracted nine firms from Siedlce and Warsaw. The initial list of bidders included six private firms and three state enterprises. The list was whittled to three firms for the second round. The winner, a state enterprise from Warsaw that proposed a partnership with the city, was selected on the basis of lowest cost.

B.4.7 PRIVATE DEVELOPERS

Our discussions in Siedlce failed to identify a functioning developer, in the U.S. sense of the word. However, the team did meet with an individual with plans to develop a parcel of land for housing. This individual owns a three-hectare piece of land on the periphery of Siedlce, off the road to Warsaw. The land has been in the family of the prospective developer for a number of years. The individual plans to develop single-family, row houses. The developer stressed that the use of traditional brick and concrete block construction methods will obviate the need for the rental or purchase of expensive, heavy equipment.

The proposed location of the project is zoned for housing in the city's general plan. Major trunk infrastructure is located along the highway on which the proposed site abuts. The

city council is in agreement with the proposed development. The city architect—who generally has opposed the design qualities of private, single-family dwellings in Siedlce—has approved this project with the *proviso* that "it cannot be ugly". This individual plans to begin construction when the country's economic situation improves.

B.5 LODZ

B.5.1 INTRODUCTION

The city of Lodz is the second largest city in Poland with a 1990 population of 851,700. Historically, the city has developed as a textile center, with large factories owned by wealthy industrialists dating from the late 19th century. The city's downtown area still includes mansions built by these factory owners and a large number of well-built, but very run-down and ill-maintained, commercial and residential structures dating from the turn of the century. In addition, Lodz continues to have a strong intellectual and cultural reputation. It is, for example, the center of the Polish film industry and its university and similar institutions are well regarded. The industrial base of the city, however, is in serious decline. Overall employment rates and the income levels of the population are well under the national average.

B.5.1.1 Demographic and Economic Background

The population of Lodz has fluctuated considerably over its history and is now in a period of relative stability. The city's 1990 population was estimated to be 851,700 with an average annual growth of only 1,000 to 2,000 persons. Near-term housing needs, therefore, will depend primarily on meeting the needs of young, economically mobile households and replacing dilapidated housing stock. New housing needs brought about by overall population growth will be relatively modest.

Since the late 1800s, clothing and textiles have been the foundation of Lodz's economy. Foreign competition, lured by other Polish cities through tax incentives, is proving irresistible. As Lodz enterprises in this sector decline, so does the local textile machine industry. Meanwhile, machine tool manufacturing is in a slump because the Soviet Union no longer places large orders. The Lodz factory turning out mechanical watches and clocks probably will close soon. Only the auto parts facility in town continues steady production. As Poland's second largest municipality, Lodz would like to restore banking, insurance, and commerce to the prominence they formerly enjoyed there. In addition, the city is showing good potential as a national and European center for specialized trade fairs.

B.5.1.2 Urban Development and Land Use

The city of Lodz is located on land that is essentially flat. The overall spatial layout of the city, therefore, has been determined primarily by the pattern of its streets. The central area of the city includes small city blocks that were laid out in the 1800s to meet the needs of weavers who then made up the majority of the city's inhabitants. Also

included near the city center, and along its main street, is a substantial number of now under-used and/or abandoned textile factories.

During the 1940s and 1950s, infrastructure was provided for new residential areas along the northwestern, southern and southeastern boundaries of the city. Very little attention was given to the city center during this period because it was considered to be too complicated and difficult to be brought up to acceptable standards. As a result, the city's center now has become one of Lodz's major problem areas.

B.5.1.3 Housing Characteristics and Urban Service Levels

In general, the city is adequately served by infrastructure and there are reserve capacities in the networks for water supply, sewage and solid waste disposal. These reserves are not very big, however; and, if industry expands, they will be used up very quickly. At the same time, heating and electricity continue to be the responsibility of the state and there appear to be few problems with either of these. Even though there is no shortage of heating, the central heating system does not cover the city center and there is a problem related to the construction of a connector in the western part of the city. Gas reserves exist and there is a program of modernization of the gas system in the center of Lodz.

B.5.2 MUNICIPAL MANAGEMENT AND STRATEGIES FOR DEVELOPMENT

The city has a strong and active town council. Council commissions or committees concerned with housing matters have their own outside professional advisors. There appears to be no particular sense of conflict between the city administration and the council at this time. However, given the nature of the political and economic climate, the interaction between city officials and the town council may be particularly important in this city.

For the present, the city seems to be pursuing reasonable development policies, emphasizing flexible approaches in dealing with existing and planned housing projects; emphasizing the need to take advantage of infill opportunities and attempting to assure that projects proceed in tandem with the availability of adequate infrastructure.

The city is also encouraging new forms of cooperative development and is actively encouraging a competitive construction industry, encouraging a return to traditional brick technology in preference to large slab construction. A local building materials state enterprise, which produces heavy slabs for building construction, is seeking joint venture partners to develop and produce new and lighter building materials.

Lodz officials emphasized their belief that investment decisions within the community should be based on sound business plans with the broad participation of private companies. The need for market analysis was especially stressed by municipal officials,

159

specifically to help determine to what extent higher down payments could be required of those awaiting housing.

