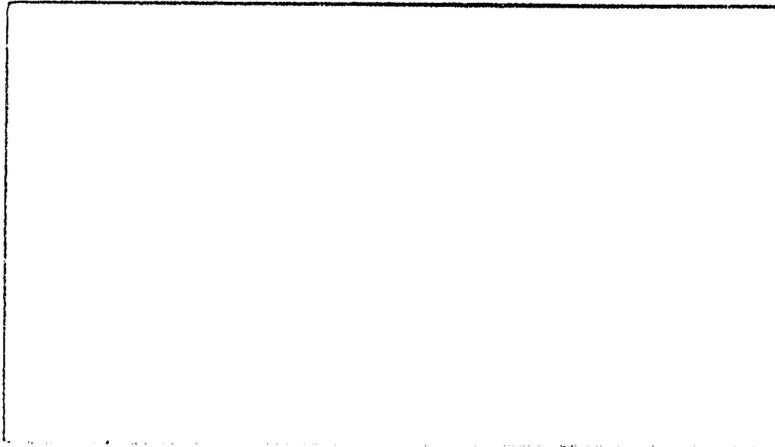


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Central and Eastern Europe Local Government and Housing Privatization



Prepared for the Office of Housing and Urban Programs
Agency for International Development



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**ASSISTANCE IN
URBAN PLANNING AND DEVELOPMENT
FOR THE CITY OF WARSAW**

POLAND

FEBRUARY 1993

**Prepared for the Office of Housing and Urban Programs
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**

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**INTERNATIONAL CITY/COUNTY MANAGEMENT ASSOCIATION
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ABSTRACT

The Office of Housing and Urban Programs of the U.S. Agency for International Development sent a mission to Warsaw to identify possible technical assistance needs related to urban development planning, public real estate development, economic strategic planning, and municipal financing. This report summarizes the missions's assessment of Warsaw's urban development problems and opportunities and technical assistance needs.

The mission proposes a technical assistance program to help the City of Warsaw better accommodate future urban economic development. A central element of the proposal is the preparation of an overall urban economic development strategy which identifies and prioritizes key urban development projects. The mission also proposes providing support to the City to facilitate the successful implementation of specific urban development projects. While technical assistance would be targeted on the City of Warsaw, it would, to the fullest extent possible, draw in the participation of constituent gminas so that cooperative relationships can be built between the City and the gminas.

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**ASSISTANCE IN URBAN PLANNING AND DEVELOPMENT
FOR THE CITY OF WARSAW**

REPORT OF FIELD MISSION TO WARSAW

DECEMBER 10-18, 1992

I. SUMMARY OF MISSION

At the request of the Vice Mayor of Warsaw, the Office of Housing and Urban Programs of the United States Agency for International Development (USAID) sent a mission to Warsaw to identify possible technical assistance needs related to urban development planning, public real estate development, economic strategic planning, and municipal financing related to the development of an industrial and business park located in Southern Warsaw. The mission team consisted of David Dowall and Maris Mikelsons. From December 10 to 18, team members met with over a dozen decision-makers, planners and technical staff from the City of Warsaw, and other local governments, and lawyers, private real estate experts, and other professionals. Annex 1 lists persons contacted. The mission's activities were coordinated by Mr. Wojciech Matusiak, Director of the Land Development Department. Dr. Barbara Sakowska-Knapp served as the principal counterpart for coordination, and the team is grateful for her assistance. We would also like to thank Ms. Agata Litonska of USAID, Warsaw for providing logistical support to the mission.

The scope of discussions was wide-ranging, focusing on strategic planning for economic development and industrial development pertaining to the development of a 17 square kilometer area in southern Warsaw, around the Warsaw International Airport. Throughout the interviews, the mission attempted to identify critical problem areas and opportunities for technical assistance.

Based on these discussions, a review of sector studies and our experience in other transition economies, we have identified a range of possible technical assistance and capacity building activities which the Office of Housing and Urban Programs of the U.S. Agency for International Development could propose to the Warsaw Municipality. The scope of the proposal extends beyond the South Warsaw Airport Project. We have broadened the range of recommended initiatives to help the City of Warsaw shape an overall economic development strategy as well as assist it to promote new urban development in the South Warsaw Airport Project area. The proposed technical assistance program includes eight activities which together respond to the City of Warsaw's request for technical assistance and provide a logical and integrated program which is likely to facilitate the economic and spatial development of the City and improve the productivity of its economy. The activities include:

1) assess the future economic development potential of the Warsaw economy, identify the leading sectors of economic expansion and estimate annual demand for industrial, office and retail facilities;

2) identify the critical location requirements of international corporations seeking production and distribution centers in Central and Eastern Europe and gauge the relative attractiveness of Warsaw over other regional centers;

3) prepare an overall economic development strategy for vitalizing and promoting economic activities in the City's industrial, commercial and residential areas which is based on comprehensive economic and market studies; an assessment of the City's infrastructure systems and a realistic capital budgeting program for modernizing and expanding them;

4) introduce new institutional and analytical methods for conducting public-private real estate development including options for multi-participant organizational structure, management and financial participation;

5) provide advice on international land use planning and design standards and practices for industrial, trade and business park development;

6) identify feasible and appropriate forms of land control and management for public real estate development, including compulsory land acquisition, zoning and specific plans;

7) facilitate the development and self-financing of infrastructure and major public investments by providing technical assistance on new methods of infrastructure financing including: special assessment districts, tax increment financing, land readjustment, developer exactions, and local and municipal financing and cost recovery; and

8) provide training in urban economic analysis, market research and project feasibility analysis for real estate development, techniques of public-private real estate development, and modern municipal finance practices, including project preparation and appraisal, financial feasibility analysis and methods of cost-recovery.

As is fully described in the sections below, these activities are designed to provide the City with a range of collaborative assistance activities ranging from macroeconomic assessments of the demand for urban development to the introduction of project specific analytical tools. The proposed technical assistance will provide the City with a sound foundation on which to plan future urban development as well as help it to properly identify critical projects necessary to promote economic development. Central to the work is the preparation of an overall urban economic development strategy which identifies and prioritizes key projects, and designs realistic methods for financing such

projects. The proposed technical assistance program will also provide support to the City to facilitate the successful implementation of specific urban development projects. Figure 1 illustrates the overall structure and sequence of the proposed technical assistance program: macro-level economic and market assessments, the preparation of an urban economic development strategy, assessments of infrastructure requirements to support the strategy, the identification of strategic areas for urban economic development and provision of technical support to specific urban development projects. While the proposed technical assistance would be targeted on the City of Warsaw, it would, to the fullest extent possible, draw in the participation of constituent gminas so that cooperative relationships can be built between the City and the gminas.

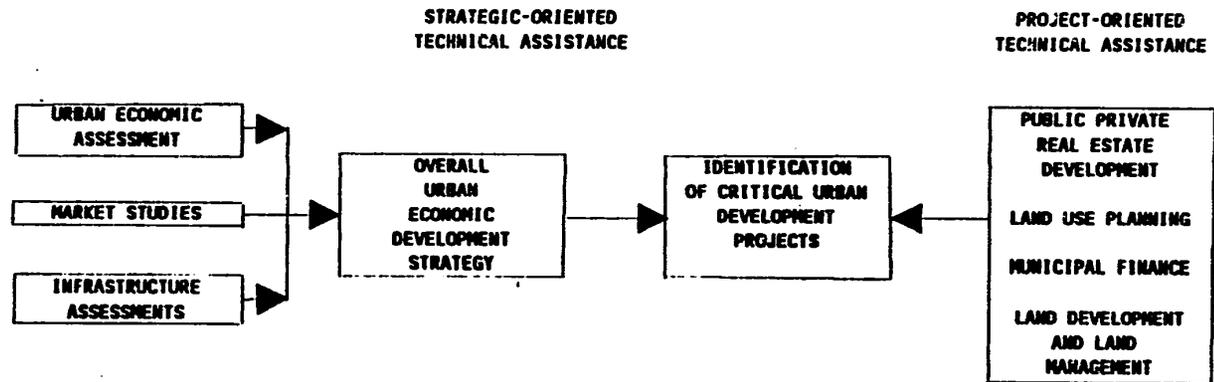
Before leaving Warsaw, the team presented a broad outline of the proposed program to the City and received a general positive response. It was agreed that this report would be made available to the Municipality (first in English and then a translated version in Polish). After a review of the report in Washington and Warsaw, by USAID staff, discussions would be held with the Municipality with the intent of preparing a memorandum of understanding describing the scope and schedule of cooperation and the roles and responsibilities of USAID and the Municipality.

This report outlines the results of the team's assessment of technical assistance needs of the Municipality of Warsaw. Section II highlights Warsaw's urban development challenges and opportunities. Section III summarizes Poland's current macroeconomic climate, its ongoing economic reforms and describes how they are likely to influence the future urban development of Warsaw. Section IV reviews the evolving institutional structure of government and property rights and outlines how they shape urban economic development opportunities. Section V assesses current infrastructure needs and the ability of Warsaw's municipal finance system to support modernization and expansion requirements. Section VI reviews Warsaw's urban planning system and discusses how it can be adapted to the demands of a market-oriented urban economy. Section VII describes the South Warsaw Airport Project. Section VIII outlines a detailed set of recommendations for technical assistance activities.

II. URBAN DEVELOPMENT ISSUES AND OPPORTUNITIES

Warsaw serves as Poland's major center of economic activity. Its economic hinterland is vast, Poland alone has a population of 39 million, making it the seventh largest country in Europe. In addition, Poland has historically served as a trading bridge between Western Europe and the former Soviet Union, and as the NIS restructures, east-west trading flows will expand, creating a significant economic opportunity for Warsaw. Entry into the European Community will likewise create opportunities for economic expansion and trade. Consensus macroeconomic economic

FIGURE 1



projections suggest that 1993 will be a turning point in the Polish economy, and economic growth will turn positive for the first time since the massive economic and social reforms were launched in the late 1980s. The extent to which Warsaw can capitalize on emerging economic opportunities largely depends on its ability to mobilize and efficiently utilize its scarce resources to modernize its economic base. This will require major improvements to the City's urban infrastructure and land use patterns: modernization of its transportation systems, upgrading its telecommunication systems, increasing the supply of modern warehouse and industrial estates and office buildings, improving the quality of its housing stock and increasing the quality and skill level of its labor force.

