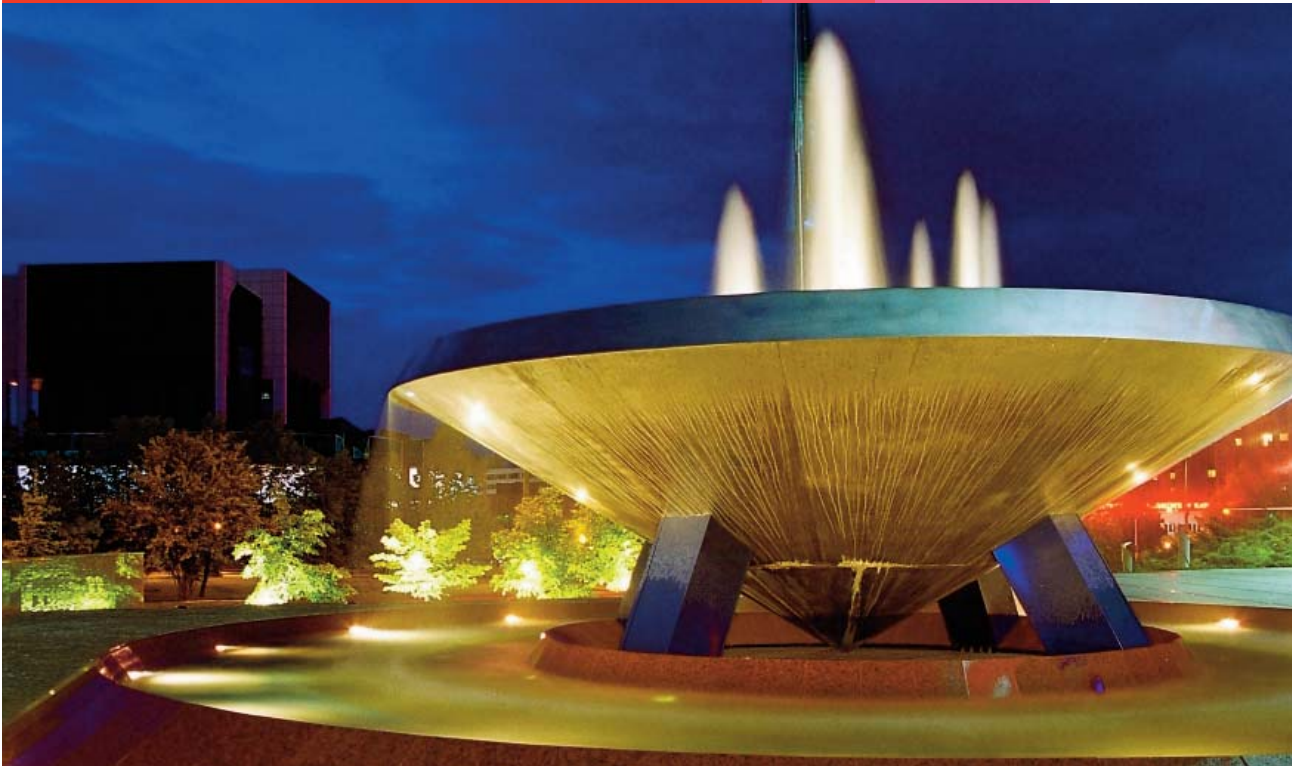




Reports on major Polish cities  
***Katowice***

2011



*The results presented are based on the assumption that the information obtained from sources other than PwC is complete and accurate in all respects. PwC assumes that the data and the responses are truthful and, therefore, the data received was not reviewed or otherwise verified.*

*This analysis is a certain interpretation of the data received and cannot be treated as a final recommendation, or advice on the choice of methods of operation or as a suggestion regarding the application of specific solutions. This document should not be treated as a substitute for consultation with professional advisers. Accordingly, PwC does not accept liability to any entity, which will use the information contained in this analysis without consulting a professional adviser.*

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# Katowice

*After a number of difficult decades, Polish cities have now set themselves on a path of rapid development that offers them the opportunity to catch up with other Western European cities and greatly enhance the quality of life of their residents. It is doubtful whether Polish cities have ever before had such a tremendous opportunity.*

Despite many difficult years of transition in Poland, sound market-based economic, democratic and socio-political institutions have been built, enabling civic activity to flourish. Cities have taken more and more responsibility for their own strategic decision-making, and for delivering ever greater affluence and quality of life for their residents. The European Union's "Leipzig Charter" sets out urban development principles, stating that development should strive to be sustainable, to satisfy economic prosperity, social equilibrium, environmental, cultural and health goals, and to deliver effective democratic institutions. Poland's membership of the European Union has meant that Polish cities have had unprecedented access to development funds to help them to reach these goals.

In the previous version of this report published in 2006, we principally tried to estimate where cities were at in terms of their access to \ development capital at the point where their growth was just taking off. In accordance with a methodology developed by PwC (formerly PricewaterhouseCoopers) we identified "seven capitals", each of which relates to a crucial area of development, and then estimated each from number of selected indicators.

We have now repeated this process, with a number of key enhancements. We increased the number of cities analyzed from 7 to 11, added a number of indicators that were not available in 2006, and have also been able to assess the rate of change evident between 2006 and 2010 on the basis of the differences between the two reports.

The level of development capital in Polish cities today is a legacy of past events in the region. Polish cities suffered many years of slow growth, followed by a transformation during which a great deal of painful economic restructuring was necessary. It experienced rapid, sustainable growth between 2005 and 2008, only to find itself hit by the global financial crisis. The accompanying radical increase in funds from the European Union budget for regional development offered Polish cities the opportunity to markedly improve development capital in the seven key areas. However, the accumulation of development capital is necessarily a long-term process, and it is often only after years that the payoffs for residents, in terms of increased income, economic activity and quality of life, are evident.

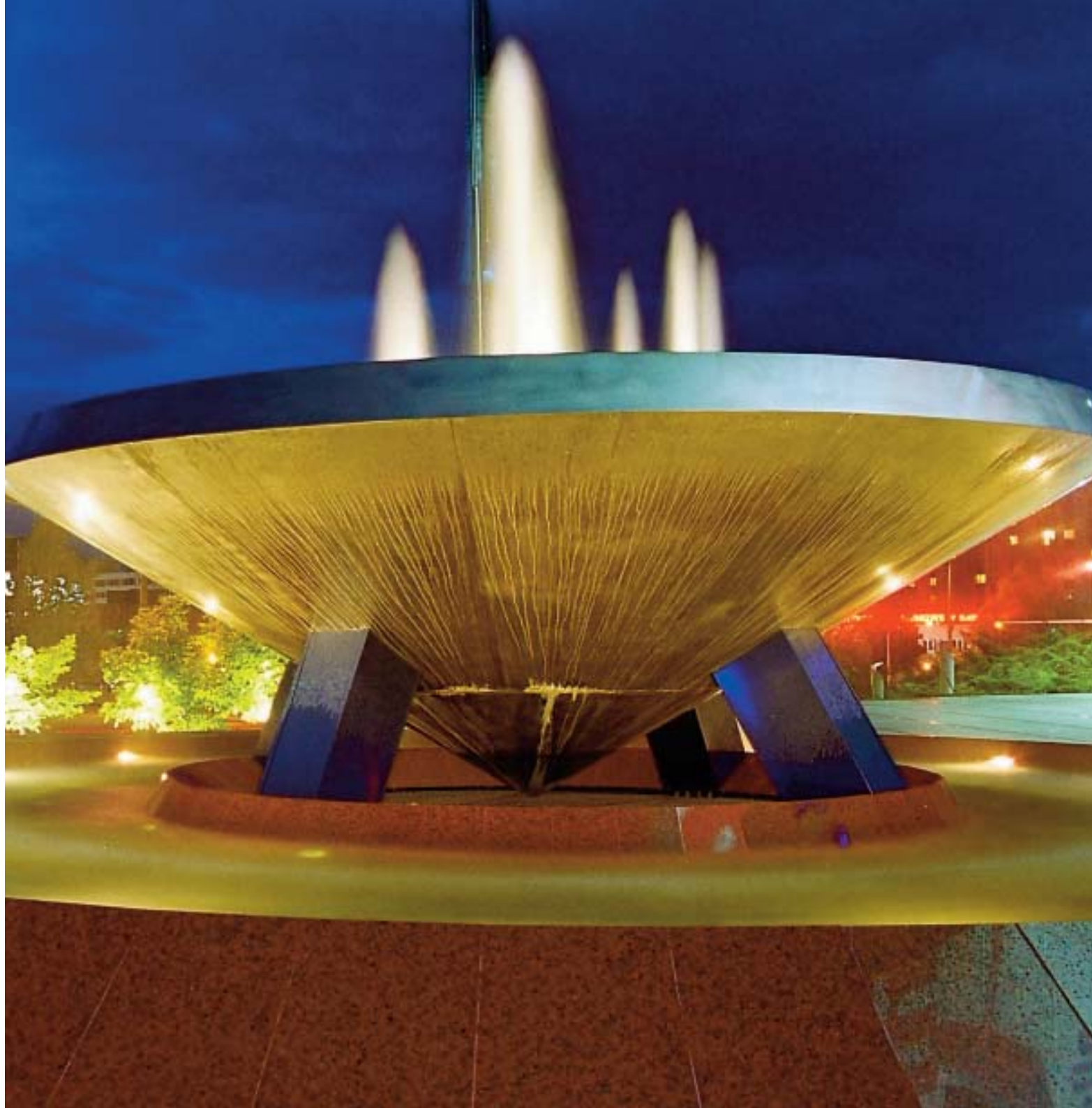
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**Witold Orłowski**

PwC's Chief Economic Advisor

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*Every city must have a certain amount of development capital in order to develop. Over the past few years, Polish cities have managed to clearly increase this capital.*

## Methodology

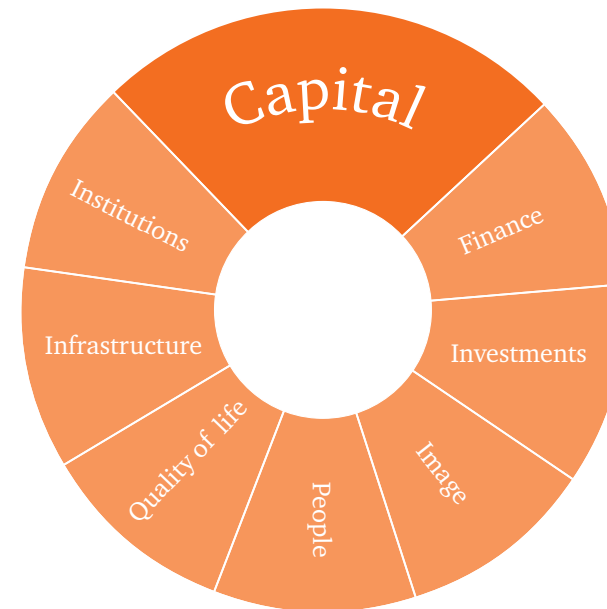
### **The seven types of capital of Polish cities**

Over the past few years, Polish cities have substantially increased their capital. However in many ways, they still find themselves lagging behind the cities of western Europe that they seek to compete with and be compared to.