Even more than elsewhere, financial and economic problems were viewed as the major constraint in Lodz. The city plans to negotiate a joint venture with foreign investors/managers (with the help of a British financial advisor) to create a local municipal bank which could provide needed construction financing. The city's planned equity investment has already been included in its approved budget.

B.5.3 REGULATORY FRAMEWORK

B.5.3.1 Land Use Planning and Zoning

Past land use planning in Lodz, as in other Polish cities, has followed the traditional master planning approach. This includes a hierarchy of plans ranging from a medium-term master plan, structure plans for large areas of the city, and detailed plans for specific neighborhoods. All of these plans, however, lacked the necessary flexibility to deal with the reality of urban growth and development. This is especially true for Lodz, which has only very limited investment potential. The Municipality of Lodz is considering new planning approaches to overcome its lack of resources by stimulating private sector investment in land development and housing.

The master plan of Lodz is approved by the city council and given both starting and ending dates. The end date can be extended by council vote. This has occurred twice for the current plan, which began in 1984 and now extends to 1992. Work on a new plan has started, and the draft plan should be presented for municipal review and approval some time in 1992. The intention of this plan is to provide the municipality with more flexible guidelines for urban development and private sector investments.

This new planning approach should be aligned more closely to the city's needs and investment possibilities. This new plan will be developed by private sector offices under contract to the municipality.

At the same time, formal agreements to change land use classifications in the southern parts of Jozefow, and for the entire areas of Henrykow and Viaczyn, are required if these areas are to develop in the near future. Parts of these areas now under development have been purchased or expropriated, with potential housing investors, mainly cooperatives, having received 150 hectares for future housing to be built after 1990.

Beginning with the end of World War II, land use planning was carried out on the basis that the state had (or would eventually have) ultimate ownership over all urban land. During this period, there was little flexibility concerning the use of the land (eg. whether it would be residential, commercial, industrial, etc.) a situation that was reinforced by the approval process. Potential investors had to obtain a series of approvals from various

state-run infrastructure enterprises before proceeding with their project. The same approval process was followed in virtually all Polish cities.

There was a sense in Lodz, however, that the approval process—both in terms of revisions in planning and zoning, and even in terms of specific technical building plans—was not a particular problem. The leadership of the city's architecture department appeared to be perceptive and progressive. (It is worth noting that the town architect had recently traveled through the U.S. on a study tour arranged by Poland's Foundation in Support of Local Democracy project at Rutgers University.)

Local officials have already worked with investors to change existing plans for high-rise projects to new plans featuring smaller buildings and incorporating better amenities and commercial space which offer the potential for cross subsidization. In one project, it was noted, special approvals had to be obtained at the Ministry level in Warsaw to permit the addition of garage space, apparently because of building code requirements related to fire protection. Although this required a meeting in the capital, the application was quickly approved, causing no major problem in going forward with the project.

B.5.4 LAND

B.5.4.1 Land Markets

The total land area for Lodz is around 294 square kilometers. No formal private sector land markets have been functioning in Lodz since the end of the Second World War. Since that time, housing needs have been satisfied primarily through cooperative-sponsored apartment units. The value of the land in these areas was not particularly important, since ownership of the land remained in the hands of the state. For this reason, very few people have any idea of the real value of residential land.

Active private land markets currently are found on the edge of the city and in areas of traditionally private, agricultural land holdings. Like many cities in the once Russian-controlled part of Poland, these land holdings have been divided over many generations in a way that produces long, narrow strips of land. The disposition of the land, therefore, makes any assembly of properties for larger-scale residential development rather difficult. Without some agreement between landholders, the introduction of roads and other infrastructure elements may become complicated as well.

There is also evidence of a growing market for single-family housing. While there were virtually no single-family houses built in Lodz during the 1950s and 1960s, the 1980s saw an increasing number of people seeking individual housing sites on the edge of the city. The current annual output for individual apartment buildings and single-family housing units is around 2,500 flats and 1,100 houses, or about 50 percent of all new housing construction.

Some 100,000 inhabitants also are enrolled in cooperatives and registered in their books to receive new apartments in the future. Only about 40 percent of these "applicants", or around 13,000 households, however, can be considered to have a real need for new housing. At the same time, the number of households actually willing and able to purchase a new apartment is unknown. In fact, very little is known about effective housing demand throughout the city. The basic assumption, however, is that the current market for small cooperative apartments is dwindling and that greater emphasis in the future will be placed on housing provided by the private sector.

The development of well-functioning land markets in Lodz will be very important to private sector provision of housing and efficient growth of the city. The municipality can play an important role in this process by the way in which it puts its land on the market and provides urban services. Given current financial constraints, the process will begin by focusing on effective management of land areas that already have been serviced.

In addition, the city is supporting two basic approaches: 1) development of areas for single-family housing that do not require major infrastructure; and, 2) the continued development of the most promising multi-family housing projects. In both cases, the size of operations will be scaled down to accommodate smaller developers, private sector building companies, and owner-builder construction for single-family housing. During the last nine months or so, there has been a ground swell of activities to re-establish small-scale residential building industries. Based on these efforts, a private sector housing industry gradually is re-emerging.