These challenges are enormous but not insurmountable. Successfully positioning Warsaw requires a careful and realistic assessment of the City's economic strengths and weaknesses and its competitive advantages compared to cities in other transition economies. The City must also identify and prioritize the critical capital investment projects needed to enhance its competitive position. The City needs to design and implement new initiatives to modify the current structure and process of urban development planning, project finance and urban management. First and foremost, urban planning and master planning reforms must continue to place even more emphasis on economic development. Planning programs and activities should focus on increasing the economic productivity and attractiveness of the City as a place in which to do business. The City needs to aggressively position itself as a major regional center of economic activity in a new unified Europe and as a bridge to a vast market centered in the Baltics and the NIS. New approaches to infrastructure finance are needed, especially ones which recover capital and operating costs from beneficiaries. Warsaw's complex and confusing system of administration must be streamlined and the division of responsibilities between the City and gminas should be clearly delineated. Property rights need further clarification as well, so that foreign businesses are willing to invest in the City.

Based on these assessments, the City should prepare an overall economic development strategy for attracting international capital, enterprises and businesses, and which identifies what new public and private investment programs are needed to accomplish this task. Beyond setting concrete urban development objectives, the strategy should also include a detailed implementation program covering: municipal finance; intergovernmental roles, responsibilities and relationships for the City and the gminas related to public-private real estate development and the planning and development control of new projects. The next section reviews economic trends and conditions.

III. MACROECONOMIC CLIMATE AND IMPLICATIONS FOR WARSAW

The consensus opinion of macroeconomic forecasters is that 1993 will be a turning point for the Polish economy. Growth forecasts indicate that economic activity will increase over the year and that, inflation will continue to moderate. Thus 1993 will be an important transition year, and it should usher in an increase in foreign direct investment and business activity. The implications for Warsaw are profound-- the demand for land and property should increase significantly. This section reviews recent trends in the Polish economy and outlines their implications for the Warsaw.

Recent Economic Trends and Developments

The legacy of Poland's command system of resource allocation has left deep and lasting scars on the economy. During the 1980s price levels increased six-fold and the external debt burden of the country mushroomed to almost 40 billion dollars. In 1989, when the new market-orientated government took over, it inherited a run-down economic system dominated by aging monolithic enterprises, poor road and communications infrastructure, a weak though still private agricultural sector, and a financial sector wrought with inefficiencies. Government policies of the previous decade had left Poland virtually bankrupt and poor, with a per capita Gross Domestic Product (GDP) of only 1,860 US dollars in 1988 [World Bank, 1989].

New economic policies were needed in order to create and expand markets and give life to the economy. The first task of the Solidarity-led government was to control accelerating inflation while putting together a recovery program that conformed to the International Monetary Fund's (IMF) criteria. A new economic plan was sanctioned and named after the finance minister, Balcerowicz. His plan to revive the economy relied on Western financial aid and gave a short two- to three-year time period for the transformation of the economy to a Western-type system where markets dominate the allocation of resources and prices are determined by supply and demand. Thus Poland chose short term economic "shock therapy" to restructure and stimulate its economy.

During 1990, stabilization of the economy became the primary goal of government policy. New policies were introduced and these centered on financial reform including: devaluation of the Polish zloty, continued liberalization of prices, restructuring of external debt, and trade promotion with the West. Another key economic measure the government committed itself to was privatization. After a slow start in 1991, privatization and the attraction of foreign capital became one of the government's primary goals heading into 1992.

As a first measure leading toward economic stabilization, the zloty was devalued. The Polish zloty had never been freely

convertible on the money exchanges, with multiple exchange rates applied to different sectors of the economy. Starting in 1990, the government devalued the zloty by 32 percent and concurrently, made the zloty internally convertible. This action helped to better define international transactions, do away with currency trading on the black market, and stabilize the economy by lowering the inflation rate. Moreover, this policy contributed towards financial security since now, companies operating in Poland could have free access to foreign currency to finance imports and repatriate profits.

Another pressing problem for the new government was the amount of external debt accrued by the communist administrations. Poland's capacity to service its debt by foreign exchange gained from exports reached an all time low in 1988 when the debt-to-export ratio (expressed as a percentage) fell to 245 [Mikelsons, 1991]. The new government argued that its transition to a market based economy was jeopardized by the country's roughly 40 billion dollar debt. In 1990 the Poles pressed for at least an 80 percent forgiveness. A Paris Club deal was struck, giving away an unprecedented 50 percent debt write-off in March 1991. Thus the government was able to successfully meet one of its major macroeconomic goals leading toward stabilization of the economy.

A recurring threat to Poland's economic turnaround has been persistent high inflation. Table 1 shows that inflation decreased over the three year period, and is expected to decline even further in 1993 as prices stabilize. Price rises are partially dependent on the government's ability to control deficit spending and reduce direct subsidies to state enterprises. In 1990, government subsidies were 29.1 percent of the total budget, this figure dropped precipitously to end at 5.5 percent in 1992 - a very encouraging development toward the effort to control inflation. Even though the budget deficit grew over the last three years, the government has renewed its commitment to hold deficit spending at the IMF negotiated level of 5 percent of GDP, thus reducing price rises induced by excessive government spending.

Economic change and political and social restructuring continued into 1991 with a resulting recession which overtook the state industrial sector and raised unemployment rates nationwide. As enterprises privatized and others faced raw material input costs at world prices with concurrent reductions in state subsidies, unemployment rose. At the end of March 1992, the number of registered unemployed in Poland reached 2.23 million which equates to a 12.2 percent unemployment rate. Unemployment rates vary across Poland. For example, rates for major industrial districts with large cities were much lower; Warsaw registered only 5.0 percent; Poznan 5.9 percent; Katowice 7.3 percent; and Krakow 8.2 percent [World Bank, 1992].

One of the fundamental aspects of Poland's restructuring process is the orientation of trade away from the former Eastern block countries and towards the West. Table 2 shows key trade

Table 1

Poland Macroeconomic Indicators, 1990-1992

Indicator	1990	1991	1992
GDP Growth Rate (% real change)	-11.6	-7.0	0.0
GDP per capita (in current USD)	1,675	1,799	1,850
Inflation (annual % change)	249.0	60.0	45.0
Government Subsidies (% of Budget)	29.1	9.4	5.5
Unemployment Rate (% of workforce)	6.1	12.1	18.0
State Budget Deficit (% of GDP)	0.4	4.5	5.0
Foreign External Debt (USD, 000s)	48,475	46,500	45,000

Source: U.S. and Foreign Commercial Service [1992], Country Marketing Plan: Poland (FY 1993), Warsaw.

Table 2
Poland Trade Indicators, 1990-1992

Indicator	1990	1991	1992
Total Export (mil \$)	15,503	14,936	13,500
Total Imports (mil \$)	9,230	15,556	18,000
Export to the US (mil \$)	409	357	380
Imports from US (mil \$)	406	458	470
US Share of Polish Imports (%)	1.6	2.4	2.6
 Poland's Leading Import Countries (% share of total)			
Germany	20.1	26.5	30.0
Former USSR	19.8	14.1	10.0
Austria	5.7	6.3	7.0
Holland	2.6	4.9	5.0
Italy	7.5	4.5	6.0
 Poland's Leading Export Countries (% share of total)			
Germany	25.1	29.4	25.0
Former USSR	15.3	11.0	8.0
United Kingdom	7.1	7.1	6.0
Switzerland	4.7	5.2	7.0
Former Czechoslovakia	4.1	4.6	6.0

Source: U.S. and Foreign Commercial Service [1992], Country Marketing Plan: Poland (FY 1993), Warsaw.

indicators for Poland over 1990 to 1992 period. Total imports over the three year period increased, with a commensurate decrease in exports. The direction of trade also shifted. As the table shows, demand for western goods increased in Poland over the 1990 to 1992 period. Western European countries as well as the United States increased exports to Poland, while the former Soviet States share of total imports decreased. Alternatively, Poland's exports to most Western European countries increased over the three year period.

Leading economic indicators over the 1990 to 1992 period point toward increasing positive growth for the Polish economy (see Table 1). GDP decreased in 1990 and 1991, and economists estimate that Poland's GDP continued to decline in 1992. However, economists now forecast positive growth for Poland's economy starting in 1993.¹ Some sectors of the economy performed better than others over this period. Wood and paper sales increased by 8.4 percent from 1991 to 1992, while foodstuffs gained 4.5 percent over the same one year period. The construction materials sector lagged, but nevertheless showed positive growth over the 1991 to 1992 period by posting a 0.6 percent rise, indicating that investment activity is increasing [Economist Intelligence Unit, 1992].

Privatization and Direct Foreign Investment

One of the key elements of the transition to a market economy is the privatization of the state sector. In order to lessen government subsidies, make Polish businesses more competitive, bring inflation down and create demand for foreign investment, the government initiated a privatization program with the passage of the 1990 Privatization Act and the establishment of a new ministry to oversee the process. Though privatization got off to a late start in Poland, it quickly came to dominate the economic agenda of the government in 1992.

The Privatization Act lists three mechanisms for converting from a subsidized state enterprise to private ownership. The first mechanism is called the Mass Privatization Program (PPP) which simultaneously privatizes select state industries by giving 10 percent of the enterprise stock to employees, 30 percent to the Treasury, and distributes the rest among National Investment Funds (created to facilitate privatization). In this manner, economic and employment dislocation caused by the privatization process of large state industries is spread among different investors and across different sectors.

1. A consensus of economic forecasters, such as those from the Economist Intelligence Unit, PlanEcon and the Department of Commerce, have unanimously projected positive growth for Poland in 1993.