There are likely to be large amounts of development funds available to Polish cities in the coming years. The purpose of this report is to evaluate the level of development capital of Polish cities now. In doing so, it offers a perspective on the major strengths and weaknesses of Polish cities that will support the development of clear strategies and priorities to enable Polish cities to make the best use of those funds to achieve their goal: to transform themselves into modern, flourishing vibrant population centres.

The measurement of the growth potential of Polish cities is based on a methodology developed by PwC (formerly PricewaterhouseCoopers). It is based on the principle that solid development requires a number of different resources, termed the city's "capitals", to be present at the same time.

We mostly commonly think of the term "capital" in a financial sense. However, modern economics uses and understands the term much more extensively, as applying not only to money but also to resources like the qualifications, knowledge and experience of a population (human capital), the number and quality of their interactions (social capital), and even the value attributable to the way a city is perceived (image capital). These each represent necessary resources for development, and only with skilful investment over years will they mature.



*A city with high development potential is a city with all 7 capitals well and evenly developed.*

## Methodology

### Seven development capitals

In analysing the development potential of Polish cities, we use the concept of 7 capitals, each of which is important for the city's development:

- **Human and Social Capital (HSC)** defines the quality of human resources at a city's disposal. This includes the knowledge and qualifications of its workers, the demographic structure (cities with an ageing population are less dynamic than 'young' cities) and the social activity of the inhabitants.
- **Culture and Image Capital (CIC)** relates to how a city is perceived: as an interesting and attractive place, or a cultural desert, for example. The better the image, the easier it is to attract investors to the city and boost the economic and social activity of its residents.
- **Quality of Life Capital (QLC)** reflects the living and working conditions the city offers. It consists of such ingredients as the state of the natural environment, level of health care, quality of educational institutions and people's sense of security
- **Technical and Infrastructure Capital (TIC)** relates to the infrastructure, as broadly defined, of a city: its housing stock, roads, transport systems, as well as shopping centres, ATMs and internet access.
- **Institutional and Democratic Capital (IDC)** reflects the efficiency of the municipal institutions (government and administration) and the level of civil society activity.
- **Investment Attractiveness Capital (IAC)** tells us how strong a magnet the city is for investors, both foreign and domestic.
- **Sources of Finance Capital (SFC)** specifies the extent to which the city is able to obtain cash to finance development.

A city with high development potential is a city with all 7 capitals well and evenly developed. If one of the capitals is less developed, this suggests weakness – and indicates a direction for strategic remedial action.

All of the indicators are defined and calculated in such a way that a higher value indicates that the capital is of a higher quality. It is always measured relative to the average for the 11 cities surveyed, which is 100.

The report's authors have made every effort to source comparable data, and have used the most recent available data (generally from 2009–2010).

Apart from measuring the level of development of the 7 individual capitals in the 11 cities in 2010, the study also tries to measure the change in the capitals that took place between the last and present editions of the report, i.e. 2006–2010 (noting that the previous edition covered only seven Polish cities.)

Due to methodological differences, a direct comparison of the changes between 2006 and 2010 cannot be made; therefore, capital change is measured using a simplified methodology. As such this results in an estimate, and caution should be exercised in its use.

It should also be noted that, where growth rates are concerned, a lower starting point offers greater scope for growth than does a higher starting point. This should be factored in when considering the estimates of growth provided here.

## General data on the cities included in the study



Data on the population from the end of 2009, GDP from 2008 (the latest available CSO data).  
Source: CSO, PwC

## How to read the radar charts in the report?

A radar chart allows us to analyse the city's capital in several areas at the same time: the more indicators being considered, the greater the number of axes on which we place values.

When connected, the points on the axes form a shape (triangle, square, pentagon) where the number of vertices is equal to the number of axes. These diagrams depict a given city's capital development (in red) against the average for the 11 major cities surveyed (in grey).

## When analysing the chart, attention should be paid to:

- The size of the image area – the larger the area, the greater the capital.
- The shape of the figure – the more proportional it is, the more balanced is the development of the individual capitals. “Pulling” of the shape in any direction suggests that the capital in that area is more developed than the average, while “recession” along any of the vertices indicates relative underdevelopment.

# Study results

## General observations

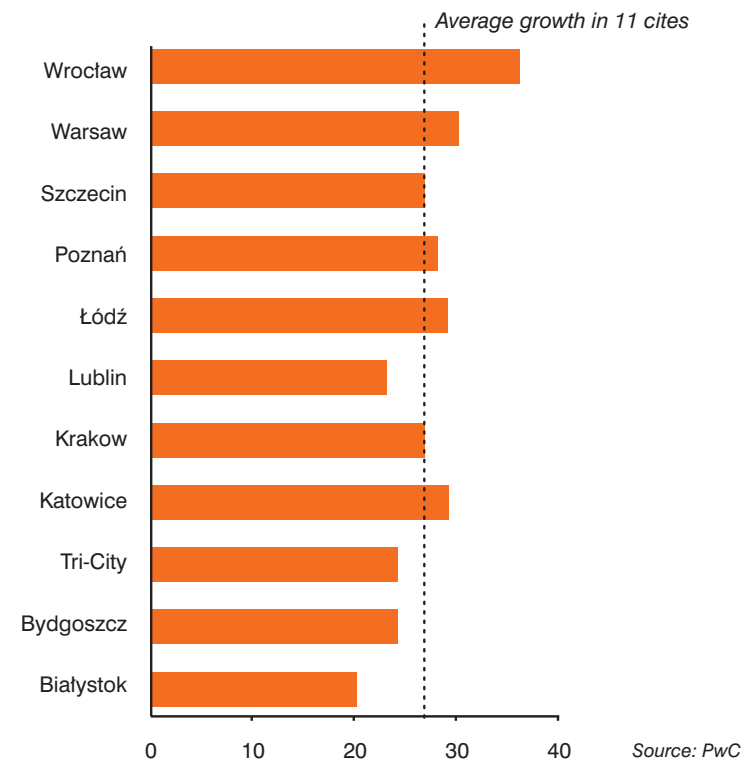
### A good five years

The past five years (2006–2010) have proven very positive for Polish cities. The country's development accelerated after Poland's accession to the European Union, partly due to the enormous opportunities created by unprecedented increases in regional development funds. Importantly, this has shown clear results in terms of increases in income and quality of life, improved infrastructure, and more efficient public institutions. The index of economic development\* measured for the 11 Polish cities covered by the survey shows a marked improvement in all the cities – its value has increased on average by 27%.

The fastest economic development over the period 2006–2010 was recorded by Wrocław and Warsaw, followed closely by Poznań, Krakow, Katowice and Łódź. A slightly slower than average rate of development was observed in Szczecin, the Tri-City area and Bydgoszcz. However, the main regional metropolitan centres of the “eastern wall”, Lublin and Białystok, developed somewhat more slowly, despite additional special development resources being targeted at these regions from European Union funds. This suggests that serious structural problems continue to hamper market-driven economic growth efforts there.

\* representing the weighted average of GDP growth per capita (real) from 2005–2007, growth in real incomes 2006–2010, and reduced unemployment.

Growth index of the economic development of Polish cities, 2006–2010



# Study results

## Growth of 7 capitals

### Development capital increased everywhere

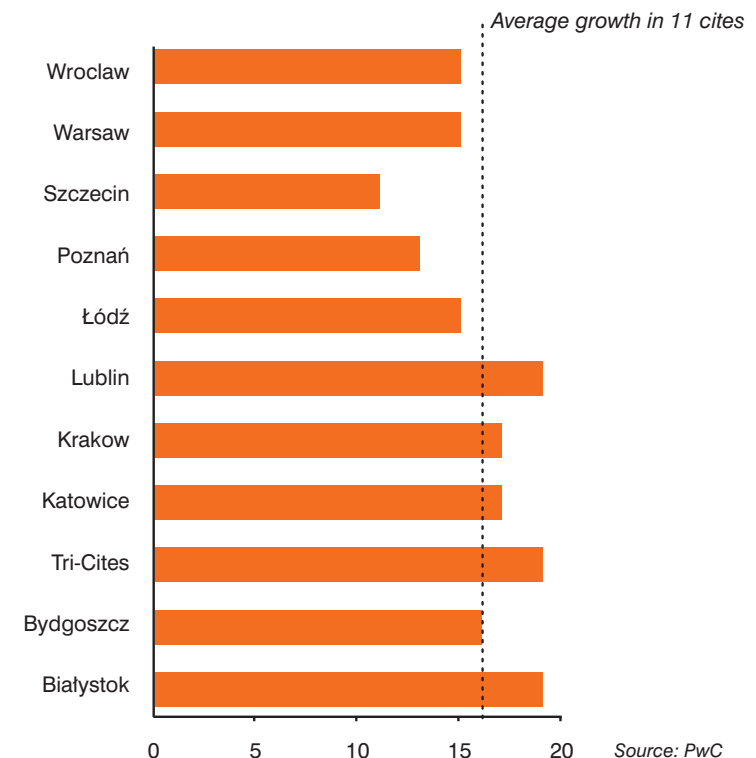
Polish cities took advantage of good development conditions in 2006–2010 to significantly increase their development capital. We estimate this growth to be 16% on average, meaning that each type of capital increased, on average, by this amount in each of the cities studied.

However, development has not been uniform. The greatest successes were achieved in the areas of Investment Attractiveness Capital and Culture and Image Capital, whereas the slowest progress was made in the areas of Technical and Infrastructure Capital and Quality of Life Capital. This is not surprising, as infrastructure is built up over many years while quality of life only increases as a consequence of sustained successes in other areas.

Of the cities studied, the fastest average growth of the 7 capitals was recorded in Lublin, Białystok and the Tri-City area. To a large extent, this is the result of the large amounts of development funding, mainly from the EU, that have been directed to Poland's eastern cities. However, this increase has not yet translated into accelerated economic growth among other “eastern wall” cities.

Capital grew at a rate that was slightly above average in Kraków and Katowice, and slightly below in Bydgoszcz, Łódź, Wrocław and Warsaw. However, the development capital of Poznań and Szczecin increased noticeably more slowly. It is worth re-stating, at this point, that a lower initial level offers greater scope for growth than does a higher starting point, and that this factor may be influencing these results.