One of the first steps in establishing well-functioning land markets is to develop adequate operational procedures for property valuation. Current administration in the municipality is staffed primarily by clerks who could benefit considerably from technical assistance and training in land valuation and management. More strategic thinking is also necessary along with a need to assist the private sector in carrying out market studies and feasibility analyses. Once both public and private sectors in Lodz have a better idea of the value of residential land, arrangements for partnerships in land development can be created.

B.5.4.2 Land Tenure and Registration

During the period of partition prior to World War I, Lodz was in the Russian part of Poland. No cadastral survey was made, although some records of property ownership were kept in a single registry that covered only a small part of the city. During the period between the two World Wars, efforts to expand property registration were only partially successful. There were, for example, no registry books or records that concerned all properties within the city but a number of separate, uncoordinated registries. In addition, maps were based on different scales, measurement techniques and cartographic systems. Several maps, for example, were done by the Germans in response to their own interests. These maps indicated the names of most of the German owners of the buildings in Lodz and currently are being used to identify absentee owners and their potential heirs.

During the communist period, property ownership was not of any particular interest to the city. Sooner or later, all land within the city's boundaries would become property of the state. As a result, there was greater interest in the use of land and city-wide maps were kept showing existing land uses. These maps did not indicate property boundaries nor any trace of earlier private ownership. Now that the land is being returned to previous private owners, pre-World War II maps have become extremely important sources of information.

Roughly 80 percent of tenement housing in the old part of Lodz is considered to have been private property prior to World War II. At the same time, it is estimated that some 40,000 properties soon will belong to the city, although relatively few of these properties actually have been transferred from the state. Of vacant public land zoned for residential use, 195 hectares have been transferred to cooperatives. Most of this land will be leased by the city and many areas remain to be serviced with infrastructure.

The city owns 12,000 apartments. Many families occupying these apartments would like to buy them from the city. Since only 10-15 municipal staff people are working on this matter, some applicants have had to wait more than a year to get an agreement from the municipality. To date, only 3,000 applications have been processed. This is a time-consuming process that could be simplified by selling entire buildings to private investors. The city is not allowed to do this, however, as long as people are living in the building and have the right to purchase their apartment. There is a need to find new, acceptable apartment units for those inhabitants who have the right to refuse to move out of their current housing. Only when the building is condemned, can inhabitants be forced to move out. Since no vacant apartment units exist in Lodz, there is no possibility to vacate sub-standard buildings for necessary renovation or demolition.

During the Communist period, the state could acquire land for very little compensation. With the current return to private-land ownership, everyone is trying to recover their land, claiming they were unjustly compensated in the first place. As yet, no new laws or procedures have been formulated to deal with this situation and the city must work within its current regulatory and administrative framework.

Before May 1990, all state land was owned in the name of the Treasury. In May 1990, however, city ownership of land was established as being separate from that of the state. As a result, much of the land originally owned by the state is being given over to municipalities. Continual changes in the land tenure system, however, make this transfer more difficult than it would appear. First, it must be shown that land use and land ownership boundaries are the same. In many cases, for example, the limits for ownership of the land are quite different than those for its use. Many of these situations can be resolved only by the courts. In addition, a good amount of state land was privately owned before World War II and continues to be listed in the property/land registry as private land. The land, however, has been used by the state for more than 30 years and existing laws are inadequate to resolve these situations. Even the old property registers do not always

clarify the situation since, prior to 1982, property belonging to the state did not have to be included in the registry. In addition, not all legal decisions were noted in the registry.

To briefly summarize, the land registry system in Lodz is in considerable disarray and will require a major effort to bring it up-to-date. New maps are needed that show both the ownership and use of the land based on redefined boundaries and clearly written property descriptions.

In general, all previous existing maps were state-produced maps which meant that individual cities had only very limited information about the status of land within their boundaries. The situation in Lodz was better than in most Polish cities because it was one of the country's three major cities having the status of a voivodship. Still, the most up-to-date maps only indicate land use and not property ownership. In many cases, the registry does not include the present owners of the land nor does it include any distinction between city and state lands. At least for now, responsibility for public land continues to belong to the state.

The municipality's basic strategy is to coordinate information from the different map sources and update data on property ownership as rapidly as possible. This is not an easy task and will require a major effort by the city and its staff. Computerization of the mapping process is essential to the success of this undertaking with the initial focus to be placed on areas where new investments already are foreseen. The city council will confirm the priority of the areas to be considered. The Lands Department of the Municipality has 44 staff members and access to 300 surveyors. Housing and land developers, such as cooperatives, are required to pay for any surveys.

A review of existing maps also showed a remarkable amount of detail. A large number of maps require extensive digitizing and/or scanning. In addition, important decisions will be required concerning priorities for entering data into this system. Technical assistance and training are required for all aspects of computerized land mapping, property registration and facilities management. The ability to superimpose maps in a layered GIS system and apply change detection techniques will be particularly important in reconciling information from different maps.