The other two methods of privatizing Poland's enterprises are transformation and liquidation. Transformation involves the selling off enterprises in two stages. First, the firm transforms itself into a limited liability company or a joint stock company, owned by the State. Then the firm is offered for sale through a public offering, trade sale, auction, or the PPP. Thus far, 12 public offerings have been made on the Warsaw stock exchange and more are expected to follow. Second, firms may be liquidated through asset sales, joint venture arrangements, or management/employee buyouts.

The process of privatizing Polish enterprises gained momentum going into 1992. By the end of 1991, over 97 percent of the shops and 83 percent of the retail trade were privatized. The construction sector benefited the most from privatization, with over 60 percent of the enterprises in private ownership. Transport services also gained private owners, by privatizing over 24 percent of the sector. Additionally, over 46 percent of imports were directed at the private sector. In broad terms, the private sector accounted for 33 percent of GDP in 1991, compared to 28.4 percent in 1989 [Economist Intelligence Unit, 1992, Price Waterhouse, 1992].

Poland has also realized the potential of direct foreign investment as a stimulant for economic growth. Recent legislative reforms have made the business atmosphere more attractive for the foreign investor. Legal provisions explicitly directed at foreign investors in the Joint Ventures Act, Foreign Exchange Act, and Personal Income Tax Act, contribute to attracting capital to Poland by easing restrictions. Reform in the banking sector has helped as well. In addition, the planned upgrading of the communications infrastructure should further stimulate foreign involvement in Poland. ¹

Poland possesses other qualities which contribute towards the inflow of foreign capital and foreign direct investment. Geographically, the country is situated between the Western Europe and a 400 million consumer market to the east. Traditional business ties with Russia and the new Republics enhance its attractiveness for foreign investment. Furthermore, Poland has a large domestic market of 39 million people, with little or no ethnic minorities. The labor force is also well educated, even in the rural areas. Moreover, Poland is emerging as the most

1. The World Bank has extended Poland a multimillion dollar loan to improve its telecommunication system. The resulting improvements of the telephone system have already been felt in large urban centers such as Warsaw.

politically stable and economically dynamic of the three more prosperous Central European countries.¹

Western foreign capital inflow has been significant since the reform process began. Price Waterhouse estimates that the total additive investment, measured in US dollars, amounted to 1 billion through 1992. In the most recent year, foreign capital inflow is estimated at 700 million US dollars and growing. Not only has the absolute dollar amount of foreign investments increased but the number of foreign companies investing in Poland has risen as well. In the first six months of 1992 over 2,800 new foreign entities opened businesses in Poland, representing an increase of 37 percent over the comparable period in 1991.

Implications for Warsaw

Warsaw is Poland's capital and largest city and as such, enjoys international recognition. It is also located in the heart of Poland, with transportation routes connecting it to Western Europe and more closely to Moscow, Kiev, Minsk, and the Baltic States. The City has one of Europe's most modern airport terminals, equipped to handle over 3.5 million passengers on yearly basis and over 50,000 tons of cargo. The City enjoys productivity advantages that contribute towards its growth. These advantages are derived mainly from three sources: 1) economies of urban scale, 2) economies of agglomeration, and 3) location specific factors.² The City has the capacity to expand by attracting new businesses given its abundant supply of land, relatively new urban infrastructure, and concentration of key domestic industries (including the government) in the metropolitan area. In 1990, Warsaw's GDP per capita was nearly three times the national average, thus despite the fact that the City accounts for only 4.2 percent of Poland's population, almost 12 percent of the country's Gross National Product was produced in the City [World Bank, 1992].

1. With an economy of about one-third the size of Poland, Hungary received 2.5 to 3.75 times more (1.5 billion dollars) than Poland did in direct foreign investment in 1991. On a per capita basis, direct foreign investment in Poland in 1991 was 10 to 16 dollars compared to more than 140 dollars in Hungary and nearly 40 dollars in Czechoslovakia [PlanEcon, 1992]. Nonetheless, Poland appears to be gaining on its Central European counterparts. Hungary and Czechoslovakia are currently both experiencing political and economic upheavals that are thwarting direct foreign investment.

2. These factors are not unique to Warsaw. They have been identified for all major urban centers in Peterson, G., et. al., Urban Economies and National Development. The Urban Institute, Washington, D.C. 1991.

Recently, foreign capital inflows have generally centered on Warsaw where the pace of economic liberalization is faster. In addition, Warsaw is attracting investment funds generated by the international donor community. Given the current level of development in Poland, organizations such as the IMF, the International Finance Corporation, the World Bank, the European Bank for Reconstruction and Development, the European Community, and bilateral donors such as the USAID, GTZ and others, are investing considerable resources in Poland either through loan programs, credit guarantees or direct grants. Warsaw draws upon these monies (in disproportionate amounts relative to other Polish cities) in order to upgrade its infrastructure, environment and communication sectors. These capital investments add to the capital stock of the City and, as such, will make long-term growth sustainable.

In order to service the Polish market, international companies will require local offices for sales, marketing, and administration. Most of these will be situated in Warsaw. In addition, some companies will take advantage of the low cost, but highly educated, labor force in Warsaw by opening small to medium industries. Some recent examples of these trends are found in the food processing industry (Pepsico, and Coca Cola), computer electronics (Sun Micro Systems), and motor vehicles (GM partnership with FSM). Foreign owned retail establishments as well have opened shop in Warsaw. Some examples include; IKEA, McDonalds, Bennetton, and Pizza Hut. By the end of 1992, over 70 percent of the of the world's top 200 companies were represented in Poland and well over 5,000 new foreign companies had registered with the Ministry of Interior [Warsaw Magazine, Estate News, December 1992].

The demand for office and space accommodations in Warsaw by international firms has increased as the level of economic development increased. Healy & Baker, an international marketing firm, recently estimated the amount of floor space necessary to accommodate the influx of new companies in Warsaw per year. Working under the conservative assumption that just 25 percent of new foreign companies in Poland will locate in Warsaw, they estimate that the current demand for office space is 62,500 square meters (assuming a 50 square meter per firm average). Furthermore, given the office characteristics of international companies already located in Warsaw, Healy & Baker predicts that the annual demand for space is likely to range from 50,000 to 100,000 square meters. Retail space requirements are much less in the short term, since Polish wages are still not high enough to warrant investment by a diverse range of international retailers. Nonetheless, they estimate that the annual demand for retail space in Warsaw will average between 2,500 to 5,000 square meters over the next few years.

In response to demand for investment, each of Warsaw's seven gminas has inventoried and are aggressively marketing their land and building sites available for commercial use. Table 3 shows the distribution of the number of properties available for devel-

Table 3

Properties Offered for Sale by Warsaw's Gminas, December 1991

Gmina	Sites Offered of Sale	Total Land Area (hectare)
Srodmiescie	20	13.44
Mokotow	73	1,823.60
Ochota	34	96.21
Wola	11	44.50
Zoliborz	40	154.70
Praga Poludnie	75	1,372.06
Praga Polnoc	71	577.67
Total	324	4,082.18

Source: City of Warsaw, 1991.

opment and their corresponding land area within the City by gmina. Out of the total 48,530 hectares in the City of Warsaw, 4,082 are available for commercial development (8.5 percent). These sites include properties that are offered for multiple uses such as retail and catering services, hotels, banks, housing estates, etc. The City of Warsaw has compiled these sites and distributes a promotional brochure to potential investors.

Technical Assistance for Economic Development

As outlined above, Poland's economic climate is starting to improve and as it does, the demand for business locations in Warsaw should increase. The extent to which these demands can be met will depend greatly on the ability of Warsaw to modernize its infrastructure and provide ample opportunities for modern office, industrial and warehousing accommodation. While most of the gminas are working effectively to attract new development, there is an urgent need to better coordinate property development. One of the most important facets of agglomeration economies is the concentration of economic activities. If each gmina pursues its own independent program of attracting foreign investment, development patterns could become highly dispersed and there will be little opportunity to create modern business centers. Instead, Warsaw should promote the development of several differentiated economic activity centers (concentrations of office space, industrial and warehousing activities). Promotion activities should include the downtown as well as other well-located areas, such as the South Warsaw Airport Project area. To develop these areas, the City needs to work in concert with other gminas to define and test the economic and market feasibility of urban development projects, resolve land ownership and development problems, upgrade the quality of infrastructure and effectively promote projects to foreign and domestic investors.

As a first step, the City should establish a center for urban economic forecasting and analysis and it should carry out a detailed assessment of the Warsaw economy. The study should forecast the future demand for office, retail and commercial facilities, industrial and warehousing space, and housing and community facilities. Surveys should also be made of location requirements of international businesses to define facility and siting requirements. To identify critical infrastructure modernization and expansion needs, parallel assessments of infrastructure should be prepared. On the basis of these economic forecasts, business surveys and infrastructure assessments, a city-wide urban economic development strategy should be prepared. The strategy should target several areas for economic development and investment promotion, and identify major urban infrastructure and urban development projects needed to stimulate urban economic growth. Given the City's limited financial resources, these urban development projects should be prioritized according to their importance in stimulating economic growth and in terms of their overall costs and benefits. Technical assistance should be provided to help the City establish the institutional capacity to

carry out urban economic studies and to identify and prioritize major urban development and infrastructure project needed to improve the economic productivity of the City of Warsaw.

IV. INSTITUTIONAL AND LEGAL FRAMEWORK FOR URBAN DEVELOPMENT PLANNING

Implementing an overall economic development strategy requires an efficient institutional and legal framework for planning and decision-making. Present structures of governance, urban management and property rights in Warsaw are complex and confusing and act as a brake on efforts to promote economic development. This section provides a brief overview of the current, evolving institutional environment and discusses how it affects urban development.

Local Government Administration

Sweeping changes in Poland's local government laws will, for the first time in 50 years, confer land management, urban planning, project planning and infrastructure development responsibilities on local governments. These changes came into being in 1990, with the adoption of the Local Self-Government Act. These and other changes are radically altering the institutional structure of Warsaw's governmental system, and will profoundly affect the environment in which urban development planning takes place.