Estimated growth of the average value of 7 capitals of Polish cities, 2006–2010



# Study results

## Comparison of capital growth

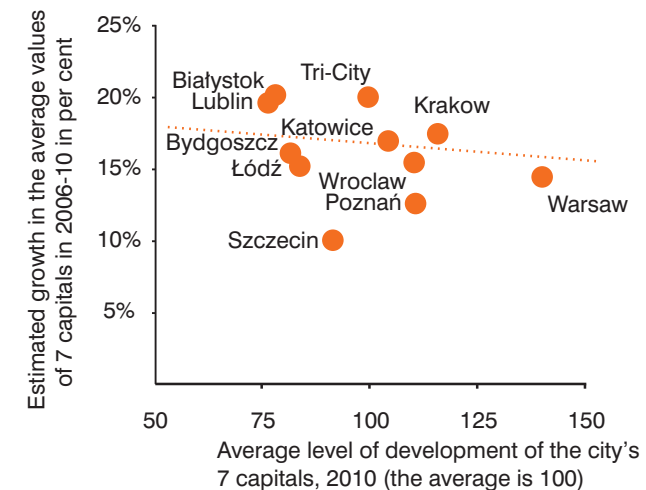
### Disparities are slowly declining

Generally speaking, over the period 2006-2010, the lower the starting level in a given city, the faster was its average increase in capital, leading to reduced inter-city disparities. This trend is so far relatively weak, but it should strengthen with the adoption of appropriate strategies for city development and the effective utilisation of development resources. However, we note that in the case of Szczecin and to a lesser extent Poznań, the estimated average capital growth was markedly slower than might have been expected.

### Relationship between economic development and the capitals

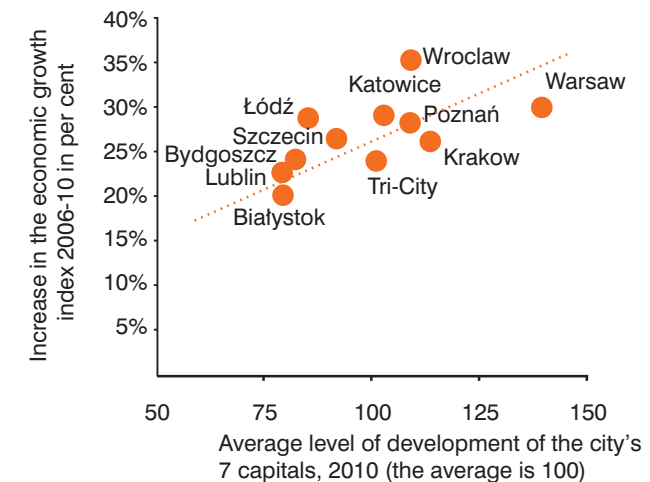
A high level of development of all 7 capitals indicates favourable economic development conditions, and consequently better quality of life for a population. An analysis of the data on the average level of the 7 capitals recorded in the 11 cities studied, paired with economic development index data for the period 2006-2010, does indeed suggest a close relationship between the 7 capitals and economic growth. In the case of Wrocław, the results on economic growth are slightly better than would be expected given its 7 capital resources.

The level and growth of 7 capitals of Polish cities



Source: PwC

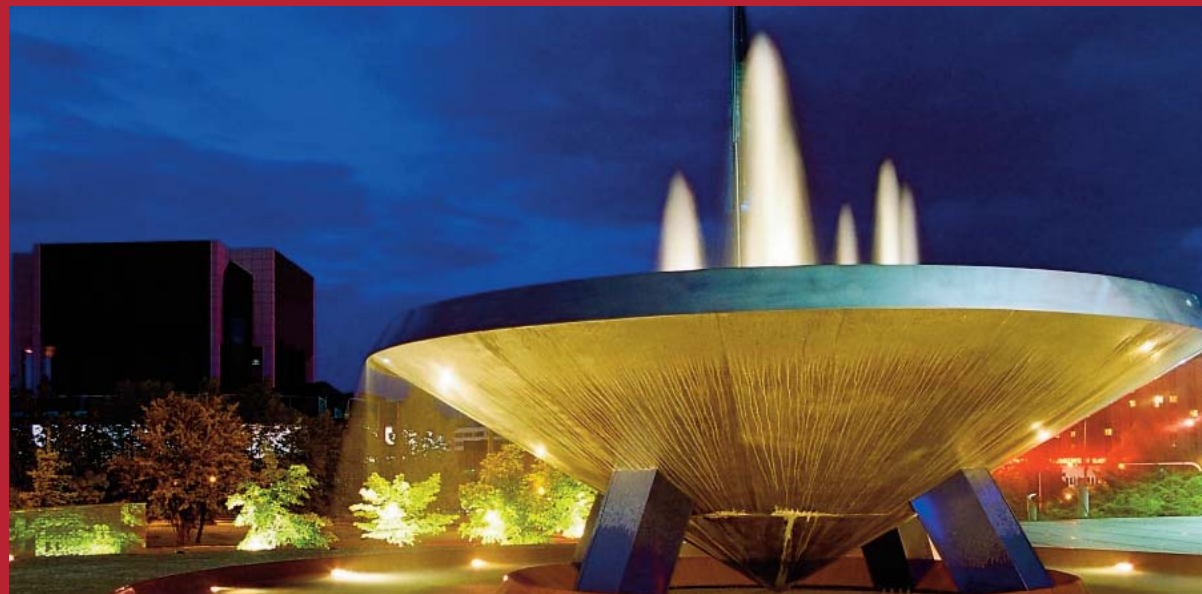
Level of 7 capitals and economic success of Polish cities



Source: PwC

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***Katowice***  
Key conclusions  
and recommendations



# Katowice

## Key conclusions and recommendations

### **Should the Silesian diamond shine alone or in a necklace?**

Katowice's situation is puzzling. In each of the 7 capitals, the city shows considerable development potential – usually higher than the average for all of the Polish cities. But the actual rate of change seems to vary considerably from its potential. Awareness and understanding of this fact is particularly important at a time when the city is facing the rise of strong competitors in the form of other quickly developing cities in the country. If Katowice wants to maintain or even strengthen its position, it needs to more than just keep pace with developments in other cities. In order to get ahead of its competitors, it must translate its potential into reality.

Katowice is generally perceived as a city with an outdated economy, devastated natural environment and low quality of life.

The reality is quite different, however such prevailing stereotypes may be causing the city to have a more difficult path ahead than its potential alone would otherwise suggest.

While obviously there are a number of problems, the Silesian metropolitan area also has many attributes that make it a good place to live and conduct business. Katowice's economy is becoming increasingly competitive. In comparison with other Polish cities, its infrastructure is well developed and it rates highly on measures of everyday cultural life. Its human and social capital aspects require further development, however they are still relatively high. Even the natural environment, which is commonly held to be in poor condition, in reality is not that bad – and better, even, than Warsaw or Kraków. Yet, it is difficult for Katowice to defend itself in the face of generally negative common opinion.

Katowice – overall assessment of development of 7 capitals



Source: PwC

# *Katowice*

## Key conclusions and recommendations

The city needs, most of all, a clear and consistently executed image-improvement and promotion strategy, both in Poland and abroad. The strategy should acknowledge the city's heritage and current situation, however it should be focused on the future and emphasise its new directions for development. It should also be limited not just to Katowice, but encompass the potential of the entire region. The robust activity of the Metropolitan Association of Upper Silesia would be of considerable assistance in this.

### ***City's biggest strengths:***

- Excellent location, well developed infrastructure and labour market
- Low unemployment rate
- Large number of graduates in technical and scientific fields

### ***Major challenges:***

- Unfavourable image
- Low sense of security among the inhabitants
- Greater use of non-budget methods of financing

*People are the most important and the most valuable resource determining a city's chances for development. There is no substitute for people's skills, their willingness to work, and the business and social activity they engage in.*

# People

## **Why do we measure Human and Social Capital?**

People are the most important and the most valuable resource determining a city's chances for development. In the modern world, it is possible to buy almost anything. You can rent an advertising agency to promote a city, find investors to provide funds for infrastructure development, and build efficient administration and online systems for providing services to inhabitants. But there is no substitute for people's skills, their willingness to work, and the business and social activity they engage in. In the longer term, it is the people – the Human and Social Capital, being a set of characteristics describing the human resources – that determine a city's economic development and its success. Human Capital is typically associated with intellectual resources while Social Capital describes the quality of the civil society. It is easy to imagine that the level of Human Capital – people's intellectual capabilities and skills – translate directly into economic development.

However the reality is a little more complicated. Human Capital influences the community's economic development and improves its quality of life in less obvious ways, such as reducing corruption, fostering long-term investment and disseminating knowledge, preventing abuse of common goods, speeding the investment process (by reducing the probability that administrative decisions will be appealed). In addition, through development of the third sector, it is conducive to greater social control over actions taken by authorities. (Source: *Social Diagnosis 2009*.)

The value of Human and Social Capital depends on many factors. Some of them can be influenced only to a relatively small degree (e.g. demographic structure). It is also not possible to force people to conduct business or social activity – although attempts may be made to encourage them to do so and facilitate any initiatives to that effect. However, in certain areas e.g. in education or on the labour market, the potential for action on the part of municipal authorities is quite high.

## **Measuring Human and Social Capital (HSC)**

The Human and Social Capital score constitutes an aggregate measurement of the value of a city's human resources, taking into account the following five characteristics: demographics, education, and citizen's attitudes towards the free market, labour market activity and civil society engagement.

### **HSC: demographics**

The demographic make-up of a city is one of the most important determinants of its Human and Social Capital and is, in the first instance, defined by its age structure and the number of very young children. The basic demographic criteria used to measure HSC include the demographic burden ratio, the share of elderly in the city's population, and the number of births per 1000 inhabitants.

In short, Katowice's demographics are not favourable. The demographic burden ratio is 0.55, meaning that there is 1.1 person of non-working age for each two people of working age. This ratio is the highest of the Polish cities analyzed.

The share of persons of retirement age is also very high (20.3%), while at 9 children per 1000 inhabitants, the birth rate is one of the lowest in the analysed group.

*Against an average of 100 for the 11 analysed cities, Katowice measured **93.2** on demographics.*

*In a modern economy, the quality of the human resources of a population is determined largely by its skills.*

## People

### **HSC: education**

In a modern economy, the quality of the human resources of a population is determined largely by its skills. Measuring this therefore involves measuring the average education of the inhabitants: the better their education, the higher the city's attractiveness in terms of investing and conducting business activity.

With the importance of the information society and the knowledge-based economy, it is impossible to ignore such aspects of education as knowledge of information and communication technologies, knowledge of foreign languages, and access to education and training in these areas when discussing Human Capital attainment. However, in order to avoid the repetition of similar indicators for the individual Capitals, these aspects have been taken into consideration in the Investment Attractiveness Capital and Technical and Infrastructural Capital.

Here, HSC is measured in terms of share of persons with university and high school educations, the number of high school and university students per 1000 inhabitants, and newspaper readership (the percentage of people who regularly read one of the three main national dailies). These last two were introduced in this year's survey, which reduces the direct comparability of HSC with earlier reports.

