



The Resource-integrating

**S T A T E**

Development potential vs. the quality of public regulations

# The Resource-integrating state: Development Potential vs. the Quality of Public Regulations



edited by  
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# Introduction

The publication titled *The Resource-integrating state: Development potential vs. the quality of public regulations* constitutes an attempt to answer the question how public authorities use the potential of their civic partners to stimulate socio-economic processes. Admittedly, at this level of generality there are a number of issues to be raised, but here, we restrict ourselves to three of them. The first one is related to the evaluation of the potential of civic partners to generate resources<sup>1</sup> that may serve to promote socio-economic development through innovation, competition and their inclination to share such resources. The second one reflects the extent to which the regulations enacted by public authorities (central, regional and local) create institutional frameworks and operational mechanisms that promote the use of resources controlled by civic partners to stimulate socio-economic development and constructive public policies. The third one concerns the means and methods for the removal of structural barriers both on the part of public authorities (particularly regulatory barriers) and civic partners, which impede their cooperation in the area of solving social problems and achieving outcomes considered important to society as a whole.

When we started working on this publication, guided by our experience, observations as well as partly our exploratory intuition, we noted the problem of inadequate effectiveness of mechanisms of cooperation between public authorities and their civic partners in development processes that occur at the domestic, regional and local levels. In particular, this critical judgement applies to the quality of regulations that constitute the foundations for such cooperation. Our observations justify the conclusion that there exists a systemic mismatch between the regulations enacted by public authorities, their administrative apparatus and the unique activities pursued by civic partners important for the implementation of public ventures.

We discuss this mismatch along two dimensions. First, regulations are constructed in a way that to a limited extent recognises the unique contribution of civic partners and, consequently, prevents them from taking full advantage of their resources (and potential) in order to pursue socially important public undertakings. The second mismatch consists in the fact that civic partners applying for the execution of public mandates (e.g. via public procurement and competitive tenders) are driven by the logic of maximizing the volume of outcomes rather than the logic of quality or optimal use of resources. Consequently, public mandates are

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<sup>1</sup> The general notion of resources in this publication includes intellectual, social, cultural, infrastructural, technological and material types of capital.

determined by the logic a formalistically conceived legal order, not by an attempt to achieve intended outcomes in the most effective, efficient and socially useful manner.

It is necessary to undertake rational action – both on the part of the above-mentioned entities as and in the sphere of regulations, including those related to public procurement – in order to eliminate this systemic mismatch. On one hand, new solutions should facilitate full use of the potential of civic partners in the area of broadly conceived execution of public mandates. On the other hand, no regulations should be adopted that favour those entities in an economically unjustified, socially groundless and ethically doubtful manner (we will return to this issue in subsequent parts of this publication).

We also have to explain our understanding of certain terms that appear to be obvious and enigmatic at the same time, such as public authorities and civic actors. We apply the concept of ‘public authorities’ in its broadest possible sense that includes central government, local and regional governments and their accompanying administrative units. In turn, by ‘civic actors’ we mean three types of structures: institutions of higher education, social economy entities and non-governmental organisations.

Owing to the fact that it is customary to define the concept of civic partners more broadly, we should explain why in our publication we chose to adopt such a narrow definition of the term. There are two reasons behind our decision. First, the project within the framework of which this publication was prepared, focuses on the issues related to social economy. Second, we agreed that a critical reflection on the contribution of these subjects to the processes of socio-economic development requires at least a mention of institutions of higher education and non-governmental organisations. The former often constitute an intellectual powerbase for the generation of innovative social experiments converted by business entities into social practices to be replicated in the social economy sector, while the latter have founded a number of social economy entities. It should also be stressed that non-governmental organisations often embark on ventures usually associated with social economy entities. In other words, it does not always seem to be possible to accurately distinguish between social economy entities and non-governmental organisations. Moreover, what links social economy entities, non-governmental organisations and universities is the capacity to create high-quality social capital, which, according to contemporary theories of social science, is the key factor that determines the quality of socio-economic development processes. However, this observation does not mean that entities operating in other spheres of public life, such as businesses, are deprived this capacity.

The Resource-integrating state: Development potential vs. the quality of public regulations consists of three main parts. We entitled Part One The Resource-integrating state due to its conceptual and typological focus. We start with a review of conceptions of a state that aims towards the integration of its own potential with the resources of its civic partners with a view to solving collective problems as well as the development and implementation of effective, efficient and, at the same time, socially legitimate policies and public programmes. Further,

we describe patterns of democratic order and related state models as a background for the description and explanation of normative foundations of a model that we define as the resource-integrating state. In this part we also describe the premises that, in our opinion, will lead to the evolution of management systems in public affairs towards such a model. These considerations are followed by the presentation of tools that can be used by such a state. Finally, we indicate potential advantages resulting from the activities of a state thus conceived, as well as its fundamental limitations.

Part Two of this publication, entitled Civic partners and public regulations, consists of three chapters, each of which deals with a different social partner that constitutes the focus of interest of this publication, i.e. non-governmental organisations, social economy entities and universities. All chapters follow a uniform descriptive convention that includes an analysis of the potential to create feasible social innovations and assessment of the quality of regulations that influence access of civic partners to undertakings pursued in the common interest using public resources. The latter includes a discussion of barriers that constrain the potential of these social partners to achieve public aims as well as their consequences for the quality of socio-economic development processes. Moreover, postulates regarding the removal of those barriers have been formulated from the perspective of each social partner individually. In general, this part of our publication attempts to answer the question concerning the quality of regulations that define the principles and mechanisms of cooperation between the state and its civic partners who control important resources influencing the quality of policies and public programmes.

Descriptions of valuable models of cooperation between the state and social economy entities, non-governmental organisations and universities in the area of design and implementation of public policies are presented in Part Three of this publication. They include the best practices drawn from both domestic and international experience. The descriptive convention adopted serves to emphasise the advantages that accrue from practical implementation of the principles that underlie the concept of a resource-integrating state.

The final part of this publication includes a handful of reflections on the quality of cooperation between public authorities and their civic partners in the area of supporting regional and local development, at the same time indicating a number of fundamental barriers that appear in the process. They are followed by recommendations that might help to ensure a more effective use of resources controlled by social economy entities, non-governmental organisations and universities in the area of improving public policies that influence the quality of socio-economic development of individual countries, regions and local communities.

This publication was prepared by an interdisciplinary team of authors including economists, sociologists, lawyers and a political scientist. The authors deal with the subject in question both as researchers (faculty members) and as practitioners (individuals involved in the activities of non-governmental organisations and social economy entities). These two perspectives enable them to take a global view of the issues discussed, highlight the logic of cooperation



between authorities and their civic partners as well as enable them to note the most important aspects of such cooperation. The team of authors includes J. Bober, J. Głowacki, M. Gnela, J. Herbst, M. Herbst, M. Jelonek, M. Kudłacz, S. Mazur, A. Olechnicka, A. Płoszaj, M. Pokora and J. Wygnański. The team's efforts were supported by A. Chrabąszcz.

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Part I



Stanisław Mazur

# The Resource-Integrating State

## Introduction

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The aim of this chapter is to present an overview of the evolutionary process of transformation of the contemporary democratic law-governed state – from the administrative state through the market state toward the resource-integrating state (we assume that the last one is to be found in statu nascendi). In particular, substantial attention shall be devoted to the last one. In its emergence we perceive the vanguard of fundamental change in political thought on the interdependences between what belongs to the spheres of the state, citizens, private and public matters. Here, we are thinking about the relationships that chart new areas and models of cooperation between public authorities and their civic partners in activities aimed at promoting development<sup>2</sup>.

Our reflection on the concept of the resource-integrating state starts with a description of the forms and the scopes of activity of the contemporary state. We discuss the reasons why the importance of such a state keeps increasing, as do the expectations of its citizens, despite its noticeable inefficiencies and public criticism. For the sake of clarity, we first review the typology of basic democratic models and types of state that originate from them. These typological considerations let us focus on the basic characteristics of certain model solutions and thus constitute the theoretical basis for analysing the concept of the resource-integrating state. Further, we describe its normative foundations. We attempt to indicate their historical roots and then introduce the characteristics of such a state model, at the same time describing the instruments through which it can perform its functions. The chapter closes with a discussion of advantages resulting from the implementation of this concept of governance and management of public affairs as well as its inherent limitations.