Prior to the adoption of the 1990 Act, gminas (local districts or communes) were merely one of the territorial units of State administration. The 1990 Act dramatically changed this by expressly giving gminas their own legal status, separate from the State, and stipulating that inhabitants of gminas constitute a self governing body. This new autonomy is guaranteed by the 1990 Local Self-Government Act and the Polish Constitution.

Each Gmina has a legislative body, similar to a city council, a mayor or city manager which serves as the chief executive, a senior financial officer who drafts the city budget, and numerous departments, agencies and bureaus charged with the ongoing operation of the City. The 1990 Act sets out a list of public services for which gminas are responsible, including: roads, traffic control, local public transport, planning and land management, management of public buildings, parks, markets, cemeteries, water, electricity and gas supplies, housing, social services, health service, education, local bye-laws, fire prevention and protection of the environment. These responsibilities are not however, exclusively reserved for gminas, and there are overlaps between the gminas, the State and the Warsaw Municipality.

Gminas may also form enterprises including limited companies. They can initiate and participate in business activities which are connected to their public service functions and if

"public needs so require" they can directly engage in other business activities. Many gminas are already taking advantage of this statutory power and are starting businesses to finance public services. Wola District has been one of the most aggressive gminas in Warsaw in this regard.

Warsaw is comprised of seven gminas, each now operating as an independent local government. The seven gminas and their population is listed in Table 4. With much of the power of the City of Warsaw devolved to the Gminas, the City now operates as a "Union," with an executive body of the Union consisting of 28 representatives, four from each of the seven Gminas. These representatives are elected by their respective Gminas. The President of the City of Warsaw (the Union) is elected by all district councilmen. The President of the Warsaw Union heads a management committee (which is also elected by the Executive Council of the Union) which is responsible for the overall operation of the Union. Figure 2 illustrates the organizational structure of the Warsaw Municipal Government.

The division of responsibilities between the City of Warsaw and the Gminas is far from clear.¹ While the recently adopted City Charter Ordinance has not been fully operationalized, in theory, it assigns to the City responsibility for matters resulting from its status as the capital and local self-government matters which involve city-wide, rather than simply gmina-level concerns. In this regard, the City has been given explicit authority for preparing a new master plan for Warsaw. In addition, the City also has responsibility for providing and maintaining infrastructure services such as water and sewage treatment and distribution systems, district heating and transportation. An interesting feature of the Local Self-Government Code does not allow the City of Warsaw to own land subject to development, only gmina's can enter into binding contracts to develop land.

The Local Self Government Act continues to modify relationships between the City and its constituent gminas. For example the Warsaw Office for the Development of the City (WODC) previously managed the development of towns and housing estates in the capital region (the voivodship²), specific activities included preparation of plans for housing construction and infrastructure, identification of housing developers and investors and overall management of construction projects. In essence, this office

1. This ambiguity has led to pending legislation currently being debated in the legislature, which aims at better defining the individual responsibilities of gminas and the City and clarifies the relationship between them.

2. Voivodships of Poland are geographic regions of the State administration.

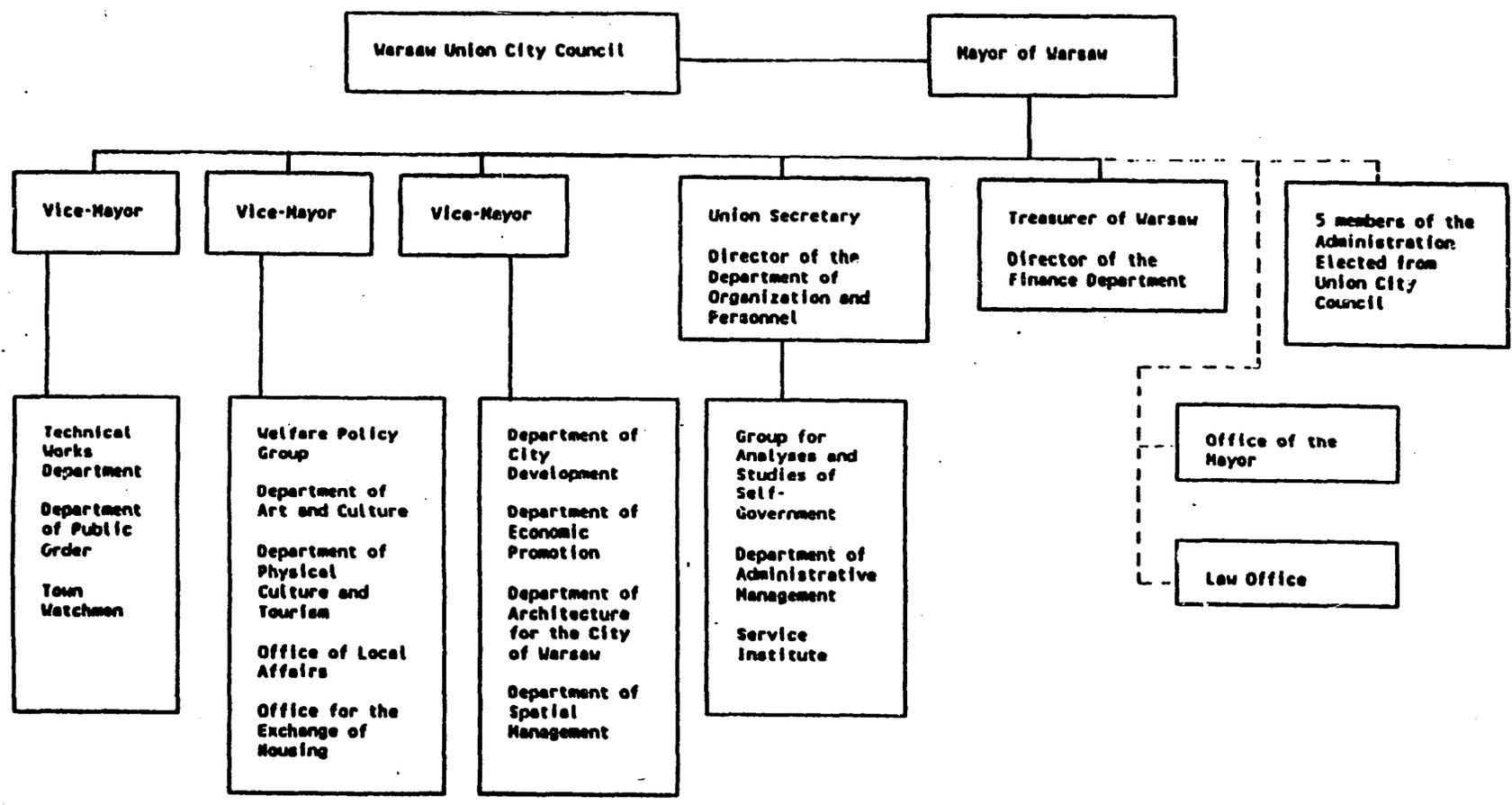
Table 4

The Gminas of the Warsaw Municipality

Gmina	Size (sq. km.)	% of Total	Population	% of Total	Pop. Density (pop./sq.km.)
Srodmiescie	15.6	3.2	156,000	9.4	10,000
Mokotow	116.0	23.3	367,000	22.2	3,164
Ochota	47.5	9.8	173,000	10.5	3,642
Wola	44.5	9.2	254,000	15.3	5,708
Zoliborz	40.6	8.4	204,000	12.3	5,025
Praga Poludnie	111.5	23.0	260,000	15.7	2,332
Praga Polnoc	109.6	22.6	241,000	14.6	2,199
TOTAL	485.3	100.0	1,655,000	100.0	3,410

Source: City of Warsaw, 1991.

Figure 2. Organizational Structure of the Warsaw Union Administration



served as the developer and manager of housing and infrastructure projects in Warsaw on behalf of the State. Now, with the political and institution reforms, things are different.

The WODC's charter is being revised, and responsibilities for housing and urban development projects are being shifted to local elected officials at the gmina level, and new market-based approaches to housing development and distribution are being implemented. As democratic institutions are developed and as administrative responsibilities are reallocated, the institutional framework for planning and urban development is being radically reformed. With the passage of the Local Self-Government Act, responsibilities for planning and urban development are decentralized. While these changes will increase the responsiveness of government institutions, decentralization poses great challenges for orchestrating the efficient development of Warsaw.

Property Rights, Communalization and Reprivatization of Land

Another facet of the overall legal and institutional reform taking place in Poland is the large-scale denationalization of certain categories of State movable and immovable property. Such properties are currently being vested with the gminas in which they are located. This process is referred to as communalization. Once properties are transferred, they may then be auctioned to private entities. The transfer of State property has the potential of providing gminas with considerable resources. Real property in particular has the potential of providing gminas with considerable income from ground and building leases. However, the process is complex and is hampered by the lack of a fully functioning property register and the absence of a law on property reprivatization. With communalization of property started in May 1990 and continuing over the past two years, the most aggressive gminas have only been able to communalize about 60 percent of effected properties.

A major concern of potential buyers of communalized land is the possibility of a claim by a former owner. Poland, like other transition economies, recognizes that some form of restitution or compensation must be made to owners of land expropriated without compensation by government during the communist era. If challenges are successful, the former owners are entitled to receive compensation: they may have land returned; they may receive cash compensation, or be provided with equivalent land. To establish a claim, the claimant must provide proof of ownership: title documents; evidence of a mortgage lien or other documentary evidence. Unfortunately there is no law to guide the process since the reprivatization law has not passed. There is speculation that a law will pass in 1993 and that prior owners will have until 1995 to file claims. Experience with restitution in other Eastern European countries has proven that the process to restore ownership rights is complex and therefore lengthy.

An impediment to the communalization of property is the fact that many properties require considerable upgrading and modernization before they can be put to their highest and best use. Gminas simply lack the capital to carry out such improvements and consequently, many have been forced to sell property (especially shops and commercial buildings) at relatively low prices to urgently raise funds to cover day-to-day operations. It may be that the short run financial needs of a gmina force it to dispose of a property in a way that will lead to its underutilization. In other cases, critical properties which should be developed into activities of city-wide importance may be sub-optimally developed.