In Katowice, the level of general education is relatively low. The proportion of people with a university education is 16%. High school education ratios are similar (the lowest among the 11 cities). On the other hand, Katowice has the highest proportion of university students per inhabitant among the analysed cities, as it includes students who have come from other Silesian cities to study. The newspaper readership ratio is considerably below average.

*Against an average level of 100 for the 11 cities, Katowice measured **93.4** on education.*

# People

## **HSC: attitudes towards the free market economy**

Development is also affected by the attitude of citizens towards the market. In locations where people are more pro-market, they adapt more easily to the demands of the market and are more economically active and successful.

HSC in this area is measured by the proportion of persons engaged in business activity.

Compared to other Polish cities analyzed, the pro-market attitude of the inhabitants of Katowice is below average. The proportion of persons conducting business activity is 13.3%, compared to the average of 14%.

*Against an average level of 100 for the 11 cities, Katowice measured a quite low level of **94.5** on pro-market attitudes.*

## **HSC: labour market**

The labour market conditions, from a Human Capital perspective, principally relates to the availability of employees with skills sought by employers. In a city with high Human Capital, there should be low unemployment.

As such, the HSC indicator regarding the labour market is measured by the unemployment rate, both overall and that specifically for youth.

Katowice's labour market may be considered favourable. The unemployment rate is one of the lowest in the analysed cities (2.6%), and the salaries are relatively high. However, the rate of youth unemployment is relatively high (15.9%). Katowice's labour market is considerably influenced by the ready supply of employees from neighbouring cities such as Sosnowiec or Chorzów, where the unemployment rate is much higher.

*The HSC with regard to labour market conditions is favourable. Against an average of 100 for the 11 cities, Katowice measured **119.4**.*

# People

## ***HSC: civil society engagement***

A high level of engagement in civil society indicates high Social Capital – people are involved in common interest activities .

HSC with regard to civil society engagement is measured by access to Internet resources and average voter turnout (parliamentary elections in 2007, presidential and local government elections in 2010).

These indicate that inhabitants of Katowice are very socially active. While voter turnout was one of the lowest in the analysed cities (53% vs. an average of 56%), the presence of non-government organisations on the internet in Katowice was one of the largest.

*Against an average value of 100 for the 11 cities, HSC in Katowice in this area measured a high level of*  
**122.7.**

Against an average level of 100 for the 11 cities analyzed, Katowice's total Human and Social Capital was at 104.6.

## People Summary

### **Katowice's Human and Social Capital**

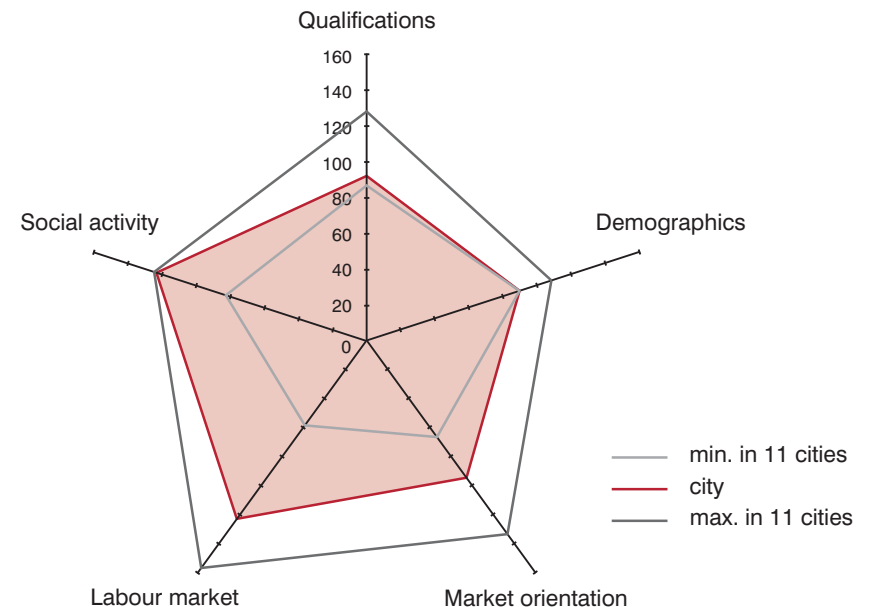
In comparison with other large Polish cities, Katowice's HSC is relatively well developed. Its strengths include a well developed labour market with a low unemployment rate and large numbers of students at Katowice's universities. Its weaknesses include its demographics and overall level of education. An important attribute is Katowice's strong sense of local identity. As the latest edition of these reports was being published, councillors from the Ruch Autonomii Śląska (Silesian Autonomy Movement) were elected to seats in the Sejmik Śląski (Silesian Local Parliament) for the first time, and the candidate for the local political party Forum Samorządowe (Local Government Forum) won the mayoral elections in Katowice for the fourth time in a row. Only in Wrocław and Gdynia was similar support for a local political party in 2010 local government elections witnessed, and the presence of an autonomy party in the local parliament is unique.

How this local sense of identity developed raises interesting questions about the development of the city, the role of the Metropolitan Association of Upper Silesia, and the role of Katowice itself in the region's development.

The city's inhabitants also display a high level of activism. Social mobilization, citizen involvement in city matters, and a sense of a need to be involved in action for development could be seen during the public debates on rebuilding the train station in Katowice. Strong civil society is one of the city's greatest attributes. In the near future it will be important to work to development similarly strong attitudes relating to entrepreneurship and civil society. The policies of the city's authorities should aim to create further incentives for inhabitants to undertake business activity.

The intensification of educational activities for the purpose of obtaining EU funds for the development of entrepreneurship is also recommended.

People – Katowice



# Quality of Life

## **Why do we measure Quality of Life Capital?**

If a city wants to succeed economically in the long term, it must provide good living conditions for its inhabitants. A high quality of life in a city will cause people to decide to live and work there, including those who will reject offers to move to different domestic or foreign cities, and investors will be more inclined to relocate business activities. A high quality of life also leads to pride and satisfaction with one's own city, while a low quality of life yields disillusionment and frustration.

The quality of life in the city is made up of many factors. The condition of the natural environment is one important aspect, as are access to good quality medical and educational services. A sense of security is of tremendous importance. The best entertainment centres and services cannot guarantee that inhabitants and guests will feel comfortable in the city if a sense of security is lacking.

## **Measuring Quality of Life Capital (QLC)**

Quality of Life Capital largely determines the extent to which the city is considered a good place to live and work. It is the most debatable capital (besides Culture and Image Capital). It is also the most difficult to present as a single ratio.

In the Polish market there are several indicators that pertain to various aspects of the function of a metropolitan area. These include for example the number of cultural events or hotels of a given standard.

In our reports, these are covered in the Culture and Image Capital or the Investment Attractiveness Capital.

However, considering the importance of healthcare and sense of security to the overall quality of life, we decided to stay with the definition that was adopted four years ago, which is also consistent with PwC's global methodology. This also allows direct comparability with the previous edition of these reports.

*Hence, when measuring QLC, we take into account four aspects of quality of life: the condition of the natural environment, level of medical services, level of educational services and sense of security.*

*Cities with a good natural environment give their inhabitants a much greater sense of comfort and satisfaction with life.*

## Quality of Life

### **QLC: condition of natural environment**

Cities with a good natural environment give their inhabitants a much greater sense of comfort and satisfaction with life. It should be remembered that in the field of environmental protection – as in many other fields – commonplace opinions are difficult to overcome, and spectacular failures or successes (such as appearance of fish or bird species which have not been seen for many years) very frequently have greater impact than technical measurements of environmental pollution.

The selected indicators that we use to measure QLC in terms of the condition of the natural environment include air pollution measurements (emission indices for various types of gaseous and dust pollutants), number of cars per km<sup>2</sup> in the city limits, capital expenditures on environmental protection and percentage of treated sewage.

The condition of the natural environment in Katowice is better than commonly thought. Despite the fact that air pollution is the highest in Poland, the situation is helped by relatively low car traffic density (1160 per km<sup>2</sup>) compared to the largest cities in the group analysed. Capital expenditures for environmental protection are also above average for the 11 cities, which may result in improvement in the coming years.

*Against an average level of QLC for natural environment condition of 100 for the 11 cities, Katowice measured **82.3**.*

### **QLC: healthcare quality**

The availability of medical services of adequate quality is one of the factors that exerts considerable influence on the assessment of living conditions in the city. While certain problems in this area are common to all Polish cities, individual cities also fare very differently.

The basic ratios selected for measurement of QLC in the area of medical services include the number of physicians per 1000 inhabitants, infant mortality rates, and the ranking of healthcare centres (by the Centre for Monitoring Quality in Healthcare and “Rzeczpospolita”), as well as the average waiting time for an appointment with a given specialist physician. The last two ratios were not available when the previous edition of this survey was carried out.

Availability of high quality medical services in Katowice is good – one of the best in the analysed cities. The number of physicians per 1000 inhabitants is considerably higher than the average for the analysed group. In the city and in its direct vicinity there are many very good medical centres. Despite this fact, Katowice’s infant mortality rate – which is the most comprehensive indicator of general public health and the function of the healthcare system – is 9.4 per 1000 births, which is considerably higher than the average value of 6.

*Against an average level of 100 for the 11 cities, the value of QLC in Katowice for healthcare measured **109.7**.*

# Quality of Life

## **QLC: education quality**

The quality of educational services is usually one of the first issues considered when assessing the overall quality of life in a city. Good schools and highly ranked universities attract new inhabitants and are important when making the decision to move, either temporarily or permanently (which results in greater availability of highly skilled employees). Good education also facilitates the city's social and economic progress due to the fact that it positively influences its development prospects. Active innovation and education policy is one of the main priorities for sustainable development specified by the EU document referred to as the Leipzig Charter. According to this document, cities are centres for the creation and transfer of knowledge, and the sustainable development of metropolitan areas should take into account the need to continuously increase the level of education. The indicators used for measuring QLC include scores recorded by the city's most important universities in the university rankings (in "Perspektywy" magazine), the success rate

of high school-leavers in 2009, and results recorded on 6th grade exams and junior high school-leaving exams in 2008. This indicator is new in this edition of the survey.

The quality of educational services in Katowice remains a challenge. Katowice's universities rank considerably below average for the analysed cities, and the high school-leaving exam pass rate is 82.6% vs. the average of 83.4%.

*Against an average level of 100 for the 11 cities, the value of QLC in Katowice for quality of education is **86.5**.*

## **QLC: sense of security**

Sense of security encompasses many dimensions: physical security of the inhabitants (the crime rate and road traffic safety), protection from natural disasters and accidents, and a sense of security in terms of access to healthcare and job opportunities are all equally important.