B.5.4.3 The Availability of Land for Housing

There are 60 cooperatives in Lodz of which 21 are involved with housing. Cooperative societies possess 2,773 buildings having a total of 133,829 apartment units. Only 427 of these units were built prior to World War II. Cooperatives include 140,000 members with 60 percent now living in cooperative-sponsored buildings. Roughly 43,000 adult candidates have paid their full shares to obtain a housing unit (i.e., 20 percent of its estimated cost).

As of 1990, approximately 835 hectares of land had been earmarked as project sites for the ongoing and future construction of some 60,800 apartment units. All of these sites have been granted or promised to investors, for the most part housing cooperatives.

125

These sites can be categorized into three groups: those assigned but without any construction; those assigned and partially built upon; and those whose original projects have been completed but possess additional potential for infill development.

Included in the land earmarked for housing is the ongoing construction of some 15,600 flats on about 210 hectares. An additional 33,000 units have been planned for 470 hectares of unserviced land. To complete the infrastructure networks for these areas would require 26.7 km of water pipes, 21 km of sewer lines, 12.2 km of drainage canals, 8.8 km of heating and hot water pipes, 3.9 km of gas lines and 12 km of roads. The total estimated cost of this infrastructure is 170 billion zloties. The estimated cost to complete the development of only partially serviced areas is 50 billion zloties. Necessary funds to achieve these projects are not available. Construction, therefore, will be delayed until after 1995 in the districts of: Jozefow, Bednarska II, Henrykow, and Wiaczyn. All but Bednarska II involve undeveloped land located on the edge of the city.

Another potential source of land for new housing involves "infill development" in the open areas of existing housing projects. Emphasis will be placed on inserting small apartment buildings or single-family housing units in areas that require little or no demolition. In some cases, dilapidated housing may be torn down and replaced with new units. Such interventions will require a case-by-case approach that may also lead to more generalized changes in land use regulations, etc.

Another potential source of land for housing involves land that is no longer used for industrial or other non-residential purposes. This can even include some little used green areas within the city. Residents of the area, however, must agree to these changes and additional green space must be provided on the periphery of the city.

The legal status of land in the areas already planned for residential development varies considerably. Until recently, for example, the state was involved in land banking and the money it received from the sale or lease of its land could be used to finance new infrastructure. State laws, however, do not allow municipalities to finance infrastructure in the same way. All money gained from the sale of land goes back to the main budget even though the municipality would prefer to use these funds for development. Although municipalities receive some money for infrastructure, this amounts to no more than 10 percent of its needs. The only other alternative is to continue to receive infrastructure subsidies from the state. In the past, the price of land was very low, although this should change dramatically in the future. Last year, for example, the land price was less than 30,000 zloties/m² with land rents less than 1,000 zloties/m²/year.

In summary, the municipality will promote housing construction on serviced, well-located land that already has been identified for housing. Cooperative housing projects that have been designed and are progressing in a satisfactory manner will be completed. Previous allotments of land to housing cooperatives that have not begun construction by a certain date will be reconsidered, and at least some of the land reassigned to private and public

1/2

sector developers who are ready to build. Infill development and densification within existing residential neighborhoods/projects also will be pursued. Completely undeveloped land areas available on the urban periphery of the city will receive a lower priority for development.

The municipality of Lodz needs assistance in identifying potential land for future housing development. New approaches for the installation of roads, infrastructure networks, shopping and service centers, etc., are needed in the development of new residential areas. Land should also be divided into smaller-sized plats for smaller developers.

Once the inventory of state and city land has been completed, the municipality can determine which lands have been assigned to cooperatives and have not been built upon. This will lead to a determination of appropriate deadlines for the start of construction and what actions should be taken in cases where these dates are not maintained.

B.5.4.4 Land Acquisition and Prices

The state has been the principal acquirer of urban land in the past. It possessed all the necessary legal and administrative tools to do so at very minimal cost. Once land was acquired, the state would assign its use to different investors, in most cases, housing cooperatives.

To obtain land, cooperatives would present the basic idea of their project, cite their needs, and indicate the general area in which they would prefer to work. They also would indicate the ownership status of a desired parcel of land if it were not owned by the state, access to basic infrastructure, and the availability of financing. The city architect would review the proposal and give an opinion concerning the degree to which the particular project conformed to city plans. Following a favorable opinion, the state would approve the project and assign a site to the cooperative with a fixed deadline for construction to begin. This process worked as long as the state maintained control of the land. It was in fact, the principal process through which housing cooperatives received land for their projects.

Cooperatives built roughly 89 percent of all new apartments in Lodz during the period between 1981-1989. Regardless of their ability to build and/or phase their projects, these cooperatives received the entire project site for what were generally large-scaled estates. This is true even for sites given out more recently. The number of apartments to be built after 1990 on land already assigned to more than 16 cooperatives is 21,509. Additional land that has been promised to five of these cooperatives is sufficient to build another 27,000 apartments.