There are two methods for the transfer of such properties, one is automatic and the other is based on the application of gminas for the gratuitous transfer of certain categories of properties described in the law. The types of properties which can be automatically communalized include the following:

1) state property which until the reform was in the custody and control of former basic territorial units of the State;

2) property of state enterprises and organization units which until the reforms were controlled by former territorial units of the State; and

3) state property which was in the custody and control of voivodships or of state enterprises managed by voivodship authorities which is indispensable for fulfilling statutory functions of gminas.

If properties are jointly used by gminas, they must be divisible. If they aren't, they must be either transferred to inter-gmina unions or to one gmina on the basis of an agreement between gminas.

Gminas can request the gratuitous transfer of State property not used to satisfy public needs if such property is incidental to the functions of the gmina. Gminas can also request the transfer of agricultural land from the State Land Fund, and land in control of state enterprises if such land is not now used for its intended purpose.

Several categories of land and property are exempted from communalization, including State property used by administrative and legal bodies of the State; properties used or controlled by state enterprises whose activities extend beyond the boundaries of one voivodship or which operate on a national scale; nonagricultural land held by the State Land Fund; State properties subject to international treaties or agreements and State property used by the Church. In all cases communalized land is subject to the existing rights and obligations arising from perpetual usufruct.

The communalization process proceeds as follows: 1) the commune council forms an Inventorization Committee; 2) the Committee prepares an inventory of all property subject to automatic communalization (to be completed within three months of the establishment of the committee), it also prepares a protocol of all property which the gmina will request a gratuitous transfer from the State; 3) the inventory and the protocol are made available for public inspection, including public noticing; 4) any person or legal entity, including another gmina, claiming to have legal rights over any of the properties listed in the inventory or protocol must submit a claim; 5) claims are considered by the Inventorization Committee, and if any are recognized the inventory and/or protocol is amended; 6) the voivodship reviews the Committee's proposal; and 7) after approval, if communalized property is land, the gmina registers itself as owner in the land register.

Technical Assistance Needs

Warsaw's complex and fluid local government structure and the evolving and unclear practice of land communalization and reprivatization will make the elaboration and implementation of an overall economic development strategy difficult. The coordination of urban development projects, especially largescale one requiring the collaboration of multiple jurisdictions will be difficult.¹

As a recent World Bank sector review of Warsaw's transportation concludes: the City's deficient governmental organization, fragmentation of technical decision-making and poor integration of decisions makes it very difficult to properly plan and implement new infrastructure and urban development projects. Considering the need to link all sectors of urban development, the lack of coordination between local governments poses an even greater challenge to the City. In the process of providing technical assistance activities, USAID should strive to develop strong intergovernmental connections between the City and the gminas.

Discussions with government officials at the Municipality and gmina level suggest that there is little in the way of a clear cut strategy regarding the sale of communalized properties. No one is trying to develop an overall strategy for maximizing the potential benefits of privatizing such parcels. Instead, gminas are aggressively and in some cases desperately selling properties to generate resources to cover financial shortfalls.

The City of Warsaw should play a key role in helping gminas develop communalized land to its highest and best use. Once the

1. The complexity may increase. A new level of government is being proposed, that of the pre-World War II Powiat jurisdiction.

City has prepared an overall assessment of the Warsaw economy, identified critical urban development needs and prepared an overall urban economic development strategy, it can help gminas develop properties to their highest and best use and insure that critical infrastructure services are provided. Technical assistance should be provided to the City and gminas to develop strategies for the privatization of key urban properties. A key element in such technical assistance will center on new approaches to the financing of infrastructure and urban development projects.

V. MODERNIZING AND EXPANDING WARSAW'S INFRASTRUCTURE TO SUPPORT ECONOMIC DEVELOPMENT

As stated previously, Warsaw's needs to improve the efficiency and productivity of its economic base. This will require a costly modernization and expansion of its infrastructure systems. The present system of project identification and financing is not adequate for meeting future needs. New approaches to infrastructure financing are needed which rely on capital budgeting, project evaluation and prioritization, as well as new methods of cost recovery to recapture the capital costs of infrastructure projects. This section outlines critical infrastructure needs and assesses current approaches to infrastructure financing.

Infrastructure Needs

Limited financial resources are impeding Warsaw's ability to modernize and expand its infrastructure systems. At the present time construction of Warsaw's subway is stalled for lack of resources, and rolling stock cannot be ordered. The City's system of trams and buses is old and needs up-dating. About 100 tramway cars need immediate replacement and over the next eight years 400 tramway cars and 250 buses must be replaced. The City's traffic control system needs modernization and better at-grade separation is needed between vehicle traffic, buses and trams. Approximately 25 kilometers of roads need modernization. Traffic engineers estimate that the city needs to construct an additional 30 kilometers of transit routes and construct 4,000 to 5,000 structured parking spaces in the downtown.

In the area of water supply and sewerage treatment, a variety of improvements are needed to improve water quality and to expand the sewerage treatment collection area. A new 600,000 m³ per day water filtration system is needed. Ozonization and activated carbon treatment methods of water purification need introduction in the northern, central and Praga water subsystems. Additional system improvements include the construction of zone stations (pumps and tanks) and extension of the systems 800-1400 mm pipes. A variety of sewerage disposal and treatment improvements are needed to modernize Warsaw's system, including: construction of two treatment plants with a total capacity of 880,000 m³ per day on the left bank of the City; construction of

three kilometers of new sewage collector lines and pumping stations to serve new areas of the city; and construction of four to five sludge treatment facilities.

One of the most critical infrastructure problems facing the City centers on its district heating system. The entire system is outdated and in immediate need of modernization. The system draws on untreated water to provide steam heat and hot water. The water flowing through the district system is highly corrosive and causes considerable damage to the heating and hot water network. The system lacks modern monitoring equipment and automatic regulation, and as a consequence is subject to frequent failure. The system does not have sufficient capacity to provide for the heating and hot water needs of the population during very cold periods. The current heating deficit is estimated at 300 gigacals/hr.

Municipal Finance Practices

Before the passage of the Local Self-Government Act, local government revenues were derived mainly from various wage and turnover taxes paid by enterprises. Transfers from the central government and local taxes constituted only a small portion of local revenue. Additionally, special purpose funds from the State coffers were used for major capital projects, such as housing, and infrastructure. Borrowing on the part of communities was never practiced.

The adoption of the Local Self Government Act and three related acts (the 1990 Act on Revenue of Gminas and Rules of Financing, the 1991 Budget Act, and the 1991 Act on Taxes and Local Fees) replaced the old centralized funding mechanism for local governments. Thus gminas are now empowered to derive revenue from: 1) local own-sources, 2) state subsidies, including shared national taxes and grants, and 3) credit and bond issues. The distribution of revenue among the three types of sources for gminas cannot be assessed since the laws governing local revenue only fully took effect in 1992. But what is clear is that gminas now have much greater fiscal autonomy (though restricted by upper limits set on local tax rates and fees).

Gmina's derive income from a range of locally levied taxes and user fees. One of the most direct income generating mechanisms is the tax imposed on enterprises situated within the gmina. The business tax varies according to the type of enterprise, such as cooperative, privately-owned businesses, joint ventures or partnerships and state-, voivodship-, or gmina-owned businesses. Some other own-source revenues include taxes on dog ownership, vehicle ownership, property, gifts, inheritances, and agricultural land and forests. Own-source revenues also include: interest payments, stamp and fiscal duties, and rent payments for gminas owning real estate. Of the different types of local taxes, the property tax has thus far generated the largest share of local revenues.

Beginning in 1992, local government units received shares from the State's newly instituted personal income tax. This type of revenue sharing differs from the one in place in 1991 which distributed national income derived from taxes on state enterprises and wages to localities. With the introduction of the personal income tax to Poland (and commensurate with a value added tax), the national tax base was radically transformed, reducing state and local revenue based on enterprise and wage taxes. Currently, gminas receive 15 percent of the new income tax.

In addition to own-source and state shared funds, gminas receive different forms of central-to-local government equalization grants. One type of grant is the general grant which is earmarked for various sectors including education, administration, culture and arts, welfare, and housing and environment. The amount of the grant for each gmina is proportional to the number of inhabitants. The grant monies are adjusted according to a complex set of factors which relate to the general characteristics of the locality. For example, gminas with a sea port receive special compensation.

Three discretionary grants are also available to the gminas. One is the investment expenditure grant. This type of grant is used to fund major investment projects which have been approved by the Ministry of Finance. Second, a school grant is available to those gminas which have decided to take over the responsibilities for schools within their jurisdiction. The level of funding for this type of grant is also determined at the national level. The last type of grant available to gminas is the reserve grant. The grant amount for each gmina is based on the combined income of the gmina and is issued on a discretionary basis. A formula is used to determine the reserve grant, taking into consideration the gmina's per-capita revenues from all sources.

With the passage of the new Acts, gminas may now borrow and issue bonds to finance current expenditures. Credit terms for local governments are short term: loans must be repaid within the budget year and the amount of the loan may not exceed 8 percent of the gmina budget expenditure in the first half of the budget year and 4 percent in the second half. In addition, a gmina may borrow to finance expenditures not covered by revenues though the terms for this type of borrowing are very restrictive. Bond sales are another legal form of revenue generation for gminas, however, since long term credit markets are not yet established in Poland, this type of financing is not available.

The City of Warsaw, for fiscal purposes, is treated as one gmina. Therefore, each composite gmina is subject to the same fiscal regulations as is the City, though the distribution of revenues differs. For example, in 1991 the City of Warsaw derived 80 percent of its revenue from taxes imposed on enterprises, 12 percent from taxes on individuals, 6 percent from central government grants, and 1 percent from services and fees.

The City's total revenue amounted to roughly 1 trillion 928 million zloty, which equated to 1,167,000 zloty per capita in 1991. While the gmina of Mokotow (within the city of Warsaw) derived only 12 percent of its revenues from taxes imposed on enterprises, 9 percent from taxes on individuals, 8 percent from various settlements (which the City of Warsaw is not subject to), and 72 percent from central government grants. The City of Warsaw's total revenues amounted to about 37 percent of the combined revenues earned by all seven gminas in 1991.