While measuring QLC for sense of security we limited ourselves to the area of physical security and used the following indicators: number of recorded crimes and number of traffic accidents per inhabitant.

The results of the analyses show that Katowice should do more to improve security for inhabitants and visitors. The crime rate in the city is relatively high, and the number of traffic accidents is above average for the analysed cities.

*Against an average level of 100 for the 11 cities, the value of QLC for security in Katowice measured **84.8**.*

# Quality of Life Summary

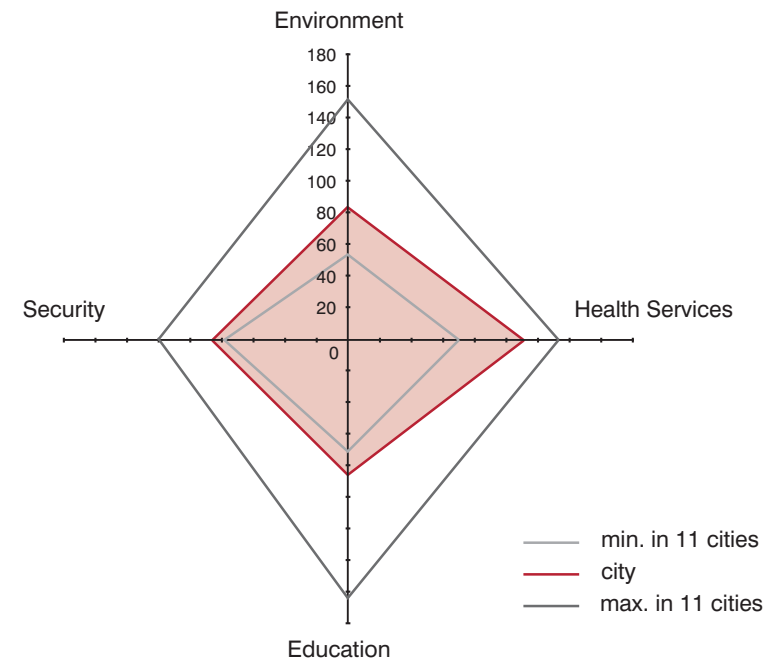
## **Katowice's Quality of Life Capital**

Contrary to popular opinion, the city's natural environment is in relatively good condition, with a relatively high budget allocated to environmental protection. Healthcare is also very good.

However, issues related to security and quality of education, especially at university level, remain a challenge. The priority task for Katowice should be to plan an effective development strategy for these areas.

*Against an average level of 100 for the 11 cities, Quality of Life Capital in Katowice measured 90.8.*

Quality of Life – Katowice



# Image

## **Why do we measure Culture and Image Capital?**

In the modern world and in the modern economy, decisions to purchase goods and services are made not only on the basis of actual values, but also on the basis of our opinions about a product. A product's brand is an important aspect of this: its prestige, quality and the trust we have in it. A similar principle holds true for cities. In addition to the things that a city offers its inhabitants and companies, our opinion of it, i.e. its image, is very important. A city that enjoys the image of a robust, friendly and interesting place with a good standard of living will attract both tourists and investors.

The image of the city depends on many factors. Since the previous edition of "Reports on major Polish cities", we have seen tremendously positive changes in Culture and Image Capital at the strategic and qualitative level. In most of the cities, image is no longer shaped by accident but is, to much greater extent, the result of more or less consistently executed promotional strategies. Positive results for cities that started regular promotional activities

early can be clearly seen throughout Poland and Europe. For the others, changing the image among inhabitants, investors and tourists will necessarily involve long-term efforts. In this report we decided to avoid a detailed analysis of the quality, effectiveness and consistency of activities conducted by individual cities in the image-building area, as such processes are to great extent evaluated subjectively. For the purposes of this publication, we limit ourselves to indicators which are objective and measurable.

As this report is being prepared, some of the cities being analyzed are facing tremendous opportunities to shape their image in Europe.

Firstly, Poland will have the presidency of the European Union in the second half of 2011, and subsequently host Euro 2012. In addition, these reports were being compiled, it became known that five Polish cities have qualified to compete further for the title of European Capital of Culture. For Gdańsk, Katowice, Lublin, Warsaw and Wrocław this means very intensive activities in the area of Culture and Image Capital.

However, we see participation in the qualifying round itself as important – it has the potential to start a debate on the how the candidate cities should promote their cultural attributes and may result in several new initiatives and a comprehensive approach to development in this area.

As part of city strategies for development and promotion, Polish cities have been increasingly considering the sustainability of their development strategies. This is of key importance to the cities' development, their image, and the quality of life they will be able to offer in the longer term. Polish cities are increasingly beginning to consider sustainable development issues in a comprehensive and long term manner; this applies to both larger cities and smaller townships. The tasks related to implementation of principles and strategies for sustainable development are also increasingly frequently reflected in lists of duties and tasks for the individual departments of local government bodies.

In sustainability terms, Polish cities are also active internationally: 10 cities signed the

mayors' agreement declaring limits on CO2 emissions, and 12 cities (all those covered by this analysis plus Rzeszów) belong to the EuroCity network which includes the largest European cities and focuses on challenges facing the European Union, including climate change and social exclusion.

*Culture and Image Capital is a measure of how the city is perceived – by its inhabitants as well as outsiders.*

# Image

## **Measurement of Culture and Image Capital (CIC)**

Culture and Image Capital is a measure of how the city is perceived – by its inhabitants as well as outsiders. Like many of the capitals, it can give rise to lively debates and strong emotions, and the range of potential indicators that can be used to attain it is very broad.

What is important is the fact that even a broad selection of available indicators does not always mean a the value obtained is precise, making the analysis extra difficult. We preserve the methodology adopted four years ago and, in measuring CIC, take into account three characteristics: general opinions of the city, high culture, and the culture of daily life.

## **CIC: general image of the city**

General image consists of the city's overall recognisability, its generally recognized attractiveness, as well as the perception of its values by its inhabitants (e.g. traditions of honesty and hard work).

The basic indicators we have used to measure CIC as regards general image are: the number of “good associations” with the city on the Internet (e.g. number of websites with the city's name and the word “culture” in them), number of tourists visiting the city, the number of words a city warrants in a typical tourist guide to Poland and tourist opinions expressed on online travel sites, and the observed rate of entrepreneurship (a new indicator for this edition of the survey).

Katowice should continue its efforts in image-building. Promotional activities accompanying large cultural and sporting events have been observed for some time, and there has also been the more recent “City of Gardens” campaign related to the European Capital of Culture 2016 competition. However, Katowice continues to struggle with negative stereotypes. The city is not well recognized globally and its internet presence, as far as associations with culture and tourism, is weaker than that of other cities. Katowice is still frequently associated with devastated industrial landscapes and mining, although more frequently it is associated with Spodek and the many and diverse cultural and sports events taking place in the city.

*Against an average level of 100 in terms of overall image for the 11 cities, the value of CIC in Katowice is at 58.4. The result would be greatly improved if the city had more prominence on the Internet and in tourist guides.*

# Image

## **CIC: high culture**

A city's image largely consists of its activity in the area of so-called high culture. Although a relatively small percentage of inhabitants and guests use such services, these are significant cultural events that are more likely to be publicized in the opinion-making media and shape the city's image as an interesting, attractive and appealing place.

The basic indicators selected for measuring CIC with regard to high culture include the city's culture budget, the number of concerts, film festivals, theatre festivals and classical music festivals, as well as concert attendances (all per number of inhabitants).

Katowice's position in the area of high culture is ambiguous. On one hand, the city organizes many concerts for mass audiences and film festivals. On the other, the number of theatre festivals, classical music festivals and chamber music concerts is considerably below average for the analysed cities. The city's budget for such events is slightly below average for the analysed cities.

*Against an average level of 100 for the 11 cities, CIC for high culture in Katowice rates at **146.5**, mostly due to mass events.*

## **CIC: daily cultural life**

A city's inhabitants and guests form an impression of a city on the basis of the daily cultural life: the selection of restaurants, hotels, number of cinemas, number and quality of parks, and number of popular mass events.

The indicators used to measure this aspect of CIC include: the number of cinema seats, number of restaurants, number of sport stadium seats (including those under construction, including planned Euro 2012 facilities) and the green areas within the city's administrative boundaries (all per number of inhabitants).

The selection of attractions related to everyday cultural life in Katowice is good. The city has many cinemas, and there plenty of stadium seats for sports fans. Although Katowice has plenty of green areas compared to many other large cities, its score decreased with the addition of the new cities to this report (the inclusion of Szczecin, Bydgoszcz and Lublin particularly affected Katowice's relative ranking here). Katowice ranks low in terms of number of restaurants.

*Against an average of 100 for the 11 cities, the value of CIC for daily cultural life in Katowice is **152.2**.*

Against an average level of 100 for the 11 cities, Katowice's Culture and Image Capital measures 119.1.

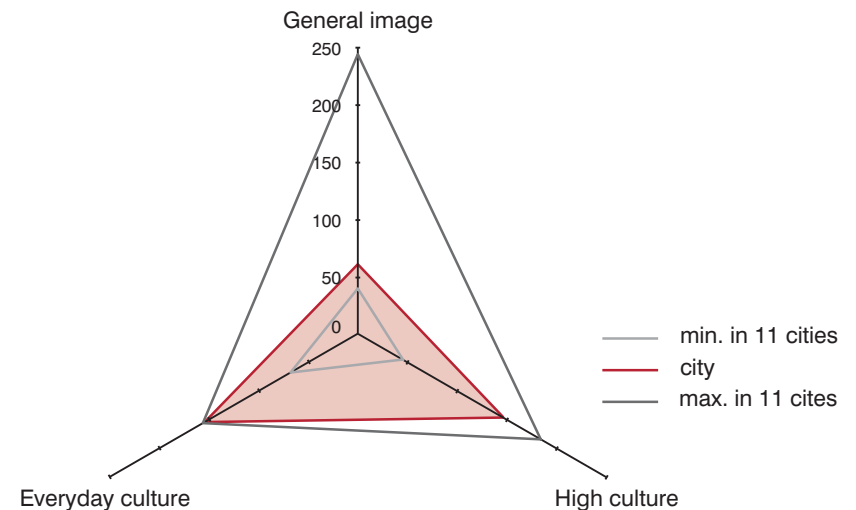
## Image Summary

### Katowice's Culture and Image Capital

Katowice attributes its high result in this area to rich and varied entertainment options and well-developed daily cultural life. The city hosts many mass events such as concerts and film festivals that have helped to promote Katowice the a City of Big Events. The most popular events include Mayday, Metalmania, Rawa Blues, the Off Festiwal and "Tauron Nowa Muzyka" Festival. At this point it should be emphasized that Katowice is facing rapidly growing competitors in the area of sports events and mass events, therefore it may grow more and more difficult to deliver on its slogan. Other cities are developing their own cultural offerings and modern stadiums are being built for Euro 2012, both of which will compete against the current Silesian region facilities. However, Katowice will still be competing for European Capital of Culture 2016 and in connection with this event will stage a number of promotional activities under the slogan: "Katowice – City of Gardens".