However, before discussing the above-mentioned issues, we shall define three key notions used throughout this text, i.e. the resource-integrating state, socio-economic development and civic actors.

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<sup>2</sup> In this text, we use the term public authorities in its broadest sense to include central, regional and local governments.

The resource-integrating state is a state that operates in a complex social reality, and, in the process of performing activities in the public interest and ensuring conditions conducive to high-quality socio-economic development, is open to cooperation and exchange of resources with other civic actors. Without such an exchange and integration of resources, the achievement of both public objectives and particular outcomes (pertaining to individual civic actors) is fraught with extremely high social and economic costs.

Civic actors are private and civic entities that control resources of special importance for solving collective problems. These actors are the crucial partners for the state and its administrative units. Civic actors articulate issues, needs and expectations of certain circles and professional groups, inform the public decision-making process and participate in the implementation of decisions and in the evaluation of their outcomes.

Socio-economic development is the process of transformation that occurs in social and economic spheres that serves to solve collective problems, to meet the needs of citizens and to ensure a high quality of life. The process is based on respect for democratic and cultural values as well as the natural environment. Socio-economic development occurs at every level at which public affairs are managed (by central, regional and local governments, respectively).

Given the aims of this publication and the circumstances of its writing, the authors had to make a number of arbitrary shortcuts and simplifications. Moreover, we wish to underscore the fact that the analysis of the concept of a resource-integrating state has a normative and of projectional character. We use the term 'normativeness' to mean the perspective that reflects a definite axiological order of governance and management of public affairs. Projectional character means that the concept being discussed to a considerable extent invokes values, practices and mechanisms that are still to be applied in the practice of management of public affairs.

## 1. The Contemporary democratic law-governed state: Principles and scope of activity

The reasons behind extending the scope of activity of the contemporary state and its structures as well as its increased profile can be classified using different typologies. In this chapter, they are assumed to consist in the following:

- a) imperfections of market economy mechanisms that cause cyclic economic crises,
- b) socially unacceptable inequalities,
- c) belief that the state can solve social problems through the activities of its structures,
- d) positive results of interventionist policies pursued by the state,
- e) increasing citizen expectations of the state,
- f) dynamic technological and environmental changes,
- g) demographic changes (population ageing),

- h) increased complexity, polycentricity and volatility of the social reality,
- i) exogenous public sector growth factors.

Since the 1930s, that is, since the first application of Keynesian recipe for the stimulation of demand as a crucial way of coping with recession, the wave of state interventionism has been on the increase. The more market failures became perceptible and socially unacceptable, the more significance was attributed to state interventionist policies. On the one hand, this approach met with public approval, but on the other hand it caused negative feelings because of its paternalistic character<sup>3</sup>.

Activities of the welfare state led to a situation in which increasingly large numbers of citizens appeared to share the conviction about the growing complexity of social problems whose solutions transcended the capacity of individuals and their communities. At the same time, it was indicated both implicitly and explicitly, that the potential to solve them or relieve their social consequences was the responsibility of the state (even if they entailed negative side effects). This approach also reflects the ever-increasing conviction about the moral responsibility of the authorities for the fates of both individuals and their communities [Mazur 2011]. These expectations appear to be too far-reaching if one were to apply the classical concept of a monolithic, hierarchical and bureaucratically managed state. It appears that only the way to meet these expectations, or at least their substantial portion, consists in a practical application of the principles that constitute the concept of the resource-integrating state (later we shall deal with this issue in more detail).

The scale of state interventionism is illustrated by the volume of public spending in selected countries (Table 1).

Table 1. Public spending as a percentage of GDP

	1965	1970	1975	1980	1985	1990	1995	2001
Australia	24.6	25.2	31.3	32.3	37.8	33.0	35.4	31.4
Austria	36.6	38.0	44.4	47.2	50.1	48.5	52.4	48.8
Belgium	35.0	39.7	47.6	53.4	57.3	50.8	50.3	46.7
Canada	27.8	33.8	38.9	39.1	45.4	46.0	45.3	37.8
Denmark	31.8	40.1	47.1	55.0	58.0	53.6	56.6	51.3
Finland	30.3	29.7	37.0	37.1	42.3	44.4	54.3	44.8
France	37.6	37.6	42.3	45.4	51.9	49.6	53.6	51.2
Germany	35.3	37.2	47.1	46.5	45.6	43.8	46.3	43.0
Greece	22.0	23.3	27.1	29.6	42.3	47.8	46.6	43.7
Ireland	36.0	37.7	40.7	47.6	50.5	39.5	37.6	27.7
Italy	32.8	32.7	41.0	41.8	50.6	53.1	52.3	46.7
Japan	19.0	19.0	26.8	32.0	31.6	31.3	35.6	38.2

3 A. Tocqueville [1996], thinking ahead of his time, mentioned this kind of hazard.

Korea	14.5	14.8	16.9	19.2	17.6	18.3	19.3	23.4
Netherlands	34.7	37.0	45.7	50.9	51.9	49.4	47.7	41.5
Norway	29.1	34.9	39.8	43.9	41.5	49.7	47.6	40.6
Portugal	18.1	18.0	25.2	28.1	42.9	44.2	41.2	42.1
Spain	19.5	21.7	24.1	31.3	39.4	41.4	44.0	38.5
Sweden	33.5	41.7	47.3	56.9	59.9	55.8	62.1	53.9
USA	25.6	29.6	32.3	31.3	33.8	33.6	32.9	29.3
EURO zone	33.1	33.9	40.9	43.0	47.2	46.3	49.1	45.1
OECD	26.9	29.2	34.4	35.5	38.1	38.0	39.4	36.5

Source: OECD [2000, p. 42].

A summary of the wide range of activities in which contemporary states are engaged is shown in Table 2 below.

Table 2. Functions of the state

Addressing market failure			Fostering equality			
Minimalist functions	Provision of 'pure public goods'		Protecting the poor			
	Defence		Anti-poverty programmes			
	Law and order		Disaster relief			
	Ownership rights					
	Macroeconomic management					
	Health care system					
Intermediate functions	Addressing externalities	Anti-monopoly regulation	Overcoming imperfect information:	Providing social insurance:		
	Education	Utility regulation	Insurance	Redistributive pensions		
	Environmental protection	Antitrust regulation	Financial regulation	Family allowances		
			Consumer protection	Unemployment insurance		
Activist functions	Coordinating private activity:				Consumer protection	Unemployment insurance
	Fostering markets					
	Coordination of initiatives					

Source: Fukuyama [2005, p. 21].

## 2. A Model of democracy and the state

### 2.1. Types of democratic order

In the process of transformation of modern legislation – evolutionary and cumulative rather than radical and non-continuous – three models of democratic orders have been postulated, i.e. procedural, market and deliberative ones. Every one of them has some attributes in common with the others as well as features that belong exclusively to it. This is the consequence of the above-mentioned evolution. Below, the basic characteristics of these models are reviewed.

#### Procedural democracy

Nowadays, procedural democracy is associated first of all with the work of J. Schumpeter [Schumpeter 1995]. The political process that occurs within its framework consists in the identification of citizen needs by parties and political movements and the presentation of programmes by competing candidates who try to win electoral support. In this model, citizens make their choices based on what the candidates offer, driven by the criterion of individual objectives, advantages and interests. The selection of candidates, and consequently the choice of their offers and promises made to voters, constitutes the premise for giving them the democratic mandate. This constitutes the basis for their exercise of political power for the purposes of delivering on those promises. The moment of verification of these promises and competencies of politicians who make them comes at the next election. It is the basic verification mechanism whose application permits the citizens to choose different politicians or extend the democratic mandate to previously elected politicians. In this mechanism, civic activity is restricted to cyclic expressions of approval or disapproval for political agendas and the manner of their implementation.