Developing new approaches to infrastructure finance will require fundamental changes in the overall institutional structure of local government as well as technical changes in the financial appraisal of projects. For example, the World Bank's transportation sector review concludes that:

the continuing fragmentation of responsibilities for urban transport among different tiers of government is problematic from the point of view of establishing priorities and coordinating policies and investments.... The community of interest, the distribution of political power, the fiscal environment and the scope of decision making for a city government are quite directly related to misallocation of investments within a given sector.... Moreover, in the system of split jurisdictions it is very difficult if not impossible to make intersectoral tradeoffs for a given city, e.g., between investments in water resources and investments in transport [World Bank, 1992].

Thus, in order to effectively implement an urban economic development strategy which includes critical multi-sectoral urban development projects in targeted areas, the City needs to design and utilize new capital budgeting and project financing methods.

Technical Assistance for Urban Development Finance

The present and evolving system of municipal finance will make it difficult to finance major urban development projects. There is little experience with long term debt financing of projects and financing and cost recovery considerations are rarely an integral part of project design. Currently, proposals prepared by the City do not include sound financial analysis and there is no mechanism for assessing and prioritizing projects within and across sectors. In an era of unpredictable resources with central transfers expected to decline dramatically next year, the City needs to train its staff to expand their ability to mobilize financial resources for the projects that the City most wants to undertake and which have a sound basis for expectations of success.

Three forms of technical assistance are proposed. The first will be the preparation of a paper and delivery of a seminar or seminars on municipal finance, which will provide ideas and

methods for improving the way municipal and district staff apply project finance, capital budgeting and priority-setting methods. Second, a series of pilot studies will be prepared examining how to finance the provision of additional infrastructure to areas proposed for redevelopment and densification. The third area is the development of guidelines for the preparation of project financing proposals which can be used for a variety of urban development projects. The guidelines will establish an accepted format for such proposals to ensure a certain level of completeness and quality. They will also formalize the methods explained in the finance seminars as standard approaches for structuring the financing of urban development projects.

VI. WARSAW'S EVOLVING URBAN PLANNING SYSTEM

Until the reforms of 1990, land use planning and development control in Warsaw was highly restrictive. The centerpiece of development control was the master plan, which provided the precise specification of uses and areas. The former master plan, adopted in 1982, restricted development to five main corridors. Development in these areas was limited, permitting population densities of about 70 persons per hectare. For example, approximately 36 percent of the land areas of the Ochota and Mokotow gminas were zoned for agricultural use. The combination of low development densities and a "wedges and corridors" plan has resulted in the rapid outward expansion of the City, and an increase in transportation and energy costs. Besides severely limiting development to the five corridors, the prior master plan froze the development of over 2000 parcels of land scattered throughout the city by stipulating precise uses which were either economically infeasible or unwanted [World Bank, 1990].

A recent World Bank assessment of the physical structure of Warsaw concluded that actions to increase the development intensity of the City are needed [1990]. The study made the following recommendations:

- 1) identify among the areas zoned agricultural, the ones which have a real environmental value and rezone them as protected areas;
- 2) move the restrictive agricultural zone away from the built up area and the existing infrastructure in order to increase the supply of land;
- 3) develop infrastructure within a 10 kilometer radius in land formerly zoned agricultural. Allow higher densities and more intensive use of land within the 10 kilometer radius;
- 4) identify underutilized land in built up areas and prepare schemes to develop or redevelop such areas;

5) identify areas where deficient infrastructure prevents densification, estimate cost of infrastructure improvement and design a method of recovering such costs from land sales, developer fees, or taxes [World Bank, 1990]

Fortunately, Warsaw's new master plan moves a considerable distance toward the recommendations of the World Bank and others in terms of making the urban planning framework more market oriented and efficient. The major change is that it relies on a much more flexible set of development controls. The current master plan designates six general areas for urban development: 1) central area; 2) housing and services; 3) technical and industrial; 4) services and warehousing; 5) green areas; and 6) corridor areas targeted for environmental friendly activities.

In addition to these designations, the planners are also designating certain areas of the city as economic development zones. Economic development initiatives are targeted on these areas, and the City, along with gminas and other concerned public sector agencies will work together to promote development. Impediments to development, such as poor infrastructure, complex and fragmented patterns of land ownership will be remedied as necessary.

While the overall reforms in the Warsaw planning system are to be commended, serious problems remain. First, with the more general character of the new master plan, gminas must now prepare detailed development plans. Discussions with planners at the City and gmina levels suggest that they could benefit from technical assistance on modern land use planning methods for industrial, warehouse, office park facilities. It is not clear how these two planning activities will be reconciled and whether the new master plan may encourage the dispersal of urban development to poorly equipped areas and limit the City's ability to develop modern business activity centers offering the benefits of agglomeration economies. It is not clear that the areas targeted for economic development promotion are the most appropriate. Without a careful economic assessment of the Warsaw economy it is unclear exactly how much land should be targeted for industrial, warehouse or office park development and where it should be located. Furthermore additional information is needed to determine the exact types of industries likely to locate in Warsaw. These users will have varying requirements and this will obviously affect the location and character of land development.

Technical Assistance in Urban Development Planning

There are several areas where USAID could provide technical assistance to the City of Warsaw. The first area is in helping the City to further modernize its overall master planning activities, helping Warsaw planners more directly link economic and market analysis with physical land use planning. This includes estimation of the future demand for industrial, warehouse, office, retail and residential land. Assistance should also be

provided to provide new models for the design and layout of office and industrial parks. Additional technical assistance should center on densification and infill studies: how to identify potential areas and how to structure new projects.

VII. THE SOUTH WARSAW AIRPORT PROJECT

Seeing that efforts to attract foreign capital were piecemeal, dispersed and having limited impact on Warsaw's urban economy, the City launched its Action Area program. This program targets areas for comprehensive physical and economic transformation, attempting to create zones with modern infrastructure to support the needs of new industrial and commercial development.

The most ambitious Action Area project proposed by the City of Warsaw is the South Warsaw Airport Project (SWAP). This area was chosen for a variety of factors. First and foremost it is extremely well-located, surrounding the airport and straddling the proposed Berlin-to-Moscow highway. The project area is located south of the City's center, and it is close to middle- and upper-income suburban residential areas. The area around the airport is underutilized and the patterns of land use are inefficient and out-dated. Warsaw desperately needs modern warehousing and office districts, and the south airport area is well-suited for such activities. In addition, it is an area well-suited for industrial and non-CBD-office park development.

The South Airport Project was initiated in 1991 and involves the participation of the City of Warsaw, Ochota and Mokotow gminas and the City of Raszyn, located outside the Warsaw City limits but within the Warsaw voivodship. It also includes LOT, the Polish Airlines, and both the Warsaw and Polish Chambers of Commerce. Participation is also sought from the Polish Airport Authority, the State agency responsible for the operation of Warsaw's Okecie Airport. The entire project area covers 17 square kilometers, contains at least 16 state owned enterprises and has a diverse mixture of state, local and privately owned land. While a complete inventory of land ownership for the entire project area is not now available, the portion of the project located in Raszyn, totaling 415 hectares, has 450 individual owners. Other more urbanized areas will have far more owners.

The objectives of the project are to:

- 1) develop an appealing, modern area conducive for attracting foreign investment;
- 2) link together the private and public sectors to jointly develop the City;
- 3) introduce modern market-oriented business and legal practices;

4) develop and utilize a wide range of economic incentives to attract international capital; and

5) encourage local governments to use effective economic and land use planning tools to attract new urban development.

Only 10 to 15 percent of the project land area will be owned by the parties participating in the project. The remainder of the land will be owned by private individuals and the State. The intent of the project is to prepare a detailed strategy for creating an economic zone around the airport and to actively work to implement such a program. The proposed strategy is to equip the area with high quality communications and transportation infrastructure while maintaining environmental quality.

A participation agreement (see Annex 2) has been signed by these parties establishing a Working Team to make the following assessments:

1) survey of physical, ecological, legal and economic conditions in the project area;

2) assessment of the social and economic potential for an economic zone;

3) feasibility study for the implementation of an economic zone; and

4) preparation of a marketing and promotional campaign for the development of an economic zone.

At the present time a number of studies are underway. These include: surveys of zoning and spatial regulations currently in force in the project area; development of an investment strategy; preparation of legal regulations governing zone development and management; and studies to identify optimal organizational structure for zone.

Discussions with the professionals assigned to the Work Team revealed a number of obvious concerns regarding the feasibility of the project. The first obstacle is how to finance the upgrading of the infrastructure to create an attractive economic climate for industrial, warehousing and commercial development. Second, the team recognizes the enormous problems posed by land reprivatization, land restitution and communalization issues discussed above. Project staff clearly perceive the need to consolidate land parcels into large assemblies so that industrial and office parks can be created. However, they are quick to point out that it will be impossible to use expropriation powers to compel owners to sell. A third area of concern centers on how to design an effective institutional structure for creating public-private joint ventures for project development.

Technical Assistance Related to the South Warsaw Airport Project

Project-oriented technical assistance should build on the more strategic-focused assistance discussed above. It should draw on the economic and market studies prepared for Warsaw to identify the highest and best uses for the South Warsaw Airport Project area. Overall assistance should identify new methods of infrastructure and project finance outlined above. These methods should then be applied to the specific needs of the South Warsaw Airport Project, and to other promising urban development projects as well.

Technical assistance should be provided to help the City identify the best possible models for facilitating and managing public-private real estate development. Numerous questions need answering: Should the City set up a corporation inside or outside of its governmental structure? To whom should the corporation report? Should the City have one real estate development corporation or should it establish several corporations to take on projects in various areas of the City or to address particular types of projects? What type of relationships should the corporation(s) have with gminas?

To clarify and find answers to these and other institutional questions, technical assistance should be provided to review and evaluate the range of approaches taken by cities in North America, Europe and Asia to implement public real estate development programs. A paper identifying the range of institutional design options will be prepared and presented at a seminar held for senior City staff to discuss institutional design options and to identify what actions if any should be taken.