In summary, image remains a considerable challenge for the city. Katowice is not well recognized globally and its Internet presence is weak. One task facing the city is to find a compromise between its communist heritage and modern present that doesn't deprive the city of its past, yet at the same time allows and promotes modernization. Katowice's image may improve if planned city centre developments are carried out and investments related to key facilities and elements of urban space are finalized. Using the city's assets to its advantage could include making better use of post-industrial buildings, such as by designating them for cultural purposes (the Wilson Shaft Gallery, among others). To change prevailing stereotypes, though, will require consistent, long term promotional activities.

Image – Katowice



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# Institutions

## ***Why do we measure Institutional and Democratic Capital?***

Institutional and Democratic capital determines the degree to which institutions which manage the city function effectively, e.g. city authorities, public administration and maintenance services. It also reflects the level of civic activity of inhabitants and effectiveness of democratic mechanisms, as well as the level and effectiveness of communication between the authorities and the society.

In cities with high Institutional and Democratic Capital, it is easier to develop and exercise a consistent development strategy. Authorities which are controlled democratically can perform their duties more effectively and have a stronger social mandate for managing the city, while the activities of the citizens supports them on the road to achieving common goals. This facilitates the achievement of success in terms of economic and social development.

## ***Measuring Institutional and Democratic Capital (IDC)***

The Institutional and Democratic Capital of a city is made up of the quality of the authorities' actions, the activities of the inhabitants, and communication between the authorities and the people.

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*IDC is measured in three areas: the effectiveness of municipal institutions (authorities and public administration), their performance of the basic function of ensuring public safety, and non-governmental organization activity.*

# Institutions

## **IDC: administrative effectiveness**

Opinions regarding the city's authorities and administration are based on the experiences of inhabitants and visitors. These judgments are influenced by the way the authorities communicate with the society: whether citizens are included in strategy development, and whether explanations of the problems and goals of various activities is provided. A constructive dialog with inhabitants contributes to both a streamlined process of strategy development as well enhanced performance, since a document developed in a such a manner will better take into consideration the problems facing inhabitants and offer solutions.

The primary indicators used to measure IDC in terms of the effectiveness of municipal institutions are: administration expenses (compared to the population), indicators of the effectiveness and availability of offices indicated by waiting times for entry in the economic activity register, office opening hours that reflect citizens' needs, and opportunities to use online office services (new in this edition), and the percentage of votes received by the incumbent president in the local government elections of 2010 (also new in this edition).

With regard to the effectiveness of municipal institutions, Katowice could benefit from certain improvements. These concern, particularly, the formalities associated with being entered in the economic activity register. Authorities also do not offer their citizens the option of conducting business with them online. Office availability in the city is average. The incumbent president received a high percentage of votes in the local government elections of 2010, indicating overall satisfaction with the efficiency of municipal institutions.

*Against an average level of 100 for the 11 cities, Katowice's IDC for effectiveness of administration is estimated at **78.4**.*

# Institutions

## **IDC: public safety expenditure**

Assessment of municipal institutions is largely based on their actions in the crucial area of safety: expenditure on law and order services, and the extent to which people trust these services. It is worth noting that citizens' assessments of authorities' efforts in this area can be separate from their actual perception of security (taken into consideration in the Quality of Life Capital) – in other words, there are cities with a high crime-rate despite the considerable efforts of the authorities, as well as cities where both expenditure on safety and crime-rates are low.

In measuring IDC in terms of public safety, the following indicators were used: the city's expenditure on safety, the number of police and city guards (all per 1,000 inhabitants) and the crime detection rate.

As was noted in the discussion of Quality of Life Capital, Katowice is not a particularly safe city. Indicators such as the city's expenditure on safety and the number of police and guards are far from the highest among the cities analyzed. The crime detection rate is also lower than average.

*Against an average level of 100 for the 11 cities, IDC for expenditure on safety in Katowice measured **91.0**.*

## **IDC: non-government organization activity**

A high level of non-government organization activity contributes to the better operation of democratic mechanisms, increased scrutiny of authorities' actions on the part of citizens, fostering of partnerships between the city's inhabitants and its authorities, as well as the increased involvement of citizens in working out and implementing a city's development strategy.

IDC in terms of non-government organization activity is measured by analysing Internet sources to ascertain the number and level of activity of non-government organizations registered in the city.

In Katowice, there is a high level of non-government organization activity. 5.7 such organizations were registered per 1,000 inhabitants. This indicator is higher only in Warsaw – 6.6. The activity of these organizations, as observed on the Internet, is also well above average.

*Against an average level of 100 for the 11 cities, Katowice's score for non-government organization activity is high, at **132.9**.*

# Institutions Summary

## **Katowice's Institutional and Democratic Capital**

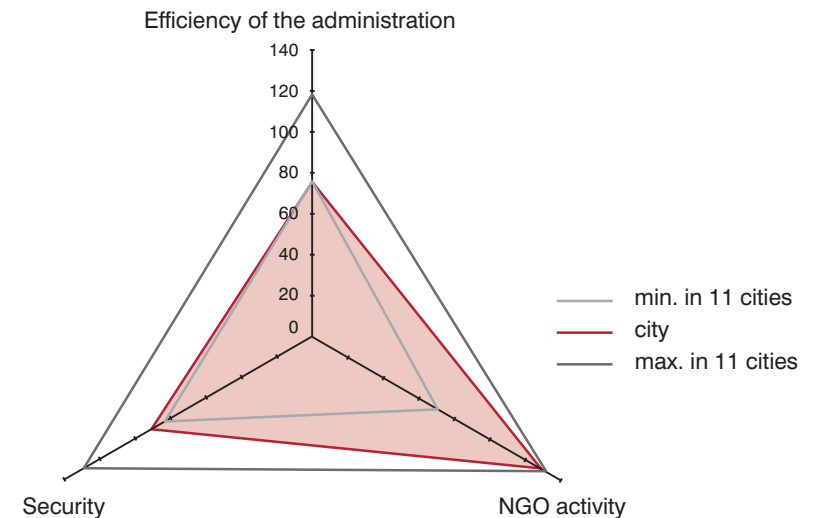
Katowice's greatest asset is clearly its high level of social activity, reflected in the activity of non-government organizations that are present in the city's geographical space and on the Internet. The city should, however, make more effort to increase the effectiveness of its administration.

The formalities connected with starting a business in Katowice should be improved, and the expansion of online means of communications with residents would be valuable.

Efforts to improve safety, the number of police and city guards and the associated crime detection rates are also indicated.

*Against an average level of 100 for the 11 cities, Katowice's Institutional and Democratic Capital measures 100.8.*

## Institutions – Katowice



# Infrastructure

## **Why do we measure Technical and Infrastructural Capital?**

Effective infrastructure – including efficient transport, housing resources, services infrastructure, media and utilities (both more traditional such as power and water, and modern such as telecommunication and the Internet) is a prerequisite for creating an efficiently functioning metropolis where people can live and do business. The advantages that flow from well-developed Technical and Infrastructural Capital directly influence the other Capitals, in particular Quality of Life, Human and Social, and Investment Attractiveness. Without sufficient, or sufficiently developed, Technical and Infrastructural Capital, progress in the other areas will be considerably slower than in cities with well developed infrastructure, and people's quality of life deteriorates, the city's image worsens, and its attractiveness as a place for locating investments diminishes.

For these reasons, we regard Technical and Infrastructural Capital as warranting special attention.

It is important to remember that to have effective infrastructure in place requires not only the presence of concrete resources such as transport systems, buildings, equipment and installations, but also a level of organizational efficiency in management and administration that allows these to be fully utilized. The actual Technical and Infrastructural Capital level often depends also on the efficient operation of the markets for services, media and utilities and housing. Renting or buying appropriate housing is as difficult as in a city with no housing resources available as it is in a city with extensive housing resources but an inefficient market .

## **Measuring Technical and Infrastructural Capital (TIC)**

The city's Technical and Infrastructural Capital has a strong impact on the city's attractiveness as a place to live and do business. The TIC assessment is usually based on the experiences and observations of the city's inhabitants and visitors. Negative opinions that gain traction can destroy a city's image, even it does well in other areas.

*In our opinion, there are four kinds of infrastructure crucial for successful development: transport infrastructure, energy and IT infrastructure, housing infrastructure, and trade and services infrastructure.*

# Infrastructure

## **TIC: transport**

A general assessment of the efficiency of the transport network in the city needs several factors to be taken into consideration: road infrastructure, alternative forms of transport, the quality of public transport and the quality of the city's connections to the outside world.

The indicators used to measure TIC for transport are: density of the road network, number of bicycle lanes, number of public transport seats in relation to the population, as well as the number and quality of the city's connections to the outside world: the number of direct flights (airports within a 100 km radius), time taken (by train) to reach the five largest Polish cities (a new indicator in this edition of the survey), access to the European motorway network (a new indicator in this edition of the survey). In combination, these indicators give us a general idea of the quality and development of the city's transport infrastructure.

Katowice's transport system is relatively good. The city has at its disposal a dense network of roads, with good access to the European motorway network. Rail travel from Katowice is also fast, and access to direct flights is good. In addition to the airport in Katowice itself, Krakow airport is accessible. The number of public transport seats is close to the average for the analyzed cities. For Katowice, ensuring efficient transport among cities of the Upper Silesian Union of Metropolises is especially important. It is also worth emphasizing that Katowice has one of the most extensive networks of bicycle lanes (per square meter).

*Against an average level of 100 for the 11 cities, the value of TIC for transport for Katowice measured **129.2.***

*The availability of low-priced apartments or houses in the city depends both on the number and quality of housing resources in the city and on the efficiency of the real estate market.*

## **Infrastructure**

### **TIC: apartments**

The availability of low-priced apartments or houses in the city depends both on the number and quality of housing resources in the city and on the efficiency of the real estate market. A more efficient market will facilitate the attraction and retention of highly-qualified workers in the city, and draw new investors to the city.

The primary indicators used to measure TIC in terms of housing are: number of housing units per 1,000 inhabitants, quality of the housing resources (measured as percentage of units with bathrooms), the growth rate of housing resources and average rents on the secondary market.

The number of housing units per 1,000 inhabitants is relatively high in Katowice – 437, as compared to the average of 413. The city's housing resources, however, are not of the best quality. The number of units with bathrooms is slightly lower than the average of the analysed cities. The rate of growth in the number of new apartments in the years 2004-2008 was also one of the lowest among the analysed cities (1.6% against the average of 5.1% for the 11 cities). Accordingly, apartment prices on the secondary market are relatively high.