Following the December 5, 1990 Law, the process of assigning land to cooperatives is now carried out by bids. The city council must authorize the auction and approve any transfer of land. Different types of land tenure include a normal lease for up to four years, a perpetual lease for up to 99 years, and free-hold. Many cooperatives currently do not have the resources to develop the vast areas of land that have been assigned to them.

It would be advisable, in fact, to verify the use of lands given over to cooperatives to see if they are being developed as proposed. Some of this land could be given to other investors who can guarantee more rapid construction of housing units. Some land can be left to cooperatives, based on what they can reasonably expect to develop in the near future.

Single-family housing is built in designated areas that already are serviced with infrastructure or whose inhabitants will supply the infrastructure themselves. There was a remarkable growth in single-family housing between 1983 and 1988. These houses are constructed mainly by small companies or artisans. There are roughly 10,000 workers included in this category in Lodz.

A major new problem for the municipality involves the acquisition of land for roads and other necessary rights-of-way for infrastructure. Under the new conditions of private land ownership, this land must be purchased from private owners at market prices. Unless new laws and/or procedures are developed to address this issue and ease the financial burden for the municipality, the servicing of residential areas on privately-owned land will be very difficult.

Another question is whether the bid price in the sale or lease of city land is sufficient to obtain land for roads and cover the cost of infrastructure. The city has no experience with this new situation and virtually no financial resources to resolve it. Without effective taxation and cost recovery for infrastructure, there is little hope that the city can generate enough funds to acquire the necessary land for roads. It should be pointed out that most city land is leased. Winning bidders for these leases pay 25 percent of total amount of bid as a downpayment, and then 1-to-3 percent annually over a period of 40-to-99 years. While there is a tax on floor space, this is only a small amount.

The basic strategy of the municipality is to limit its acquisition of land and continue to focus on the development of land that is already serviced and/or in its possession. The municipality would benefit considerably from assistance in developing an overall strategy for land management and acquisition, and new ways of public/private sector cooperation in land development. The effectiveness of this assistance would depend to a great extent on the establishment of a new legal framework that would enable the municipality to use revenues from taxes and fees to finance municipal land acquisition and infrastructure.

B.5.5 INFRASTRUCTURE

Land suitable for development and serviced by primary infrastructure is currently adequate to meet the city's building needs for the next 5 to 7 years. Following the ongoing redistribution of state and local responsibilities, the city now must provide secondary infrastructure (including roads, water supply, electricity and sewage) to the limits of each building site. Once these services have been provided, cooperatives and individual homeowners are responsible for the connections. Water, sewage and telecom-

munications are now the responsibility of the city council. Heating and gas networks continue to be provided by the state.

Land development in Lodz is related directly to the installation of underground pipe networks (eg. water supply, sewers etc.). Some areas in the city have potentially lower infrastructure costs and are considered priority areas for development. These are grouped according to priority and include: 1) Rabienska Street, Kakowska Street, Husarska Street, Jasieniec I and II; 2) Bema Street, Swietlana Street, Sikorskiego Street, Lucji Street; 3) Marianow; 4) Klasztorna Street; 5) Pienista Street.

B.5.5.1 Roads and Transport

The efficiency of the roads in Lodz is very low. This is partially because very few investments have been made in roads over the last 40 years. There are no major ring roads and very little use is made of any existing circular roads. All traffic converges on the city center, which creates a great amount of congestion due to the high density of buildings. Plans have been made to improve the road situation but the proposed improvements are very expensive and only limited investments have been made until now on a rather arbitrary basis.

The high building density in the center of Lodz not only presents problems in modernizing road conditions, but also in coordinating private and commercial transportation. Public transportation includes trams and busses and is generally adequate.

In addition, the city is trying to coordinate its development with the planning of two international freeways that will cross nearby. One of these major roads runs from the north of Poland to Czechoslovakia in the south, while the second crosses Poland from Germany in the west to Russia in the east.

B.5.5.2 Water Supply

Water comes from a reservoir on the Sulejow that is located 36 kilometers away. Most of the city's water supply comes from this source as well as the Pilicia River. Deep wells currently supply 20 percent of the city's water supply and there is a need to establish additional sources of water. Distribution of water within the city itself is generally adequate, although some 250 houses are supplied by water from tankers.

B.5.5.3 Sewage Treatment

Sewage networks are fairly well distributed throughout the city except for an area in its southeastern part. The sewage network in this part of the city is in poor condition and cannot be upgraded or developed easily because of the high density of construction. A major new collector of 13 kilometers in length also is required that would enable an additional 20,000 apartment units to be connected to the system.

Only mechanized sewage treatment is used in Lodz based on 1950's technology. There is no chemical and biological cleaning as yet. The only partially treated effluent is dumped directly into the Vod River causing serious problems of pollution.

The construction of a new sewage treatment system is under way but funds to complete the system are inadequate. The project was originally to be financed in equal parts by the state and the city. An estimated 1,700 billion zloties are needed to complete the project. Construction continues at reduced pace because while funds from the state are available, the city continues to pursue possibilities of obtaining foreign investment for its share.