#### Market democracy

Market democracy is strongly rooted in economic thought that emphasises the concept of the 'economic man' (*homo economicus*) who makes rational decisions in with a view to maximising their utility. Its roots can be found in the economic theory of democracy. In this model, society is a collection of autonomous individuals focused on achieving their individual interests and goals. The public interest constitutes the aggregate effect of individual interests. The basic form of social relationships is economic exchange whose parties include producers of goods and services and their consumers. Prominent representatives of this current of thought on democracy are J. Buchanan and G. Tullock [Buchanan, Tullock 1962], A. Downs [Downs 1957] and other researchers who represent the theory of public choice.

#### Deliberative democracy

Deliberative democracy underscores the significance of discussion, dialogue and understanding as the basic mechanism of conversion of values, norms, preferences and interests into public actions. The crisis of legitimisation of procedural democracy drew the attention of researchers to the restitution of republican forms of political organisation in a society characterised by public virtues and informed activities of citizens. The key concept in this model, i.e.

deliberation, was embedded in communication practices conceived in a manner presented by J. Habermas [Habermas 1999]. Deliberation serves to shape civic attitudes and activities, to strengthen the basis for dialogue, to reconcile interests, and, at the same time, to reduce of confrontational behaviours. Proponents of this model assume that its practice serves to legitimise the democratic system, develop social capital and leads to a better quality public policy. What matters in this model is not so much participation in elections (favoured by the procedural model), but first of all direct citizen involvement in public affairs. This mechanism legitimises the decisions concerning community matters. The main proponents of this type of democracy include, among others, J. Besette, J. Cohen, J. Elster and J. Fiskhin [Besette 1980; Cohen 1989; Elster 1998; Fiskhin 2009].

## 2.2. State types: A Model-based approach

Below, we present three state models, i.e. administrative, market and resources-integrating ones. These models do not have unequivocally demarcated boundaries that would make them absolutely distinct from one another. Actually, in all of them we can perceive elements that belong to other models, and the process of their transformation has an evolutionary nature. However, every model has its distinctive features that manifest themselves much more prominently than in the other ones.

### The Administrative (procedural) state

The administrative state is a state based on a procedural, hierarchical and technocratic order. Its driving force is the bureaucracy whose activity leads to the expansion instrumentalisation and rationalisation of social reality, which, in turn, results in its bureaucratisation. In this model, systemic borderlines between policy and administration are clear-cut and constant. Administration uses its authority and resources to solve social problems, offering citizens certain public goods. A characteristic feature of the administrative state is the bureaucratic mode being a model "(...) according to which all recommendations calling to a stronger centralisation of administrative structures are formulated. Such centralisation aims at a stricter observance of rules with respect to a wider range of individuals and administrative subsystems, so that the rules, directives and recommendations are accepted more exactly and by a greater number of actors. The purposeful-rational mode inspires all the suggestions that urge a more exact management of objectives, effects and results using such techniques as task budgeting, cost-effectiveness analysis and the monitoring of social indices" [Offe 2008, p. 143].

Bureaucracy, while constituting the core element of the administrative state, is inclined to cultivate paternalism. Its consequences were vividly described by A. Tocqueville who discussed current events in 19th-century United States. Analysing negative social results of this phenomenon, he noticed: "It covers the surface of society with a network of small complicated rules, minute and uniform, through which the most original minds and the most energetic characters cannot penetrate, to rise above the crowd. The will of man is not shattered, but softened, bent, and guided; men are seldom forced by it to act, but they are constantly restrained from acting. Such a power does not destroy, but it prevents existence; it does not tyrannise, but



it compresses, enervates, extinguishes, and stupefies a people, till each nation is reduced to nothing better than a flock of timid and industrious animals, of which the government is the shepherd." [Tocqueville 1996, p. 329-330].

### The market state

The market state emphasises such issues as effectiveness and efficiency of operation of public institutions. It is conceptually rooted in public choice theory. Such a state promotes flexible organisational forms, contracting for services, initiates mechanisms of internal competition within the public sector, privatisation and deregulation. Relationships between officials and citizens are located in a strongly normative space of exchange of goods and services. It is assumed that the manner of organisation and operation of public authorities is based on the principles and mechanisms applied in the business sector. The key factors that evaluate their utility are performance, efficiency and the capacity to deliver high-quality public services. Such a state model was promoted especially vigorously over the last 30 years by researchers and politicians who espoused neo-liberal concepts. In the sphere of organisation and operation of the apparatus of the administrative state, it manifests itself by reforms termed 'new public management.' Their key characteristics include: pressure on management quality, flexible and decentralised mechanisms of financial management, decentralised human resources management systems, increasing use of remuneration systems based on performance and individual service contracts, answerability to consumers of public services, decentralisation of authority and responsibility, application of market mechanisms in the management of public affairs (e.g. internal markets), the use of fees, vouchers, franchises, contracts and privatisation of market-oriented public enterprises [OECD 1993].

The most prominent representatives of this concept of statehood, the manner of its organisation and the logic of its operation include, among others, such politicians as M. Thatcher, J. Mayor, and R. Reagan. Its conceptual frameworks are based on the thought and works of, among others, D. Osborne, T. Gaebler and C. Hood [Osborne, Gaebler 1994, Hood 1991].

### The Resource-integrating state (reflexive)

The resource-integrating state is a state 'in the process of coming into existence.' It is an institutional order in which the interactions between the state apparatus and citizens transcend the conventions of consultation and coordination of decisions concerning public matters and reach out into the sphere of their implementation. The state thus conceived operates in a complex social reality in which the pursuit of public interest and the creation of conditions conducive to high-quality socio-economic development demand openness to cooperation and exchange of resources by civic actors. At the grassroots level of such a state lies the conviction that a successful integration of these resources serves both to achieve the objectives of the state and those of other civic actors. Without such integration, neither the state nor other actors would be in a position to achieve their own objectives. The concept of the resource-integrating state is strongly related to participatory management. Yet what makes them dissimilar is the integration of resources. In participatory management, the main emphasis is placed first of all on civic activity in public consultations and in the decision-making process.

The concept of a resource-integrating state focuses on resource integration and constitutes a step further in comparison with consultations and participatory efforts in decision-making processes.

Table 3 below shows a synthetic summary of characteristics of all types of state discussed above.

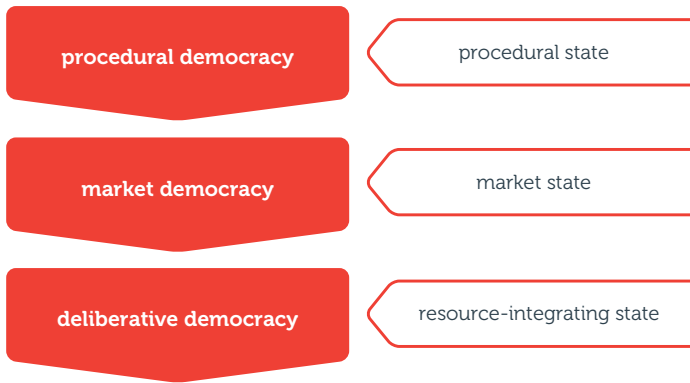
Table 3. Qualities of individual state types

Quality	State type		
	administrative (procedural)	market	resource-integrating (reflexive)
Accountability model	procedural	result-based	comprehensive
Leadership format	formal	transactional	transformational
Management pattern	hierarchy	market	network
Relationships with the environment	radical exclusiveness	selective inclusiveness	radical inclusiveness
Defining public interest	defined politically	aggregation of individual interests	agreed upon based on shared values
Role of government	'rowing'	'steering'	'arbitration'
Source of legitimacy	procedural approval	economic justification	citizen participation
Concept of public interest	defined politically (procedurally) and expressed in legal terms	aggregation of individual interests	effect of dialogue concerning shared values
Mechanisms for achieving objectives	managing public programmes	creation of mechanisms, structures and incentives to achieve the agreed-upon objectives	creation of coalitions of public, private and non-profit organisations to achieve agreed-upon objectives

Source: Author's own research.

The models of democracy outlined above (procedural, market, deliberative) are associated with different models of the state (administrative, market and resource-integrating). The diagram below illustrates the connections of these models of democracy with types of state.

Fig. 1. Relationships of models of democracy with types of state



Source: Author's own research.