VIII. PROPOSED TECHNICAL ASSISTANCE PROGRAM

On the basis of the mission, we propose a collaborative program of technical assistance which provides a broad analytical and policy foundation for defining and supporting the implementation of specific urban development projects. Eight technical assistance activities have been identified which respond to the City of Warsaw's request for technical assistance. Together they provide a logical and integrated program which is likely to facilitate the economic and spatial development of the City and improve the productivity of its economy (see Figure 1 for a schematic diagram of the overall technical assistance approach). The activities include:

- 1) assess the future economic development potential of the Warsaw economy, identify the leading sectors of economic expansion and estimate annual demand for industrial, office and retail facilities;

2) identify the critical location requirements of international corporations seeking production and distribution centers in Central and Eastern Europe and gauge the relative attractiveness of Warsaw over other regional centers;

3) prepare an overall economic development strategy for vitalizing and promoting economic activities in the City's industrial, commercial and residential areas which is based on comprehensive economic and market studies; an assessment of the City's infrastructure systems and a realistic capital budgeting program for modernizing and expanding them;

4) introduce new institutional and analytical methods for conducting public-private real estate development including options for multi-participant organizational structure, management and financial participation;

5) provide advice on international land use planning and design standards and practices for industrial, trade and business park development;

6) identify feasible and appropriate forms of land control and management for public real estate development, including compulsory land acquisition, zoning and specific plans;

7) facilitate the development and self-financing of infrastructure and major public investments by providing technical assistance on new methods of infrastructure financing including: special assessment districts, tax increment financing, land readjustment, developer exactions, and local and municipal financing and cost recovery; and

8) provide training in urban economic analysis, market research and project feasibility analysis for real estate development, techniques of public-private real estate development, and modern municipal finance practices, including project preparation and appraisal, financial feasibility analysis and methods of cost-recovery.

1. Urban Economic Analysis of Warsaw

One of the most critical determinants of how quickly and effectively Warsaw can restructure its economy is its ability to identify, attract and implement urban development projects. At the present time the City is ill-equipped to carry out such tasks because it lacks the capacity for urban economic analysis.

It is currently difficult to obtain information about economic growth trends. No office within the City now gathers or analyzes data needed to assess the local economy. In no case do departments preparing development projects assess market demand or possibilities for cost recovery. Current planning activities pertaining to the South Warsaw Airport Project are not based on an economic assessment of market demand. City departments, inter-

national donors, and districts could all benefit from such information but the City lacks the capacity to prepare them. USAID's assistance could take the form of both undertaking analytical work and working with the City to build capacity to prepare economic studies and provide ongoing economic intelligence and monitoring.

The City should consider establishing an interdepartmental working group to study the Warsaw economy. Such a group might consist of professional staff from:

- 1) Regional Planning office of the Warsaw Voivodship;
- 2) City of Warsaw Department of Land Development;
- 3) City of Warsaw Department of Development Promotion;
- 4) the Warsaw 2000 expert group;
- 5) Polish Chamber of Commerce; and
- 6) State Foreign Investment Agency.

This group would work with expatriate economists to prepare an analytical framework for studying the current and future performance of the Warsaw economy. Such a framework would identify existing local, national and international databases which provide information about economic activity, and include the preparation of analytical models and assessment protocols for evaluating economic performance and conditions. Assessment studies would be prepared in order to identify critical economic issues and opportunities facing the City. Sectoral studies would be annually made of employment and business activity, including demand for office, industrial and commercial space in and around the City. The technical assistance team and the working group would develop an ongoing work program for data collection, analysis and reporting.

2. International Business Attraction Survey

To promote overall economic development, the municipal government must consider how to make the City more economically productive so that it can effectively compete in an integrated Europe. The extent to which Warsaw can attract international capital to spark its emerging market economy will depend on the City's competitive position relative to other Central and Eastern European cities, such as Prague, Vienna, Berlin and Kiev.

Increasing Warsaw's economic productivity requires major improvements to its urban infrastructure and land use patterns: modernization of its road and rail transportation systems, upgrading the telecommunication system, increasing the supply of modern warehouse and industrial estates, promoting the development of modern office buildings, improving the quality of its housing stock and increasing the quality and skill level of its labor force. Additionally, the City should concentrate on providing development opportunities for the private sector, by facilitating the redevelopment of industrial and underutilized areas.

If Warsaw is to attract foreign direct investment, it must clearly understand its competitive position in Central and Eastern Europe and the location requirements of potential foreign businesses and investors now searching for office, warehouse and industrial facilities in the region. Complimenting the urban economic analysis activity outlined above, we propose a survey of corporations seeking office, production and distribution centers in Central and Eastern Europe to gauge their location requirements and to assess the relative attractiveness of Warsaw over other centers. The survey would also help to pinpoint the critical infrastructural and business services Warsaw must have to effectively compete with other regional centers.

The survey would be a combination of mailed questionnaires and face-to-face interviews. The universe of firms is comprised of major European and North American corporations considering locations in Warsaw and other Central European cities. To develop a sample of firms, West European and North American Embassies and bilateral Chambers of Commerce will be contacted in Warsaw, Budapest and Prague to develop a list of firms interested in locating in the region. A mail survey questionnaire will be sent to approximately 300 firms. This will be complemented with approximately 50 face-to-face interviews.

The results of the international survey and the urban economic studies outlined above will be used to gauge the potential for developing large vacant and underutilized parcels throughout the City, taking into consideration such possibilities as light industrial, high tech flex space, warehousing, retail, office and institutional uses. Assessments will be made of the annual effective demand and potential net absorption of space over the next five years for these property types and surveys will be conducted to determine user needs and preferences for vacant and underutilized lands. The assessment will closely evaluate the demand for industrial, office, trade and warehousing facilities in the South Warsaw Airport Project area in order to prepare a detailed development program, including types of facilities needed, infrastructure requirements, phasing, site sizes and configurations.

3. Warsaw Economic Development Strategy

Based on the economic and market assessments of the Warsaw economy, we propose developing an economic development strategy for the City. The objective of the strategy is to develop and expand economic activities in the City's industrial, commercial and residential areas. The strategy will identify key business and economic sectors which should be targeted for business promotion. It will also identify the specific location and infrastructure requirements of targeted businesses and designate areas in the city appropriate for such activities. Assessments of the level of infrastructure services in these areas will be made and critical capital improvement projects to modernize and expand services will be identified and prioritized. Parallel surveys of land ownership and development potential of designated areas will

be made. The overall strategy will provide a market based program for carrying out specific urban development projects to expand Warsaw's economy.

4. Public-Private Real Estate Development: Institutional Options and Practices

The current organizational structure for the South Warsaw Airport Project is cumbersome and its legal authority to prepare development plans and attract capital is unclear. As the City moves forward with its program to improve the land use efficiency of the South Warsaw Airport Project area, it should consider a variety of options for structuring an effective public real estate development entity. Determining what type of structure is necessary requires answering a number of questions including: Should the City set up a corporation outside of the City government? Should the City establish a real estate program within the City's administrative structure? Where should such an internal unit be lodged? Should the City have one real estate development corporation or should it establish several corporations to take on projects in various areas of the City or to address particular types of projects? How should surrounding districts and other government agencies such as LOT or the Airport Authority participate in the South Warsaw Airport Project.

To clarify and find answers to these and other institutional questions, technical assistance activities are proposed to review and evaluate the range of approaches taken by cities in North America, Europe and Asia to implement public real estate development programs. A paper identifying the range of institutional design options will be prepared and presented at a seminar held for senior City staff to discuss institutional design options and to identify what actions if any should be taken.

5. Assistance with Industrial and Business Park Land Planning and Design

The South Warsaw Airport Project is currently working on land use and development plans. We propose that this activity be delayed until the urban economic analysis and international market studies have been completed. Upon completion of these studies, we propose organizing a collaborative urban design team, bringing together leading urban designers, industrial park and trade center developers and land planners. The design activities would result in the preparation of several alternative development schemes, and provide training and capacity-building in the area of urban physical planning.

6. Land Management and Development Control Options

Land ownership in the South Warsaw Airport Project area is diverse and extremely complicated, including private, state,

district, municipal, military and other state owned enterprises. This pattern makes it extremely difficult to carry out the kind of large-scale land development project reflected by the scale of the South Warsaw Airport Project. Can the urban development ultimately programmed for the project be implemented without the direct acquisition of land from private, state and district owners? How realistic is it to assume that land can be expropriated? If land acquisition is not viable on a widespread basis, what other methods of land control can be utilized to insure that the development program for the area is ultimately achieved?

To answer these questions, we propose providing technical assistance to help the City identify feasible and appropriate forms of land control and management for public real estate development. There are a range of possible tools and strategies which should be explored to determine their potential application. These include: specific plans and the adoption of development controls for implementing them (including zoning, codes covenants and restrictions, and design controls); land pooling, land trusts and land readjustment to coordinate the development of multiple ownership lands; and compulsory land acquisition.

To assess the potential of these and other tools, we propose reviewing "best practice" studies of tool application in cities in North America, Western Europe, South Korea, Singapore, Japan and Hong Kong. A seminar will be held to discuss international experience and to collaboratively identify which specific land management and development tools should be considered for possible application in Warsaw.

7. New Methods of Project Financing

Urban development projects in Warsaw rely on the budget for financing. Without issuing debt, the City is unable to spread capital costs over time. Currently, financing considerations are not an integral part of the design of large capital projects and proposals prepared by the City do not include sound financial analysis. Where economists do participate in project preparation, they are limited to assessing costs. Rarely do they participate during the design phase, examining alternatives, and exploring possibilities for cost recovery. In addition, without consistent demand studies at an early stage of planning, possible financial sources may be precluded. In fact, proposals are, in general, often inadequate: inaccurate, short, incomplete. In an era of financial unpredictability, the City needs to train its staff to mobilize financial resources for the projects that it most wants to undertake and which have a sound basis for expectations of success.