B.5.5.4 Electricity

The generation and distribution of electricity in Lodz appear to be adequate. There is a need, however, to establish a power grid that connects the four main electrical power plants.

B.5.5.5 Central Heating

Almost 90 percent of the housing subsidies received by the city go to pay for heating. Lodz receives 116,000 billion zloties for housing and uses 110,000 billion zloties to cover the costs of heating and hot water. Central heating presents the only infrastructure problem in the western part of the city. A major connection of roughly 8 kilometers is needed to bring in heat. An additional 7,000 apartment units also could be serviced with a more technically advanced and economical form of heating.

B.5.5.6 Gas

Little mention was made in discussions with city officials of the gas network. It is assumed that this network is adequate and presents no major problems to future urban development.

B.5.5.7 Solid Waste

Lodz produces roughly 1.5 million m³ of solid waste during a year. Of this, 1.0 million m³ comes from residential areas. Following collection, garbage is taken to specially made infill areas outside the city. There is no sorting of garbage and this is one area where the system could be improved significantly. Discussions are being held with foreign companies to provide the necessary assistance to do this.

Solid waste in Lodz currently is handled by a single company belonging to the city. To improve this situation, the municipality is trying to introduce private competition into the provision of urban services by working with several, smaller, private companies. It is intended that these companies sign agreements with the city, coops and private owners to remove solid waste to dumping areas owned by each company. These dumps also could be used by others who, except for the city, would have to pay a fee. Private companies involved in solid waste removal would charge their clients directly to recover costs.

The city intends to finance the establishment of each dump, complete with all necessary equipment. It also will purchase specialized vehicles and trash containers. These will be auctioned off to private companies at a profit to the city. Private participation in the provision of these services is not prevented in any way by existing laws or plans. The current

145

high levels of pollution require that improvement be made in this area very soon. Once the planning department approves the location of the dump, detailed drawings will be made and the approval for bidding procedures requested.

B.5.6 CONSTRUCTION OF SERVICED LAND AND HOUSING

Lodz' position as Poland's second largest city fostered the development of a number of state construction enterprises during the years under a centrally-planned economy. Those state enterprises involved in residential construction focused their activities primarily on the construction of multi-storey blocks of flats. During the 1980s, however, a class of small, private builders began to emerge. These "artisans", as they were often called, provided specialty services to the state enterprises (normally the finishing of pre-fabricated units) and constructed single-family units for individual, private clients. Due to Poland's currently poor economic situation, which local officials claim has affected Lodz more adversely than the country's other major cities, the output of public and private construction companies has decreased dramatically. The following sections briefly summarize the activities of Lodz' public and private construction sector.

B.5.6.1 State Enterprises

The Lodz voivodship currently oversees 35 state construction enterprises. The voivodship plans to hand over 18 to the city of Lodz to administer.

Lodz' state construction enterprises perform a full range of planning, design and construction functions. Several vertically-integrated kombinats are involved in the manufacture and erection of multi-storey, pre-fabricated structures. The largest kombinat-type state enterprises operating within the city include:

- Lodzki Kombinat Budowany - POLNOC;
- Lodzki Kombinat Budowany - WSCHOD;
- Lodzkie Przedsiębiorstwo Budownictwa Ogólnego - POLUDNIE;
- Kombinat Budownictwa Ogólnego - JEDNYKA.

There are also state enterprises with the following specialty functions:

- mechanical, heating, gas, water supply, sewerage and electrical installations and house connections;
- primary heating, water and sewerage installation, plus the construction and paving of roads, streets and parking areas;
- the sale and rental of required construction machinery and equipment.

In addition to the above enterprises, Lodz also has several plants that manufacture pre-fabricated structural elements. These plants can form part of a construction kombinat or operate independently. Operating at full capacity, the city's kombinats and other state construction enterprises are capable of producing about 140,000 square meters of multi-storey, residential construction per annum. The recently privatized Lodz building materials

kombinat, with a capacity of 2,500 flats per year, had an actual production of 1,200 flats in 1990.

It is the voivodship's intention to privatize all 35 state construction enterprises. Two of these enterprises have been privatized to date (Lodz construction and building materials kombinats). Five other construction enterprises will be privatized shortly, as they are awaiting the final signature from the appropriate ministry. The others are at different stages in the documentation process.

B.5.6.2 Private Builders

Lodz' private builder sector still suffers from prior laws limiting the number of employees of a private firm. Until the late 1980s, private companies in Poland could not have more than 15 workers. The private construction industry in Lodz is still dominated by many small firms. Even the larger firms, employing more than 100 workers, got their start as small-scale artisans.

It is instructive to examine how one of Lodz' larger private construction firms expanded from a meager beginning. The firm's current owner started as a craftsman in the early 1980s. Over the decade, he expanded his company to the maximum legal limit of 15 employees. With the reforms of 1987 abolishing size limits on private enterprises, he combined his business with three other firms that had also expanded to the legal 15-employee limit. Today, this amalgamated construction company employs 150 workers. In 1990, the firm grossed US\$1.6 million in revenues. Currently, the firm has four residential projects under construction consisting of about 100 units each.