### 3. Founding principles of the resource-integrating state

The contemporary state is subject to profound transformations. Its relationships with citizens change, its hierarchical authority progressively erodes and the deficit of trust in public power increases. All this compounded by the problem of legitimisation. These phenomena intensify problems related to the crisis of regulatory policies as well as effective and socially approved allocation of public goods. Competition and globalisation constitute the other factors that determine mutual relationships among the state, its administration and citizens in a different manner than previously. Equally important is the challenge of functional differentiation of society. The resulting segmentation of social structures, the accompanying diversification of their objectives and interests leads to the development of a number of structurally differentiated social systems with heterogeneous values and a strongly manifest sense of their own identities and interests.

Governing by means of classic rules and instruments, derived from the model of an ideal bureaucracy as well as a limitation to instruments typical of the logic of the market, becomes more and more problematic in a society characterised by incessant change, uncertainty and risk. Classic forms of government are gradually replaced by network-based mechanisms of governance. The process of development of a network state is connected with the phenomenon of multi-level management understood as a reconfiguration of the relationship and exchange of resources between various actors in the political system placed on its different levels, in different sectors and fields [Hooghe, Marks 2003, p. 233-243].

The essence of transformation processes that affect contemporary governments consists in the dispersal of a monocentric, centralised public power and the integration of different resources that belong to various civic actors with a view to achieving public objectives. It results both from growing aspirations and crystallizing interests of different actors involved in the process and the inability of public authorities to ensure efficient, effective and productive management of development programming processes. Governance more and more often occurs in a space delineated and determined by a number of phenomena that to a progressively smaller extent depend on the authorities. The state must share its powers with an ever-increasing number of civic actors – working both at local and transnational levels – because it needs their resources to achieve its own constitutive objectives.

In the new reality, governance must be conceived as a complex process of configuration of resources, to a substantial extent independent of the state, respecting the autonomy and interests of all civic actors. In this perspective, citizens and their communities are perceived as entities actively involved in public affairs. In consequence, the state and public administration lose their monopoly on the management of public affairs and they become one of the many entities involved. This leads to an intensification of social interactions, their increased interdependence and complexity of social life, which results in an integration of resources controlled by the state and different social and business actors.

To summarise, the set of basic reasons for the development of a resource-integrating state includes:

- a) expansion of polycentricity and social networking,
- b) development of multi-level management mechanisms of public affairs,
- c) limited possibilities for a peremptory and hierarchical resolution by public authorities of social and economic problems in a complex social reality,
- d) volatility of issues and threats whose resolution and elimination demand cooperation between the state and different civic actors,
- e) inability of the state to independently solve collective problems,
- f) increasing expectations of citizens and their communities in the face of quality and accessibility of goods and social services (meeting demand requires cooperation and integration of resources of the state and various civic actors – private and public),
- g) inability of civic actors to achieve particular aims and interests without active cooperation with the state and its agencies,
- h) belief held by the key civic actors that coalitions of public, private and not-for-profit organisations help in achieving the agreed-upon objectives.

## 4. Normative foundations of the resource-integrating state

The normative foundations of the resource-integrating state are republican and democratic in origin. They include freedom, equality, participation, responsiveness and accountability and are based on the following axiology:

- a) civic spirit – Frederickson [1983], Hart [1984], Cooper [1991],
- b) public interest – Lippmann [1955],
- c) social justice – Rawls [1994],
- d) community values – Goss [1996],
- e) dialogue and reflexivity – Habermas [1999].

An important characteristic of the resource-integrating state is the concern of civic actors for the common good. They are open to cooperation, approach social relationships in a subjective manner, perceiving in them a means for achieving their own ends. Attitudes and models of cooperation are cultivated in the public sphere, which thereby acquires key significance. It is important to restore to it the qualities of reflection and compromise that serve the common good, rather than treat it as a battlefield for enforcing the dominant, ritual discourse that endows one part with the position of a hegemonic leader. In the resource-integrating state, the public sphere has the following qualities:

- it is a territory co-inhabited by citizens and their associations, public authorities and market entities,
- it is an area with unclear boundaries, flexible interactions of actors with a different status and different espoused values, having different aims, resources and instruments of influence,
- it is a set of institutions and practices that enables the process of transformation of particularist preferences, values and interests into supraparticularist values and interests to occur,
- the basic mechanism of integrating resources controlled by actors co-inhabiting the public sphere (without violating the core of their autonomous identities) in the interest of achieving goals important for every one of them individually, and also important for integrity of the social system as a whole.

The public sphere thus conceived is not established permanently, but is subject to ceaseless reconfigurations both in the area of values that constitute its identity and rules that organise its actions. In such a public sphere, of prominent importance are the quality of the interaction process and the utility of decisions that ensue from it.

What is, then, the crucial difference between these perceptions of the public sphere? The approach defined as traditional (or historical) supplies two characteristics of the public sphere, namely autonomy and separation, but in the interactive approach, typical of the resource-integrating state, these characteristics include mutual recognition of each other's status by actors co-inhabiting the public sphere and their inclination to cooperate based on the mechanism of symmetrical discourse and the search for solutions legitimised by the will of the community.

The reconstruction of the public sphere will not constitute the fulfilment of some new, great metapolitical narrative, but it will occur in the process of evolutionary, incremental a-posteriori transformation. It appears that the times of great, constructivistly conceived schemata of social change and associated diverse determinisms have irrevocably passed. In the resource-integrating state, the public sphere is a place for the production, consultation, co-ordination and evaluation of what the state undertakes to do along with civic actors.

## 5. The Operation and instruments of the resource-integrating state

The logic of operation of the resource-integrating state is based on the following:

- a) networking,
- b) multi-level management,
- c) reconciliation,
- d) deliberation,
- e) participation,
- f) democratic decision-making process,
- g) joint planning and execution of actions in the sphere of public affairs by civic actors and their joint responsibility for the consequences of those actions<sup>4</sup>.

Its constitutive premises can be summarised as follows:

- a) public values and goals are established in the process of communication conceived in a manner that corresponds with the principles that govern republican democracy,
- b) civic actors share the belief in the importance of public affairs,
- c) public officials along with their political superiors and stakeholders establish public goals, co-ordinate ways in which to achieve them and cooperate to that effect,
- d) achieving public goals is the result of synergistic integration of resources possessed by civic actors with a different status,
- e) just as important as achieving public goals is the quality of the process,
- f) actions undertaken in the public sphere are evaluated using such criteria as responsiveness, concern for public interest, fairness, and quality of cooperation with stakeholders,
- g) the state and civic actors evaluate the ways of achieving the set goals and their mechanisms with a view to improving them.

The resource-integrating state has a range of instruments at its disposal<sup>5</sup>. These instruments are subject to constant modification and improvement. They have not been conferred by the authorities in a top-down manner, but their sources are the interactions between the state and civic actors. It is through these interactions that such instruments are produced, reproduced and refined.

<sup>4</sup> These characteristics can also be found in other paradigms. In this case, however, these features are related to others and they manifest themselves very prominently.

<sup>5</sup> The term 'instruments' includes a range of models, practices, procedures and mechanisms used in the processes of informing, setting, implementing and evaluating activities initiated by the state and its stakeholders.

There are four categories of such instruments, namely:

- a) informational,
- b) reconciliatory,
- c) implementatory,
- d) reflexive.

### Informational instruments

The function of informational instruments is to communicate to civic actors (interchangeably we use here the term 'stakeholders') the intentions of the state and its agencies. Usually, such communication does not have a peremptory character, but constitutes an offer made by the state to civic actors to become involved in the process of planning public policies/programmes/ventures. More often than not, such communication constitutes a signal of a certain intention, not an imperious gesture meant to inform the civic actors that a certain decision has been made. The role of these instruments is also to glean opinions from civic partners concerning their problems, expectations and intentions regarding the undertakings planned/initiated by the public authorities.