*Against an average level of 100 for the 11 cities, Katowice's TIC for housing resources measured **92.0**.*

# Infrastructure

## **TIC: media and utilities**

Without efficiently and reliably supplied media and utilities, it is difficult for a city to establish an image as a good place to live, and above all, a good place to do business. This is true both for the traditional utilities (power, gas, water) as well as modern media mechanisms (telecommunication, internet), which afford innovative growth opportunities and make it possible for citizens to make full use of their knowledge and skills.

The following indicators were used to measure TIC in this respect: the percentage of people using the water supply and sewage networks, power consumption by households (which is associated with the number of durable goods in a household), the estimated number of Internet users (per 1,000 inhabitants), and the percentage of the city area covered by free access to wireless Internet (the last two indicators are new in this edition of the survey).

Katowice's position with regard to media and utilities is quite favourable. It is among the leading cities in terms of free Internet access. This does not translate, however, into the number of inhabitants using the Internet, which is below the average for the analysed group.

Use of the city's water supply and sewage network is close to the average level, while power consumption is slightly above average.

*Against an average level of 100 for the 11 cities, Katowice's TIC for media and utilities is **117.8**, mainly due to its high level of free Internet access.*

## **TIC: trade and services**

Market services, especially trade, financial, hotel and catering services, create the market infrastructure necessary for ensuring a well functioning economy. These services are usually highly correlated: cities which offer e.g. large, modern shopping spaces also typically offer other services of high quality.

When measuring TIC for trades and services, we used the following indicators: area of modern shopping space, number of ATMs, and number of shops, hotels and restaurants per 1,000 inhabitants.

Katowice is slightly weaker in the area of trade and services than the average in the analysed cities. This applies to the available shopping space in the city – 600 m<sup>2</sup> per 1,000 inhabitants (against the average of 657 m<sup>2</sup>). The city would also benefit from a greater number of shops, hotels and restaurants. The number of available ATMs is also lower than in the other analysed cities.

*Against an average level of 100 for the 11 cities, IDC for trade and services for Katowice is **73.6**.*

# Infrastructure Summary

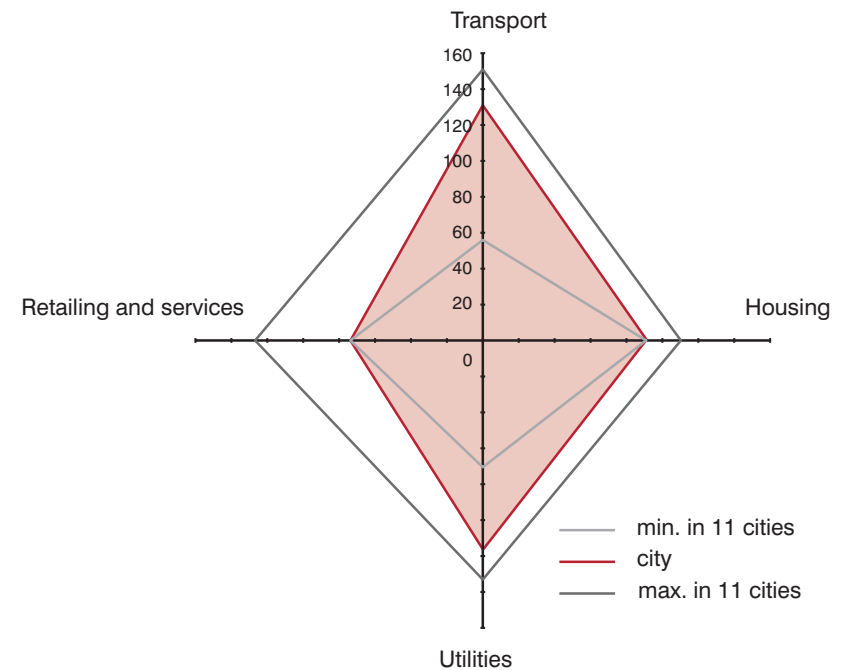
## **Katowice's Technical and Infrastructural Capital**

Our overall assessment of Katowice's Technical and Infrastructural Capital is positive. The city has, at its disposal, relatively well developed transport, media and utilities infrastructure. It is worth emphasising that the city offers very good access to free Internet and bicycle lanes.

The areas requiring more care on the part of the city are the housing market and the development of trade and services. Priority should be also given to revitalizing housing and modernizing housing resources, as well as commercial space. It would be best to undertake these tasks in the context of comprehensive revitalization programs for particular city areas.

*Against an average level of 100 for the 11 cities, Katowice's Technical and Infrastructural Capital is 103.2.*

Infrastructure – Katowice



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# Finances

## ***Why do we measure Sources of Finance Capital?***

Sources of Finance Capital refers to the ability of a city to access the funds necessary for financing its own development. Such funds can come from various sources: tax revenues, government subsidies, EU funding, revenues from issuing securities or contracting loans. They may also include private sector funds that are used for financing undertakings necessary for the city's development.

To develop successfully, present-day cities need to make investments that deliver efficient infrastructure, desired quality of life, and effective operation of public institutions. A good development strategy is not enough – sufficient funding is required to achieve the goals. This second edition of the “Reports on major Polish cities” is being published at a time when the world economy is still in crisis, and as Poland is struggling with an economic slow-down resulting in decreased budget revenue.

While investment is a desirable goal, it's also a particularly difficult one to achieve nowadays. Admittedly, we do have access to considerable financial resources from the European Union budget. However, to be able to take full advantage of these, we need to find considerable funding of our own for co-financing. Taking a long-term view, city development requires us to urgently modernise infrastructure and improve public services, despite the current economic downturn. At the same time, however, increased risk aversion among financial institutions has caused them to view large investment projects with a new caution and distrust. Such a complex economic situation makes acquiring the necessary funding for city investment difficult. Costs are also increasing, as a result of the imposition of higher margins by financing institutions, as well requirements for additional guarantees. A limited budget and continuously rising costs will mean that there simply might not be sufficient funds for some investments.

Cities with high SFC value are those that are able to source the necessary amounts of funding, drawing on various sources, so as to achieve the best results with as low funding acquisition costs as possible. In an environment as complex as the current one, Sources of Finance Capital becomes particularly important; maintaining it at a high level is decidedly more challenging than during the boom times. That is why in this edition of the reports we decided to focus on this Capital, and pay more attention to the methods of finance acquisition that are less onerous to the local government budget.

## ***Measurement of the Sources of Finance Capital (SFC).***

SFC should be understood as the ability of cities to finance projects essential to their growth. Well developed SFC shows that a city is able to acquire sufficient funds for such purposes, from diverse sources.

The following four aspects are analysed for the SFC assessment: tax base (the city's GDP), budget financing, funds from the financial market (loans), and EU funds. We would like to emphasize that, in the long term, Polish cities should aim at engaging more private sector funds, mainly in the form of public-private partnerships.

# Finances

## **SFC: revenue base**

The principal revenue base of a city consists of the income obtained by its residents. Local taxes may be levied on such income in varying degrees, depending on the policies adopted. In general, the higher the economic activity of the city, the higher the current and future revenue of the city's budget, which allows for financing various investment projects.

SFC assessment in terms of the revenue base is done based on GDP per capita.

In 2008 (the most recent data available from the Central Office of Statistics), Katowice's GDP per capita was, after Warsaw and Poznań, the highest among the analysed cities (197% of Poland's GDP per capita).

*Against an average level of 100 for the 11 cities, Katowice's SFC for revenue base is **125.4.***

## **SFC: budget financing**

Budget financing comprises the funds that a city has in its own budget (the sum of its own funds, and the subsidies and funding received by the city from the central budget). The main benefit of financing development from the budget is that it does not involve any increase in the city's debt. There are, however, also certain drawbacks resulting from such financing. Budget funds are always limited to some extent. Moreover, in the long run, providing extensive funding from the city's own budget can only be done through applying high local charges and taxes. This in turn may negatively influence the economic climate of the city.

The SFC for budget financing comprises the total revenue of the city's budget (including subsidies from the central budget), its own revenue (in both cases per capita) and the share of capital expenditures in the city's budget.

In 2009, the total city revenue for Katowice amounted to PLN 1.28 billion. Both total revenue and own revenue per capita were above the average. The proportion of capital expenditures in total city spending amounted to 22.6%, in comparison to the average level of 22%.

*Against an average level of 100 for the 11 cities, SFC for budget financing for Katowice is **105.6.***

*Financing development with funds from the financial market is beneficial, as it provides the opportunity for investments that could not be covered from budget funds to be carried out.*

## Finances

### **SFC: market financing**

Funds originating from the financial market may be acquired by contracting loans from banks or issuing municipal bonds. Financing development with funds from the financial market is beneficial, as it provides the opportunity for investments that could not be covered from budget funds to be carried out. The negative to this is increasing city debt. However, when analysing Polish city debt levels, it should be noted that debt and investment are usually correlated. This means that low debt levels may reflect a low level of investment.

High debt levels are negative if the funds acquired through loans are for current expenditure or investment projects with no economic justification. Using loans to finance projects that help economic development may be correct in the long-term; however, in the initial analysis phase, cities should consider all the forms of financing available.

SFC measurement in terms of market financing includes: the city's debt to revenue ratio for 2009, i.e. the latest audited data available (pursuant to the Public Finance Law, the proportion should not be higher than 60%) and the city's credit rating.

In terms of debt, Katowice is in a very good position. In 2009, its debt constituted 18% of its revenue, the lowest among the examined centres. This means that Katowice has considerable potential for financing many investments with debt securities. The rather high (for Polish cities) level of financial market trust of the city, reflected by the Fitch agency rating of "A", also supports such an option. The predicted debt level for 2010 is 23%.

*Against an average level of 100 for the 11 cities, we assess the value of SFC for market financing for Katowice at the highest level of all the cities – **154.3**.*

*Cities can use development funds as structural resources thanks to Poland's membership of the European Union.*

## **Finances**

### **SFC: EU funds**

Cities can use development funds as structural resources thanks to Poland's membership of the European Union. These are non-refundable grants covering the major part of project costs serving the goals of regional development and quality of life improvement. Access to such funds is very beneficial for the city (although finding the city's own share for co-financing may pose a problem). Acquisition of EU funds is, however, a fairly complex process and the procedures related to correct use of such funds tend to be burdensome.

The SFC related to EU funds is based on the total amount of money from EU funds used for co-financing current and planned projects (in the budgets of 2007-2013, on the basis of data from the Ministry of Regional Development, correct as of June 2010, including projects for which contracts have been signed with the Municipal Offices and municipal companies), on a per capita basis.

Katowice could use EU funds to co-finance its investments in a higher degree. The use of European funds could also be increased through closer cooperation with the Upper Silesian Agglomeration.