In general, however, Lodz private builders still perform specialty jobs contracted by individual owners or state-owned institutions and enterprises. There was no evidence that any of Lodz' private builders had as yet taken the decision to branch out as a developer and risk its own capital in the purchase of land and the construction of housing for sale at a profit.

It is anticipated that continuing changes in the legal framework, wide-ranging privatization of state enterprises and a free-market economy will provide incentives for private building contractors to expand in size and financial capacity. The proposed changes in the law governing competitive bidding for projects using state or gmina credits should also open up markets for private firms that until recently were the exclusive domain of state enterprises.

Installation of the city's main infrastructure in the past was the responsibility of the state and not the city. Funds were provided by the state to do this, with the city playing a more passive role in development. As previous subsidies from the state are being reduced or eliminated, Lodz now finds itself responsible for its own infrastructure. Since the city has very limited financial resources, there is now a need to coordinate infrastructure improvements in order to maximize their benefit.

Problems exist, for example, in setting out and building roads on privately-owned land. If someone divides his land into smaller plots, the land that is to be used for streets must be bought by the city. The city has no funds to do this. Even when the city sells its own land, it can add only 50 percent to the price of land for infrastructure. This amount is not enough to finance the actual infrastructure. This formula, however, is based on national law and will take some time and effort to change. In the meantime, cities like Lodz legally are required to supply underground infrastructure for which they do not have any funds.

B.5.7 FINANCING AND COST RECOVERY

Since 1985, users of government-owned land have had to pay approximately 50 percent of the price of land. If infrastructure were supplied at its real cost, this would be 3 to 4 times higher. The city is short of funds to continue the development of new land and is looking for infill residential/development. New financial regulations should enable it to use short-term credits that are transferable on the mortgages of property owners.

The city of Lodz, in fact, is unable to finance even the maintenance of existing infrastructure. In particular, it is restricted from raising rents to recover the full operating costs. Even if such a cost recovery policy did exist, there is no guarantee that residents would be able or willing to pay. This has led to a stalemate in the provision of services and the cost recovery necessary to ensure that the city can continue to provide these services in the future. The city particularly needs assistance in managing its municipal apartments.

In addition, user prices for gas, electricity and heating are all established by the state without any thought to the real cost of these services to the city and/or any differences it must pay. These rates currently cover maintenance costs for water and sewage but not the cost for any new investment. Metering is done by building and not by individual users or apartments because there is only a limited number of metering devices. A division among users was made roughly one year ago that involved charging the full costs of services to those able to pay for them. If the user is unable to pay these rates, a written proposal must be made to receive subsidies.

As an attempt to reflect reality and increase city revenues, the municipality of Lodz already has established different land "values" for specific areas of the city. Each landowner has to pay an annual fee for land which, up to now, was the same for all properties. The city council has approved four levels of fees ranging from a high of 500,000 zloties per square meter to a low of 50,000 zloties per square meter, as the basic bid prices for land. The four levels include: 1) the main street in town; 2) the central part of the city and luxury areas; 3) other residential areas; and, 4) the rest of the city.

112

ANNEX C

SELECTED LIST OF PERSONS CONTACTED DURING MISSION

WARSAW

WARSAW VOIVODSHIP

Mieczyslaw Lesniak	Director, Organization/Personnel
Zygmunt Michalowski	Director, Architecture Department

WARSAW UNION GOVERNMENT

Olgierd Djiekonski	Vice Mayor (Spatial Planning, Architecture)
Leokodia Rymkiewicz	Vice Mayor (Social Affairs)
Wojciech Wojtysiak	Vice Mayor (Infrastructure)
Stanislaw Niewiadomski	Administrative Secretary
Zygmunt Krolak	Director, Department of City Development
Lech Kordowicz	City Architect
Wojciech Matusik	Director, Department of Spatial Planning
Yolanda Lalala	Deputy Director, Department of Spatial Planning
Jan Jakobsche	Director, Economic Development
Leszek Kaczynski	Alderman
Jerzy Zass	Alderman

WARSAW GMINA GOVERNMENTS

Bogdan Soporowski	Mayor, Praga-Polnoc District
Janusz Janik	Vice Mayor, Praga-Polnoc District
Lech Krolkowski	Mayor, Mokotow District

OTHER WARSAW

Boleslaw Kochowicz	Director, Capital Management for City Development (ex Warsaw City Department)
Laslaw Konecki	Engineer, Capital Management for City Development
Tadeusz Pilarski	Chief, Social/Economic Planning, Town Planning Office (ex-Warsaw City Department)
Jacek Bobinski	Chief Planner, Town Planning Office
Krzysztof Zieba	Director, Warsaw Power Company
Artur Bolimowski	President Klub "200" Cooperative
Janusz Krukowski	Advisor to Klub "200" Cooperative
Kazimierz Mackiewicz	President, Ochota Cooperative
Krzysztof Czerniawski	Director, Warsaw-Wschod Kombinat
Antoni Podniesinski	Managing Director, INTERCAM Co. Ltd. (Residential/Commercial Developer)