### Reconciliatory instruments

Reconciliatory instruments serve to organise and conduct the process of designing planned public policies/programmes/ventures in a way that observes the institutional rules agreed upon with civic partners. The point is first of all to develop such regulatory frameworks that would permit effective and efficient cooperation as well as full use of these partners' potential. The application of these instruments helps the parties agree upon certain solutions whose practical implementation requires the integration of various, usually complementary resources controlled by the state and its civic partners. The process includes both aspects of deliberation and bargaining. Given the obvious differences in the values, goals and interests of participants in this process, reconciliation of these hardly ever occurs in an unanimous manner [Klijn, Koppenjan 2000]. Negotiations and deliberation occur within institutionalised space characterised by the following parameters:

- a) regulatory (provides rules, defines roles and procedures to actors),
- b) normative (promotes certain sets of values),
- c) cognitive (offers cognitive schemata),
- d) interpretative (provides interpretative codes).

### Implementative instruments

Implementative instruments find their application in the execution of agreed-upon solutions in a way that conforms to the institutional duties and privileges that constitute the system of implementation of a public policy. Generally speaking, from the vantage point of their users, such instruments can be:

- a) specific to the state and its structures,
- b) specific to community organisations,
- c) relevant to business entities,
- d) suitable for hybrid implementation (with direct participation of the state, community organisations and business entities).

What is common to these instruments is their duality, i.e. they are supposed to serve both the achievement of public goals and to bring a specific advantage to the state and the civic partners who use them.

### Reflexive instruments

The use of reflexive instruments entails a joint consideration on the consequences of the implemented solutions. They serve not only to evaluate these effects, but are also conceived as a means to rate the quality of the process of cooperation between public authorities at various levels with their civic partners. Their application results in the creation of unique social intelligence that constitutes a key factor in the design of rational and useful public ventures.

Table 4 below shows individual categories and sample instruments brought together by the resource-integrating state. The review is not intended to be comprehensive and only serves to highlight the most important ones.

Table 4. Instruments of the resource-integrating state

Categories	Sample instruments
Informative	Media, press-conferences, dedicated websites, brochures, informational meetings, informational campaigns, public opinion polls, focus groups
Reconciliatory	Workshops, task forces, network consultations (using modern communication technologies), reconciliatory conferences, deliberations, debates, issue committees, public hearings, seminars, referenda, decision-making process
Implementative	Contracting for public mandates, projects, grants, subsidies, contracting for goods and services, loans, guarantees, insurance, public-private partnerships, public procurement, legal order, social, economic, infrastructural, environmental, financial regulations, monitoring of implementation
Reflexive	evaluation, debate, correction of solutions/continuation of a programme, cessation of a policy/programme/activity

Source: Author's own research.

## 6. Advantages of the resource-integrating state

The inventory of advantages ensuing from the implementation of the concept of the resource-integrating state is rich and varied. Below, we offer a typology of these advantages based on the viewpoints of the state, community organisations, businesses and from the horizontal perspective.



Table 5. Advantages resulting from the implementation of the concept of the resource-integrating state

Viewpoint	Advantages
State	<ul style="list-style-type: none"> <li>• accurate identification of social/community needs,</li> <li>• effective reconciliatory process in the sphere of policies and public programmes,</li> <li>• legitimisation for the actions of public authorities,</li> <li>• effective and efficient public policies and programmes,</li> <li>• reduced deficit of democracy and diminished alienation of the state and its structures from citizens,</li> <li>• strengthening of the public sphere.</li> </ul>
Community organisations	<ul style="list-style-type: none"> <li>• opportunities to articulate community needs and expectations,</li> <li>• real impact on the shape of policies and public programmes,</li> <li>• participation in the execution of public policies and programmes,</li> <li>• shaping desirable attitudes of civic involvement and responsibility,</li> <li>• building the public sphere as a forum for exchanging views, consensus-seeking and coordination of joint actions.</li> </ul>
Businesses	<ul style="list-style-type: none"> <li>• opportunities to articulate needs and expectations,</li> <li>• real impact on the shape of policies and public programmes,</li> <li>• reduction of transactional costs of business activities,</li> <li>• participation in the execution of public policies and programmes,</li> <li>• building the public sphere as a forum for exchanging views, consensus-seeking and coordination of joint actions.</li> </ul>
Horizontal perspective	<ul style="list-style-type: none"> <li>• increased trust and understanding in the relationships between the state and its civic partners,</li> <li>• minimizing tensions between the state and its civic partners,</li> <li>• improved quality of governance and management of public affairs,</li> <li>• legitimisation for the actions of the state and its structures, including also unpopular decisions and actions,</li> <li>• fostering dynamic and sustainable socio-economic development,</li> <li>• capital building: innovation, dialogue, reconciliation and cooperation that constitute important components of cultural and social capital,</li> <li>• building the public sphere as a forum for exchanging views, consensus-seeking and coordination of joint actions.</li> </ul>

Source: Author's own research.

## 7. Normative and functional limitations on the resources-integrating state

A practical application of the concept of the resource-integrating state faces a number of normative and functional barriers. Every now and then, these barriers are interdependent, which compounds their individual negative influences.

The first barrier is related to the problem of civic involvement. Experience of numerous countries shows that citizens to a lesser and lesser extent are ready and willing to get involved in public affairs. More and more often, their daily concerns become significant and absorbing to the extent that they have no time for active involvement in public life above and beyond their

participation in elections. Moreover, in many governance systems the models and attitudes of cooperative behaviour and actions for the common good are replaced by strategies of confrontation and rivalry, with individual interest prevailing over what is common.

The second barrier reflects the quality of the political class as a whole. More and more people are convinced of the erosion of its ethical foundations. In public opinion, the attitudes and competencies of politicians are inconsistent with the models described by Weber in his considerations on the crucial aspects of this occupation [Weber 1998]. Their critical reading shows us how distant is the Weberian perspective of a charismatic, steadfast and heroic politician committed to serving the public from the now dominant model of a political actor. In a class of professional, charismatic politicians who perceived their profession both as a calling and an, skilfully combining the ethics of conviction with the ethics of responsibility, Weber saw an opportunity to eliminate the generic faults of mass democracy, to restrict the expansion of modern bureaucracy and to promote its acting in the public interest. Professional politicians were to be free of the deadly sins inherent in practising politics, i.e. talking nonsense and the lack of responsibility. Weber attributed their sources to vanity. In the eyes of the public, the professional politician tends to live off politics rather than for politics, is a product social engineering efforts of his/her party apparatus, not a charismatic leader, often prefers the ethics of consequence to the ethics of convictions. To make matters worse, the politician usually identifies the former not with the common good, but with the interest of his own political formation [Weber 1998].

The third barrier is related to particularist aspirations and goals of civic actors. Usually each one attempts to satisfy his/her own needs to the fullest extent possible. To that end, the politician uses the broadest possible repertoire of behaviours and techniques. Trying to achieve the goals that s/he finds important, s/he finds it difficult to make concessions in the interest of others. This problem intensifies in a society that is strongly differentiated in normative terms and functionally fragmented, in which civic actors are attached to their own autonomous values and goals whose achievement constitutes to them a matter of overriding importance.

The fourth barrier is related to the departure from a monolithic and hierarchical manner of governance towards networks and multi-level governance. In this paradigm of governance, some actors in the network occupy central positions, while others remain on the periphery. The quintessence of this manner of governance and, at the same time, a peculiar paradox, consists in the fact that even actors who occupy central places in a network are not in a position to dictate conditions to those the peripheral ones. Cooperation of numerous autonomous actors is necessary for every single one of them not only to be able to achieve their own goals, but also those goals that were collectively found to be socially significant. Understanding this logic and adopting it is especially difficult for the state and its administrative structures, which for centuries have grown accustomed to a hierarchical order and peremptory behaviour towards civic actors.

The fifth barrier reflects the erosion of monolithic and hierarchical authority and vertical mechanisms of co-ordination. Reconciliation of interests and joint actions in a social world in which a monolithic and hegemonic authority does not exist demands reconciliation, dialogue and cooperation, and rigid vertical co-ordination must give way to a framework-based, network-based and horizontal co-ordination. It is an innovative and valuable, but, at the same time, complex and difficult form of co-ordinating collective actions.

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## 8. Closing remarks

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The concept of the resource-integrating state does not aspire to the role of a competitive manner of interpretation and explanation of transformations that affect contemporary states and governments, neither does it delineate their normative and functional background. The foregoing discussion of this concept serves to meet much more modest needs, namely it draws our attention to the phenomenon of integrating resources controlled by the state and civic actors, respectively, for the purpose of solving complex social problems in different areas of life. The basis for this integration appears to involve both concern about public affairs and an endeavour to satisfy particularist needs that cannot be met without cooperation based on integration of resources either by the state or by civic actors.