*Against an average level of 100 for the 11 cities, the value of SFC for EU funds for Katowice is **25.6**.*

# Finances

## **SFC: public-private financing**

Public-private funds are those that the city gains through contracts with private investors with, as a result, projects important for the city's development being financed by the private sector. The use of public-private financing should be treated as the reflection of skilfulness of a city in acquiring funds for development.

When preparing our reports four years ago, we hoped that this index would be included in the SFC assessment in this next edition. However, despite high hopes and the potential of PPP development in Poland, public procurement where a private partner is selected on the basis of principles set out in the Public-Private Partnership Act is still not carried out in numbers sufficient for making such an assessment. A high number of tender announcements for private partner selection (PPP or concessions) published recently (on average 40 announcements per year were published in 2009-2010) constitute proof that this form of project execution is more often being considered.

A significant increase in the interest shown by private entities in projects in the form of PPP or concessions has also been noticeable in the last two years. Regrettably, in only a few cases was the public contract award procedure and selection of the private partner successful (e.g. construction of underground car park in Wrocław and Kraków, construction of indoor swimming pool in Oława, development of the lakefront in Chełm). The majority of tender procedures are cancelled due to lack of interest among private partners. This lack of interest results from poor project preparation and a tendency of the public sector to transfer most of the risk to the private partners. In practice, it is hard to talk about the PPP projects that are already underway, and we decided not to include public-private financing in the SFC assessment.

*At the same time, we would like to emphasise the importance of the future development potential of Polish cities and in the appropriate parts of the reports we indicate how individual cities are approaching forms of infrastructure project financing that are still fairly new to our market.*

# Finances

## Summary

### Katowice's Sources of Finance Capital

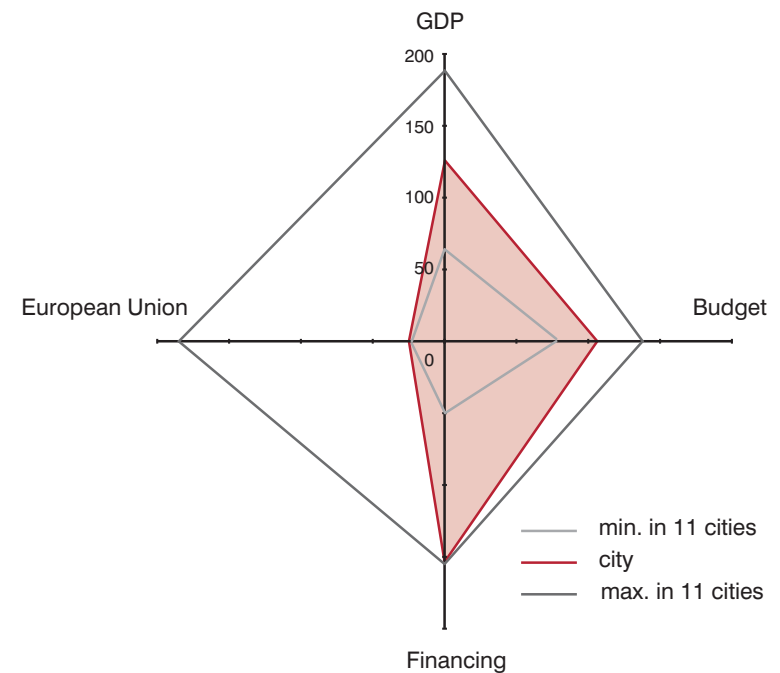
The total SFC value for Katowice is moderately good. The city has a relatively high GDP and high budget revenues. Katowice tries to earmark 25% of expenditure for investment.

Owing to the fact that the city's debt levels are low, Katowice has considerable potential to finance investments through debt financing. With more effort invested in acquiring European funds, the city could significantly increase its capital expenditures. This would allow many projects that would improve the other capitals to be undertaken.

Katowice is interested in public-private financing and has launched a few initiatives to implement PPP investments and investments based on concessions for construction works and services. For several years now, Katowice has been trying to reconstruct the railway station with the participation of a private partner. In 2010, Neinver company (a Spanish developer) was selected to complete the reconstruction in 2013. The estimated cost of the investment amounts to approx. PLN 960.000.000. The investment will also construct an integrated transport and retail centre (more than 50.000 m<sup>2</sup> of retail and office space) around the "Katowice Osobowa" railway station and bus station. The project is to be implemented by a special purpose vehicle with PKP SA and Neinver as shareholders (via intermediate companies).

*Against an average level of 100 for the 11 cities, the value of SFC for Katowice is 102.7.*

Finances – Katowice



*Investment Attractiveness Capital is essential for the city's future development.*

## **Investments**

### ***Why do we measure Investment Attractiveness Capital?***

Investment Attractiveness Capital reflects a given city's attractiveness as a location for business activity, and thus its capacity to attract investors. Perception is crucial; this capital is not always directly connected with the city's actual strengths and weaknesses. Cities providing very good investment conditions sometimes are regularly ignored by investors, while other cities actually offering worse conditions are popular.

Very often investors do not act rationally. They tend to make new investments where they have invested in the past, even if the conditions offered by other cities may be better. Subjective and secondary factors may also influence decisions about where to launch investment: the city's accessibility for travelling businessmen, the goodwill of local administrative bodies and the first impressions from the visit. A city that is not perceived as a good investment location should strive to change this by any means possible. Investment Attractiveness Capital is essential for future development.

### ***Measuring Investment Attractiveness Capital***

Investment Attractiveness Capital has a strong influence on a city's development opportunities. As evaluation of investment attractiveness is not always entirely rational, cities can only patiently strive to promote a positive image. Awareness of the business potential of a city, and identifying the sectors that the city is best suited to meeting the needs of, are pre-conditions. Therefore, drawing up a clear and transparent planning policy and strategies for its effective implementation is critically important.

Investment Attractiveness Capital is measured above all by analysing a given city's success in attracting investors, both foreign and domestic. We also take into account investment conditions, that is those factors that may enhance the image of the city as a good business location.

# Inwestycje

## ***IAC: attractiveness to foreign investors***

To evaluate a city's level of perceived investment attractiveness to foreign companies, we analysed the level of existing investment and data concerning the availability of skilled employees.

The indicators used to measure IAC for attractiveness to foreign investors include: number of foreign companies that have invested in the city in the last three years, and the number of graduates from technical and scientific universities located in the city or in its vicinity (distance of up to 50 km) who completed their education in the last three years.

Katowice's investment attractiveness rates at above the average level, mainly due to the high number of technical and science faculty graduates (25.000 compared to the average of 20.000), who are nowadays particularly valued among investors. The number of large foreign investors in Katowice is, however, slightly below the average for the surveyed group of cities. This is related to the lack of a clear strategy to attract potential investors.

*Against an average level of 100 for the 11 cities, the value of IAC in terms of attractiveness for foreign investors for Katowice is*  
**106.9.**

# Investments

## **IAC: attractiveness for domestic investors**

Domestic companies are usually more aware than foreign companies of the strengths and weaknesses of given cities as investment locations, and their decision-making can therefore be more rational. This is true particularly for large domestic companies, which very often have significant freedom in choosing the most suitable investment location for the long term.

The basic indicators used to measure IAC for domestic investors in this respect are: the total value of the companies' capital expenditures per capita (demonstrating their investment in a given location), relationship between capital expenditures and fixed assets (indicating growth of or reduction in business engagement in a given location), number of innovative companies operating in the city (as per the INE PAN, BRE Bank and Gazeta Prawna ranking) and wage levels (as relatively low wage levels should attract investors).

Katowice's investment attractiveness for domestic companies is much higher than for foreign investors, indicated by the number of innovative companies – 74% more than the average level for the 11 cities. Capital expenditures per capita are 16% higher than the average, although in relation to fixed assets they are below the average. The wage level in Katowice is also relatively high.

*Against an average level of 100 for the 11 cities, the value of IAC for attractiveness for domestic companies for Katowice is*  
**113.6.**

# Investments

## **IAC: investment conditions**

When considering, for instance, the level of human capital or infrastructure in a city, subjective assessments of its suitability for investment and business activity may hold more sway than its actual advantages. This analysis takes into account factors that may encourage or discourage companies, especially foreign ones, from investing.

The indicators used to measure IAC for investment conditions include: the percentage of a city's area covered by spatial development plans, the number of language and international schools, and the number of beds in 4- or 5-star hotels (compared to the city's population).

Investment conditions may be lowering Katowice's attractiveness to potential investors. The area covered by spatial development plans is approximately 17%, which is markedly lower than the average of 31%. There are indications to suggest that the number of language schools in the city should also increase. In terms of the availability of international schools and high-standard hotels, Katowice is comparable to the average.

*Against an average level of 100 for the 11 cities, IAC for investment conditions for Katowice measures*  
**71.**

# Investments Summary

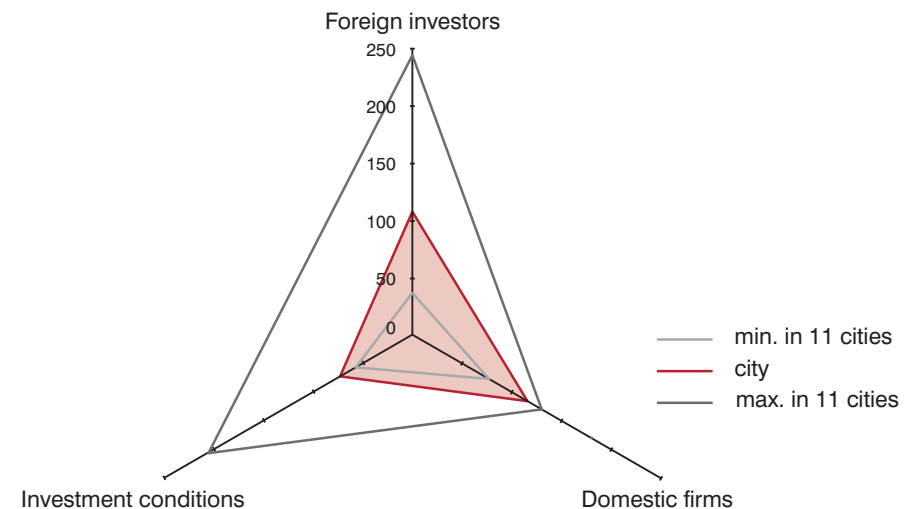
## ***Katowice's Investment Attractiveness Capital***

The total value of Katowice's Investment Attractiveness Capital highlights some diverse issues. The city has an attractive geographical location and a large number of technical and scientific graduates, and the city should try to attract more foreign investors by promoting these. Innovative domestic enterprises are already taking note of the actual and potential benefits of investing in Katowice.

Improving investment conditions remains a significant challenge. Above all, this involves broadening the range of services that play an important role for investors, such as high-standard hotels. Expanding coverage of spatial development plans for the city should also be prioritized, as should targeted promotion of new investments.

*Against an average level of 100 for the 11 cities, the IAC for Katowice measures 99.6.*

Investments – Katowice



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