GDANSK

GDANSK VOIVODSHIP GOVERNMENT

Henryk Cwiklinski Director

GDANSK GMINA GOVERNMENT

Jacek Starosciak Mayor
Ryszard Gruda Vice Mayor (Spatial Planning/Architecture)
Marek Piskorski Director, Department of City Development
Jan Szczygielski Director, Land Department
Wieslaw Jablonski Chief Planner

OTHER GDANSK

Roman Gakedek Director, Zakonieczyn Cooperative
Tadeusz Dorobek President, Orunia Cooperative
Zbigniew Losicki President, Organization of Polish Engineers (Gdansk Chapter)
Ryszard Brialy Architect/Private Builder
Piotr Rutkowski Architect/Developer of World Bank Project
Miroslaw Hryniewicz Architect/Developer of World Bank Project
Katarzyna Rutkowski Director, The Granary Island Agency (Non-Profit Economic Development Foundation)

TORUN

TORUN GMINA GOVERNMENT

Jerzy Wieczorek Mayor
Henryk Szubski Vice Mayor (Spatial Planning/Architecture)
Jan Adamiak President, City Council
Adam Wincek Director, Architectural Department
Jerzy Gabor Director, Land Department
Ewa Lozinska Director, Foreign Investment
Ryszard Dargiel Director, Engineering Department
Boguslaw Polcyn Assistant Director of Production, Water and Sewerage Authority

OTHER TORUN

Zbigniew Grzemski Director, State Power Company
Wojciech Kolomyjski Director, Meliorex (Engineering and Construction Company)
Witold Przybylski Director, Torun Budowlany Kombinat (State Construction Company)
Andrzej Marchlik Electrical Contractor
Marian Bartosinski Director, Marbud Construction Company

Adam Stando	Director, Marbud Construction Company
Marek Zdrojewski	Small Contractor
Zbigniew Jazwinski	President, HANSA Industry (Developer of World Bank Project)
Wieslaw Mancewicz	Director, Communal Building Enterprise (public)
Roch Kielpinski	Director, Rural Building Enterprise (public)

LODZ

LODZ GMINA GOVERNMENT

Jerzy Lutomski	Vice Mayor (Spatial Planning/Architecture)
Andrzej Nowakowski	Director, Land Department
Marek Socha	Director, Foreign Investment Office
Piotr Bilinski	Director, Architectural Department

OTHER LODZ

Jerzy Drakkiewicz	Vice President, Building Materials Company
Boguslaw Sieradzki	Director, Kombinat "Wschod" (State Construction Enterprise)
Grzegorz Hajnysz	President, Housing Construction Company
Wlodzimierz Ogradowczyk	Director, Building Materials Company (semi-public)

ANNEX D

BIBLIOGRAPHY

- Government of Poland. 1990. "Local Self-Government Act." Rzeczpospolita No.69. Warsaw.
- Housing Finance Project Office. 1990. "Guidelines for Preparing Local Housing Strategies." Warsaw.
- _____. 1991. "Housing Finance Project Operations Manual." Warsaw.
- _____. 1990. "Instructions for Project Descriptions." Warsaw.
- _____. 1991. "Project Profiles."
- Hresko, Philip. 1991. "Poland Housing, An Investigative Report: Housing and Building Material Manufacturing Facilities in Poland." Report on tour sponsored by the International Masonry Institute. Boston, Massachusetts.
- McKellar, James. 1991. "Real Estate Training—Poland". Paper prepared for AID's Regional Housing and Urban Development Office. Cambridge, Massachusetts.
- Municipality of Torun. 1990. "Overview of Municipality of Torun and its Housing Situation." Torun.
- Municipality of Gdansk. 1990. "Strategy and Directions of Housing Development in Gdansk 1991-1995." Gdansk.
- Municipality of Lodz. 1990. "Strategic Plan of Housing in the City of Lodz for the Years 1991-1995." Lodz.
- PADCO, Inc. 1991 "Final Report, June 1991 Training Program, Poland Housing Finance Project, Team 2". Report prepared for AID's Regional Housing and Urban Development Office. Washington, DC.
- _____. 1991. "Poland, Advisory Services to Housing Finance Project Office". Report prepared for AID's Regional Housing and Urban Development Office. Washington, DC.
- Prud'homme, Remy. 1990. "The Rise of Local Governments in Poland." Report prepared for A World Bank Mission. Institut d'Urbanisme de Paris. Universite Paris. Paris.

2, Annex D

U.S. Agency for International Development. "Strategy for Assistance in Housing in Eastern Europe." Office of Housing and Urban Programs. Washington, DC.

_____. 1990. "Transformation of the Housing Sector in Poland and Hungary." Working Paper, Office of Housing and Urban Programs. Washington, DC.

_____. 1990. "Report on Technical Assistance to the City of Slupsk, Poland." Working Paper, Office of Housing and Urban Programs. Washington, DC.

World Bank. 1991. "Housing Reform in Socialist Economies." Bertrand Renaud. Washington, DC.

_____. 1990. "Poland: A Strategy for the Housing Sector." Joint World Bank-Polish Task Force on Housing. Washington, DC.