The concept presented above is strongly related to the paradigm of participatory management that developed in response to concerted efforts undertaken since the 1980s to make the state and management systems of public affairs as market-oriented as possible. One may also find there references to other approaches that emphasises the significance of the common good, the public sphere, civic involvement, cooperation and ethics. In a way, this endows the concept of the resource-integrating state with an eclectic quality. However, it shows one crucial feature that distinguishes it from other conceptual approaches, namely the axiomatic premise about the evolution of the contemporary state that integrates its resources with those controlled by other civic actors.

The concept of the resource-integrating state is not a romantic delusion based on the conviction demanding absolute cooperation among civic actors, their unconditional attachment to democratic and civic values and an enlightened and ethical state. The basic premise is that an inalienable social attribute of individuals and social groups are both empathy and ethical grounds as well as their interests. They are not one another's substitutes, but remain in complementary relationships. This is the founding principle of the concept of the resource-integrating state.

More and more components of this concept find their application in the practice of managing public affairs. However, the implementation of its principles is not easy, which is mostly due to the requirements of cooperation, openness to communication, co-ordination and weighing of what is individual against what is shared. This concept will be gaining in significance in line with the increasing complexity of social life, intricacy of public affairs, rising aspirations of citizens and their expectations concerning public authorities.

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# Civic Partners and Public Regulations



Part II



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Jan Herbst

# Public Financing of Non-Governmental Organisations as a Source of Social Capital and Social Innovation: the Current State of Play, Barriers and Recommendations

## 1. Non-governmental organisations as centres generating social capital and social innovation

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### 1.1. Competencies of non-governmental organisations in the area of generating social capital

Before embarking on any discussion of social capital, the concept itself should be appropriately defined. In recent years, this notion has become one of most important categories in the debate concerning Poland's transformation. Such an explosion of interest requires an explanation, because certainly it is not just a catchy slogan. For many researchers and practitioners, the development of a theory of social capital should be perceived as a social and political process that occurs in response to the breakdown of the classic model of the welfare state, criticism of the neoclassical paradigm in the economy and its incapacity to capture extra-market social phenomena that exert their impact on economic development. Echoes of this discussion, albeit belatedly, have also reached Poland. The Reader should be reminded that one of central categories described in the recent report titled Poland 2030 is the need for a systemic shift of emphasis or even an outright change in the paradigm from the welfare state to the so-called welfare society. The translation of the latter into Polish reflects nothing else but the need to develop social capital. The British slogan – the Big Society – can also be understood in a similar way. For some, it constitutes the necessary and admirable restoration

to civic initiatives (i.e. organisations and local communities) their rightful place, whereas for others, it is a calculated and dangerous attempt to shift the responsibilities of public institutions onto someone else's shoulders.

Currently, in Poland social capital is an almost central category in numerous analyses and strategies. A special role of this ingredient in social and, not less importantly, economic development has been appreciated. A significant element of the diagnosis and concern is that the deficit of social capital (everyone unanimously agrees that it constitutes a rare good in Poland) significantly reduces development opportunities. Among others, it is for this reason that one of the nine long-term government strategies is devoted to the creation of social capital.

Arguments presented in this chapter demand a prior explanation of our understanding of the concept. This will let us answer the question whether and to what extent non-governmental organisations constitute a reservoir or generator of social capital. We acknowledge that social capital has at least three dimensions related orthogonally to one another. These dimensions collectively constitute a certain space. The first of these dimensions is the so-called bounding capital, which consists in mutual trust, relationships among individuals fairly similar to one another, usually family and friends. This kind of social capital is, in fact, quite solid and well developed in Poland. The second dimension, perhaps the most important from the perspective of our discussion, it is the so-called bridging capital. In this case, we believe that people who are different from us or whom we simply do not know, tend to be driven in their actions and choices by good rather than bad intentions and will observe some common social norms. The final element that complements this triad is sometimes called the linking capital. It constitutes the vertical dimension of social bonds that reflects the relationships between the community and hierarchy, authority and the institution of representation. One may hypothesise that the above-mentioned kinds of social capital may, in some situations, substitute or compensate for one another. One may even say that under special circumstances, common resources of social capital remain constant [Field 2008]. In other words, one can imagine that if the resources of generalised reciprocal trust in others and in state institutions are sufficiently large, the need to depend exclusively on one's friends and family is considerably smaller. Conversely, as long as the environment outside the family circle is considered unpredictable and hostile, this uncertainty must be compensated for with family relations and various forms of 'exclusive' informal capital of contacts and connections.

Quite often, it is automatically assumed that initiatives pursued by non-governmental organisations create social capital. Time and again, their very existence and sheer numbers are considered to be its adequate measurements. To be certain, non-governmental organisations may both use and strengthen all the types of capital described above, but this comes with all the ambivalence attributed to its dimensions. In other words, activities of these organisations may support both the bright and the dark sides of such capital. This kind of ambivalence is also associated with the activities of non-governmental organisations. Their vast majority does indeed improve the quality of social relations since they supply reasons and instruments for cooperation in the interest of the common good, promotes variety, openness etc. However,



there are also those that consolidate or even promote social division, mobilise narrow interest groups against the public interest or deliver goods reserved for narrow groups of members. Sometimes they encourage aversion to variety, release their members from independent thinking and discourage intellectual freedom [Kopecky 2003].

Putting aside the above-mentioned reservations, we can say that every kind of social capital can be attributed relevant organisational functions. Some organisations are simply founded in order to help their members pursue their own passions and interests. Some of these activities affect the public sphere and the public interest, but it need not always be the case. Mutual or private interests of their members are a good enough justification for their existence. Yet some organisations participate or aspire to participation in public affairs. This may occur in various ways. First, non-governmental organisations usually provide specific public services (e.g. in the area of social services, culture, education etc.). In various contexts, they can help out, replace, supplement or compete with the state in this respect [Anheier 2005]. Second, their task is to create a kind of 'immune system' for the activities of public authorities, thereby limiting possible abuses. In order to prevent the latter, non-governmental organisations should 'keep an eye on the authorities' both by cooperating with independent media and creating them. Third, their other functions consist in the creation of mechanisms for indirect representation of interests (advocacy) of individual social groups (especially those that for various reasons are not sufficiently addressed by traditional mechanisms of representation). In this sense, these activities are designed to supplement the traditional model of social dialogue conducted by organised labour unions and employers, and also by the traditional model of representative democracy. Finally, non-governmental organisations provide a space for putting forward new ideas, pluralism of public debate and the emergence of broadly conceived social innovation.

However, it is important to note that the above-mentioned functions actually belong to two different orders. The first one can be defined as the civil one (related to something that one may define as a kind of the refinement and mutual respect in public life), and the other – as the civic one (connected with citizenship and political competencies) [Deakin 2001]. Consequently, we may say that in there is a need to develop in Poland both a civil society and a civic society, which, incidentally, corresponds with the generally accepted principle that it makes sense to be both 'a good neighbour' and 'a good citizen.' Although these issues can be intertwined, they are by no means identical. This distinction accurately indicates the different roles played by public institutions in the formation thus conceived<sup>6</sup>. In the case of the first dimension, this role should be indirect and supportive (under a considerable influence of the broadly conceived culture, education, family upbringing, religious beliefs etc.). In the case of the second dimension, the situation is somewhat different, because the issue of citizenship and the way it is understood – both in terms of rights and responsibilities – has a fundamental impact on the operation of the state. The relationship between the civic society and the

<sup>6</sup> We wrote about this issue in more detail in a 2005 document *Głos w dyskusji na temat wizji rozwoju społeczeństwa obywatelskiego w Polsce* (A Voice in the discussion on the vision of the development of the civic society in Poland) – <http://www.dialogspoleczny.engo.pl/files/dialogspoleczny.engo.pl/public/Piotr/glos.pdf>

state with respect to their primacy constitutes a central theme of almost the entire history of political thought. However, in all cases one must underscore the fundamental importance of trust and the extent of identification of citizens with the state that nominally operates on their behalf and in their interest.