We propose three levels of technical assistance. The first will be the preparation of a paper and delivery of a seminar or seminars on municipal finance, which will provide ideas and methods for improving the way municipal staff look at project finance. The second will be the development of proposal prepara-

tion guidelines which can then be issued to all departments. This will establish an accepted format for project financial feasibility that will ensure a certain level of completeness and quality. It will also formalize the methods explained in the finance seminars as standard approaches to urban development projects.

The third part will be the identification of specific tools and techniques for infrastructure financing in the South Warsaw Airport Project Area. To best identify a range of realistic options, technical assistance will be provided to review and present "best practice" studies of infrastructure financing mechanisms drawn from cities in North America, Western Europe, South Korea, Singapore, Japan and Hong Kong. A seminar will be held to discuss the financing mechanisms and to collaboratively identify which ones should be considered for possible application in Warsaw. Financing mechanisms to be included in this activity include: special assessment districts; build, operate, and transfer (BOT) methods of private infrastructure provision; tax increment financing; land readjustment; developer exactions; and levying of user fees and charges to attain full cost recovery.

8. Training for Urban Development

It is clear that professional training in a number of areas could be useful to municipal officials -- within the government of the City of Warsaw, within the district governments, and within the governments of other cities. Three topics will be addressed: urban economic analysis and market feasibility for real estate development, techniques for public-private real estate development, and municipal finance, including project feasibility analysis and methods of cost-recovery. Training would be offered through one of the universities in Warsaw in a collaborative effort with USAID advisors. Courses are expected to be short and intensive.

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ANNEX 1: Persons Consulted

Warsaw City Council

Olgiard Roman Dziekonski
Deputy Mayor of Warsaw
Warsaw City Council

Wojciech Matusik
Director
Land Development Department
Warsaw City Council

Jan Jakobsche
Director
Department of Development Promotion
Warsaw City Council

Jolentz Brywcy
Deputy Director
Finance Department
Warsaw City Council

Piotr Zarzycki
President
South Warsaw Airport Development Project

Bogdan Bodziony
Legal Advisor
South Warsaw Airport Development Project

District of Wola

Grzegorz Buczek
Foreign Investment Advisor
District of Wola

Other Public Sector Contacts

Konrad Hryciuk
Advisor
Gemini Small Business Project
Ministry of Industry and Trade

Mirosław Zielinski
Advisor
Gemini Small Business Project
Ministry of Industry and Trade

Krzysztof Czujkowski
Assistant Vice President, Operations
LOT Polish Airlines

Jaroslav Roszkowski
Senior Vice President, Operations
LOT Polish Airlines

Andrzej Voigt
Executive Director
State Foreign Investment Agency

Private Sector

Krzysztof Grzesik
Chartered Surveyor
Price Waterhouse

Adam Polanowski
President
Polanowscy Corporation

Angus Goswell
Healey and Baker
Chartered Surveyors

Stephan Ryszard
Director
Property Services International

Non-Governmental Organizations

Krzysztof Herbst
President
Foundation of Social and Economic Initiatives

Boleslaw Bury
Secretary General
Warsaw Chamber of Commerce

Roman Wojnarowski
Executive Director
Polish Chamber of Commerce

Annex 2: South Warsaw Airport Project Interagency Agreement
THE AGREEMENT

This document is a final version of the preliminary wording of the Agreement of July 18, 1991 approved by:

- Executive Director of the PLL Lot Polish Airlines, Mr. Jarosaw ROSZKOWSKI on August 20, 1991;
- President of the Chamber of Merchants and Manufacturers, Mr. Bogdan TYSZKIEWICZ on September 17, 1991;
- Deputy Mayor of Gmina Raszyn, Mr. Mirosaw LEWANDOWSKI on November 15, 1991;
- President of the National Chamber of Commerce, Mr. Andrzej ARENDARSKI on November 20, 1991;
- Mayor of the Gmina Mokotów, Mr. Lech KRLIKOWSKI on November 28, 1991;
- Social, Economic and Self-management Commission of the Council of Warsaw on December 11, 1991;

including amendments requested by the National Chamber of Commerce and by the Management of Gmina Mokotów on November 12, 1991.

Art.1.

On the 30th day of December 1991 the parties hereby confirm the agreement concluded in Warsaw between:

1. The Management of Gmina Association of Warsaw;
2. Management of Gmina Mokotów;
3. Management of Gmina Ochota;
4. Management of Gmina Raszyn;
5. Enterprise PLL Lot Polish Airlines;
6. National Chamber of Commerce;
7. Chamber of Merchants and Manufacturers,

and aimed at joint activities directed at organisation of works related to creation of the ECONOMIC ZONE OF THE OKCIE AIRPORT.

Art.2.

This Agreement, initiated by the Management of the Management of Warsaw Gmina Association shall be valid for the period of 12 months with an option to extend or reduce the validity period, or transformation into another organisational form.

Art.3.

The activities referred to in Art.1 shall be conducted by the Working Team (hereinafter referred to as "The Team") in relation to legal issues, project and physical development matters, financial and organisational matters.

Art.4.

The Team shall perform tasks specified by the parties to this Agreement and in time frames specified by the parties. Rationale for appointment of the Team and the geographic and programme scope of its work is attached in the Appendix 1, terms of reference - Appendix 3, internal organisational structure - Appendix 4 to this Agreement.

Art.5.

The Activities of the Team shall be managed by, and the Team shall be represented by the Venture Coordinator bearing the rank of the President of Warsaw Commissioner appointed within the period of 2 weeks from the day of signature of this Agreement (hereinafter referred to as "Coordinator").

Art.6.

Activities of the Team shall be supervised by:

- on day-to-day basis - Head of the Physical Development Department of the Municipal Authority of Warsaw
- periodically - on the basis of Coordinator reports, Mayor of Gmina Mokotów, Mayor of Gmina Ochota, and Mayor of Gmina Raszyn.

Art.7.

Technical and administrative services to the Team shall be provided by the Physical Development Department of the Municipal Authority of Warsaw.

Art.8.

Detailed Terms of Reference for the Coordinator are attached in the list of general rules specified in the Appendix 3 to this Agreement.

Art.9.

The Special Fund shall be established in the Municipal Authority of Warsaw in order to provide for organisational and financial needs of the activities specified under provisions of this Agreement.

Art.10.

The burden of providing financial means for activities referred to in Art. 1 and 4 shall be taken, at the preliminary stage, by the National Chamber of Commerce and by the Chamber of Merchants and Manufacturers. These parties shall pay, jointly and severally, the amount of 150 mln PZL each to the account of the Fund within the period of 2 weeks from the date of signature of this Agreement.

Art.11.

The Coordinator shall submit the draft programme of activities, referred to in Art. 1 and 4, and their schedule to the parties to this Agreement for approval, within the period determined by these parties.

Art.12.

Remaining Parties shall, within the period of 2 weeks from the date of approval of the programme and schedule for activities referred to in Art. 11, pay following amounts to the account of the Fund:

1. Management of Warsaw Gmina Association 50 mln PZL;
2. Management of Gmina Mokotów 50 mln PZL;
3. Management of Gmina Ochota 50 mln PZL;
4. Management of Gmina Raszyn 50 mln PZL;
5. Enterprise PLL LOT Polish Airlines 50 mln PZL.

Art.13.

Should the materials referred to in Art.11 not be approved, and should the decision to terminate this Agreement be taken, the parties referred to in Art.12 shall refund the parties referred to in Art.10, jointly and severally, the amounts resulting from the distribution of costs incurred by the parties referred to in Art.10 to the this date onto all parties to this Agreement. The means of the Fund which were not spent shall be repaid proportionally to inputs realised.

Art.14.

The Management of Warsaw Gmina Association shall provide the office space for the period of activities referred to in Art.1 and 4.

Art.15.

Financial means provided to the account of the Fund by private persons, including foreign, may be accepted.

Art.16.

The means on the account of the Fund provided for expenditures decided upon at the request from the Coordinator in accordance with Art.17 of the Agreement shall remain at the disposal of the Head of the Physical Development Department of the Municipal Authority of Warsaw.

Art.17.

Single expenditures in excess of 50 mln PZL shall be agreed upon between the parties to the Agreement. Therefore, the Coordinator shall be obliged to submit the list of expenditures planned for the next quarter of a year and financial report on expenditures incurred during the previous quarter for approval by the parties to the Agreement.

Art.18.

After completion of works determined by the parties to the Agreement to be carried out by the Team, the Coordinator shall submit the report on the actions undertaken including, among other things, legal materials, development programmes and marketing issues, and proposals for the target organisation for creation and management of the Economic Zone of the Okcie Airport to the parties to this Agreement.

Art.19.

After the aforementioned materials the parties to the Agreement shall declare their willingness to create a permanent and target organisation for creation and management of the Economic Zone of the Okcie Airport.

Art.20.

The matters which are not regulated by this Agreement shall be governed by the provisions of the Civil Code.

Art.21.

The Agreement shall come into force on the day of signature.

Appendix 1 to the Agreement of December 30, 1991.

The location of the Okcie Airport together with existing and elaborated development of its surroundings forms a unique opportunity, in relation to the entire country, to create special investment, development and economic activity conditions i.e. the Economic Zone.

The aforementioned grounds are located within the area of the Gminas Mokotów, Ochota and Raszyn (see: Appendix 2).

The area under study provides opportunities for location of services understood in a broad sense of the word (hotels, domestic and international fair grounds, special services, office and trade centres), clean production (assembly halls), warehouses, duty free zones and wholesale trade, food storage and processing.

Due to the scale of the venture, uniqueness of organisation of implementation, as well as projected economic results a number of actions has to be undertaken such as:

- identification of physical, legal, and economic conditions for transformation of areas in question;
- identification of social possibilities and needs and economic possibilities for implementation of the programme and functions for the Zone;
- evaluation of economic effectiveness of the implementation and functioning of the Zone,
- identification of ecological conditions and those of land development;
- marketing and promotion.

Abovementioned activities which lead to comprehensive, unprecedented transformation of physical and economic functioning of the town and its surroundings, require adequate preparation both organisational and in terms of economic studies.