Diplomatically speaking, in Poland, citizens trust and identify with their state to a moderate extent. This constitutes a cause for concern to many politicians and even appears to be one of the fundamental causes for divisions on the political arena. The search for a recipe how to rebuild/strengthen the bonds between the citizens and the state poses a serious challenge, since the state can be respected, feared, liked, sneered at, treated indifferently or in a purely instrumental manner. All these 'response options' are available to citizens, and the choice that they make has a fundamental significance for the functioning of the state. Especially important is the issue whether or not the state can be trusted – this issue sometimes determines 'all the rest.' Therefore, it is legitimate to ask how to build this kind of trust. It appears obvious that it should be built at both ends. However, owing to the nature of this document, we are more interested in what should be done by the state or, more widely, by public institutions. Although it may sound banal, it is the state that should trust its citizens a little more than the citizens trust it, even if in the short run this were to cause confusion or negative consequences (e.g. the inclusion of citizens in decision-making lengthens the process). It appears that that in its own interest, the state should give up pretensions to omnipotence. The point is not to perform politically correct gestures, but actually cooperate with citizens and institutions created by them. Neither is it about eluding responsibility by privatisation, outsourcing or simple contracting-out. It is not about endowing citizens with 'consumer power' or finding 'a less expensive provider.' The point is just to let citizens be citizens. From this vantage point, the model of participatory governance is not a passing trend, but a necessity. Most challenges facing Poland – both great and small – cannot be faced without an active involvement of citizens. The stiff, hierarchical and bureaucratic model is wearing thin and it becomes necessary to look for a model of governance that motivates rather than coerces, creates conditions conducive to effective action rather than helps and incapacitates citizens and one that seeks merging, synergy and partnership among various entities rather than their separation. In other words, the state should to a greater extent trust the competencies, energy and goodwill of citizens in the hope that they will reciprocate in kind.

Consequently, the point is to implement a model of state that is generally called the enabling state<sup>7</sup>. The state that plays such a role should selectively support (financially and otherwise) different functions of organisations. It means much more than 'purchasing' services on its part and for something more important than financial backing alone. This, however, demands far-reaching changes in the way the role of non-governmental organisations are perceived (the same applies to the perception of state administration by organisations). State administration cannot just treat this sector as simply a 'cheaper' service provider, as has been the case to date [Til 2008]. Such a partnership, understood as a modern form and mechanism

7 Recently, Polish government documents (Strategy 2030) have used the term państwo pomocne (helpful state), which may be considered a direct reference to the idea in question.

of determining the mutual relations among individual sectors, reflects or, more properly, constitutes the principles of a modern philosophy of governance, where networks are more important than hierarchies, delegating responsibilities is more important than their exercise by the state apparatus, motivating to act is more important than issuing top-down orders, and, most essentially, there are room and mechanisms in place for jointly defining public needs and ways to meet them. Public administration must thus make sure that in such a discussion no interests of individuals are ignored. Non-governmental organisations are no longer simply executors of mandates decreed by public administration, but also co-authors of local strategies and participants in a debate concerning the condition of local communities. They have an opportunity to appear in both important roles: as suppliers of services and as sources of information about local needs. The issuance of instructions, protectionism and dispute is transformed into dialogue and hierarchy – into networking [Salamon 2002]. Such change is especially important in Poland with its historically consolidated antagonistic model of the state vs. the civic society.

## **1.2. Non-governmental organisations as a source of social innovation**

Non-governmental organisations also play a unique role in the creation of broadly conceived social innovation. Although the phenomenon has always been with us, the term itself did not appear until recently (at least, in Poland). Competencies of non-governmental organisations in generating social innovations constitute, in our opinion, an inherent part of their nature and are often the best proof of their formation and existence (if only in the classical understanding of their compensatory role for the so-called state failure and market failure). Regardless of whether we discuss innovation understood as new production methods, newly developed products or new types of organisation [Murray 2010], these competencies of organisations in social domains have a huge import, which is, however, often ignored. It is the non-governmental organisations that keep asking ‘why not?’ It is them, often incorrigibly optimistic, and sometimes naive, that cope with problems that others fail to notice or have no adequate solutions for them. Objectively speaking, in the cycle and ‘division of labour’ in the area of innovation, non-governmental organisations perform relatively well, especially at the stages of generating ideas and prototype construction [Murray 2010]. Certainly, not every organisation and not always possesses such features, but in general, the problem in Poland consists in their underestimation rather than overestimation. Besides, the most important observation appears to be that the most fertile ground for developing social innovation is not enclosed within individual sectors, but in what appears at their interface and as a result of their cooperation.

So far, the concept of innovation has usually been associated with the worlds of science, business and technology. Often the fundamental problem or challenge was perceived to be how to link these spheres and a lot of effort was put into this juncture<sup>8</sup>.

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<sup>8</sup> The general level of innovation in Poland (within and outside public administration) is not impressive, to say the least. According to the Summary Innovation Index, Poland ranks 21st out of 25 EU countries (<http://www.proinno-europe.eu/page/innovation-and-innovation-policy-poland>).

Accordingly, several technological innovation centres were created in Poland. Unfortunately, at the moment, there is no public support for the creation of similar institutions dedicated to social innovation. Innovation also arises where the sectors overlap, but here an important role is played by the non-governmental sector. Public administration itself, although certainly needs modernisation stimuli and, in general, the learning process (understood not as trainings workshops, which are numerous, but a more deeply understood reflection), will not admit to its own deficits. Poland lacks a solid resource base for a modern approach to public management<sup>9</sup>. As a matter of fact, it is not clear where, in the institutional sense, such indispensable innovation in the area of public management should be born. Neither the central government nor local governments have a solid and permanent resource base; neither of them manages to effectively take advantage of external support. In a fundamental sense, it appears that that quite often administration cannot cope with managing such processes as making diagnoses, creating prototypes, experimenting, adjusting to scale and, in general, implementing evidence-based policies. This continues to be the case despite the spending of substantial amounts (mainly from the EU) on such efforts. Even where the principle of searching for social innovations and their dissemination was built into the very nature of a given undertaking (e.g. the EQUAL programme), no reliable mechanism of outcome validation or dissemination of results was developed. No conclusions were drawn from this fact and structural errors made in the course of EQUAL are still perpetuated<sup>10</sup>.

In general, public administration cannot cope well with the creation of conditions promoting innovation in other sectors or with introducing innovation into its own structures<sup>11</sup>. We would like the state to be friendly, supportive, efficient etc., but nobody knows how it might systematically acquire such attributes. This issue exceeds the scope of our discussion, but it appears that it is the improvement in the quality of governance that constitutes the greatest challenge faced at present by administration in Poland. Without a fundamental change in this area, we will be condemned to a civilisational drift, an ineffective, expensive state, disrespected and unpopular with citizens – a state on which its citizens cannot rely and who do not trust it, and therefore it responds in kind.

Some of these problems are uniquely Polish, but others are more immanent, attributable to the very nature of administration. Public institutions are inherently reluctant to risk, convinced that they are founded on stability and predictability and that all change will upset these values. However, it is clear that the classical Weberian model of bureaucracy will inevitably exhaust its capacity and fail. What is needed is a more participatory, open and network-based model of governance. One may say that the Weberian model slowly turns into a Weberian model. The location of traditional polar opposites of hierarchy, networks and the marketplace changes; as a result, we start to notice that they are not already so unequivocally related to individual

9 Even though there single worthwhile initiatives do exist, such as e.g. Zarządzanie Publiczne quarterly (published jointly by the Malopolska School of Public Administration, Cracow University of Economics, and Scholar Publishing House).

10 For example, the present National Supporting Institution that should foster social innovation, adopted the same defective method of outcome validation based on peer-to-peer evaluation.

11 In this area, the Danish government centre of innovation in the public sector called MindLab (<http://www.mind-lab.dk/en>), and particularly the British NESTA (<http://www.nesta.org.uk>) offer interesting inspirations.

sectors. The classical division into public and private sectors also changes and becomes more complicated, not only with respect to public-private partnerships, but also public-civic partnerships. In any case, the differences hold not only for institutional constructions, but the intrinsically different 'ontology' of all these spheres. Public administration is also subject to change. Time and again, this process is described as a change 'from rowing to steering.' It appears, however, that something more is at stake, namely the return to the fundamental constitutional function of administration, which is to serve the public (new public services).

More and more often, public policies tend to follow the participatory model. Instead of the electoral model of competing for votes, the focus shifts in favour of a built-in dialogue mechanism, in which the opinion of citizens is more important than their votes. One may even say that we are witnessing a deliberative shift. It is especially important for our discussion in this chapter, because it indicates how citizens themselves and their groups may participate in the modernisation of public administration and its policies. A precondition for this process is elementary trust – the recognition by the administration that on the 'other side' there really are citizens who have competences and passions, capable of providing significant contributions to a collective search for solutions. One cannot overstate the importance of discovering the capital of 'thinking together,' of creating something positive in the form of a common dream or idea. Such participation may assume different forms, but one of them consists in collective brainstorming and generation of ideas. Good examples of this process come from the United Kingdom and the United States, now in the process of implementing painful budget cuts. Both Prime Minister Cameron and President Obama have tried to involve citizens in the debate on 'where to cut.' Both appealed to their own officials and citizens for ideas in this respect. In the USA, the SAVE AWARD programme generated as many as thirty-eight thousand ideas of different kinds of savings. What links these undertakings is the belief that 'on the other side' there exists a kind of collective intelligence capable of looking for solutions and turning dreams into reality. Similar experiments reflect the current trend called 'crowdsourcing,' sometimes known as wiki-government<sup>12</sup>, which emphasises the mutual and disinterested nature of developing joint solutions.

## 2. Regulating access of non-governmental organisations to projects financed from public funds (including European Community funds): An International perspective

After a handful of general remarks concerning the role played by non-governmental organisations, we shall now describe the basic instruments through which public administration can finance their activities. Initially, however, we must make several important provisions.

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<sup>12</sup> The phrase appeared in the title of a book authored by Beth Simon Noveck, a member of the Technology, Innovation, Governance of Reform team appointed by President Obama. A classical example of advantages resulting from this approach is the solution of the problem of delays in the US Patent Office using the peer-to-patent mechanism (<http://peertopatent.org>).

First, owing to the character of the present chapter, we shall focus on the financial dimension that holds between the two, although it is clear to us (as was said above) that the idea of the enabling state has considerably more dimensions. One may even say that, paradoxically, an excessive focus on funds (even if owing to the lack of symmetry) makes it very difficult to build a new quality into these relations. Second, out of the entire range of financial aspects (taxes, stimulating philanthropy, preferential treatment, financial support, purchase of services) we chose only direct transfers of public funds to organisations. Third, we shall discuss only two systemic rules of access to public funds, namely public procurement (purchasing services) and supporting the execution of public mandates pursuant to the Public Benefit and Volunteer Work Act. We are aware that this is not a complete list. Despite the intention that the above-mentioned act should consistently regulate access to public funds, many institutions (government departments) have their own, more or less systematised mechanisms of financing activities of non-governmental organisations. Identifying them all is certainly worth a separate publication. An indication of how difficult such a process might be the fact that in this year's survey, 16 out of 17 ministries had no clear policy of cooperation with non-governmental organisations<sup>13</sup>.

## 2.1. The State as a purchaser of services: Public procurement

It is not easy to evaluate the extent to which non-governmental organisations participate in public procurement in Poland. In the case of non-governmental organisations, the application of such procedures may have both positive and negative effects. The latter occur particularly when public procurement reduces the role of non-governmental organisations to that of a provider of the least expensive service. Their contribution amounts to the cheapest labour. However, under certain conditions, awarding public procurement contracts to non-governmental organisations may constitute an important form of 'investment' in their development made by local governments. Non-governmental organisations include a very broad range of entities and meet a wide variety of different needs, many of which lie in the area of interest of public administration. These organisations may operate in the economic or paraeconomic sphere, although their common denominator should be the priority of social objectives, which is a critical characteristic of this form of activity. These objectives may be achieved directly through commercial activity, e.g. in the form of the so-called inclusive labour markets or other ways of pursuing their statutory objectives, but also indirectly, by spending profits from their commercial activity on their statutory objectives.

From this perspective, the public procurement market constitutes a potentially important instrument for the operation of non-governmental organisations. Public administration throughout the EU is responsible for about 16% of all purchases of goods and services. In this respect, Poland is not dissimilar from other countries. However, there are no accurate statistical data to help researchers determine the extent of participation of the non-governmental sector in

13 Public consultations effectiveness test (Stocznia Foundation and SMG/KRC, study commissioned by the Ministry of Labour and Social Policy). Cf.: <http://partycypacjaobywatelska.pl/wiadomosci/7-wydarzenia/143-badanie-efektywnosci-konsultacji-spoecznych>.

public procurement. There are indicators that this extent is fairly modest [Guć 2006]. There are different reasons behind such a state of affairs. First, public procurement may concern matters that lie outside the competencies of non-governmental organisations (especially if they go beyond the sphere of services). Second, it is doubtful whether from the formal point of view signing a contract automatically stipulates that the contractor/supplier/service provider must operate as a commercial entity (many organisations reject this option due to special taxation and reporting requirements that it entails). We wish to emphasise the fact that often both non-governmental organisations and local governments are erroneously convinced that they are not allowed to enter into such contracts for formal reasons and that the only admissible kind of access to public funds is the Public Benefit and Volunteer Work Act. Third, the public procurement mechanism stipulates a considerably stricter regime of procurement objects and a greater competition among contractors/suppliers/providers (finally, as opposed to competitions for grants, usually there is only one winner). Neither of these conditions fits in well with the unique profile of non-governmental organisations. Fourth, payments are usually made on completion of those contracts, which means that the contracting non-governmental organisation faces a difficult problem of cash flow. It must also be remembered that non-governmental organisations simply have much less chance of being awarded a contract, because, as a rule, the basic (and usually the only) criterion is the price of the service/goods delivery. Hence, in a context in which social clauses have not been successfully implemented or promoted, non-governmental organisations are not in a position to win such contests.

Not all of the above-mentioned problems are permanent and inevitable. Some of them result from misunderstandings and lack of relevant knowledge. Thus, the view that one cannot participate in public procurement in the form of the so-called paid-for public benefit activity defined in the Public Benefit and Volunteer Work Act (section II, chapter 1) is incorrect. In other words, it means that any entity may participate in public procurement without being engaged in commercial activity. Such a regulation, however, entails certain limitations. The activity in question must be listed as a public mandate under Article 4 of the Public Benefit and Volunteer Work Act, income from the such paid-for public benefit activity may only serve the statutory aims of the organisation, compensation cannot exceed the cost of the activity borne by the organisation and the average salary of an individual providing the service in question must not exceed three times the average salary in the commercial sector.

A very important element with critical consequences to the practical application of Public Procurement Law is the prevalent practice of declaring the price of a service to constitute the only criterion in the choice of a provider. Often the reason behind such a solution is not dictated by finding the least expensive provider, but by concerns and possible complications resulting from the introduction of different rules. Public administration avoids suspicions of discretionary authority like the plague, because it may result in charges of favouring one provider over another and even of corruption. However, this kind of approach tends to have disastrous consequences. Sometimes they reach spectacular proportions, as was recently the case with a motorway construction contract that had been awarded to a Chinese company offering the lowest price (due to a blatant disregard of completely absurd and obviously unrealistic



rates quoted in the tender). This example serves to prove the destructive function of a mindless application of public procurement procedures dictated by the law (in its most primitive, price-based form) in a sphere to which such regulations should not apply at all. It is obvious that in a matter so sensitive as e.g. nursing services, the issue of reputation and trust towards specific providers suppliers is of crucial significance. Some countries (e.g. Italy) specifically prohibit the use of the price criterion as the sole measure in the procurement of such services. Moreover, there are justified concerns that the application of public procurement procedures practised for a long time in the social sphere is, in principle, unlawful [Nitecki 2010].

Some hope for a more 'sensible' application of public procurement procedures by the administration is offered by the social clauses. They constitute an exception to the rule approved by the European Community Public Procurement Law. In principle, the evaluation of a tender submitted under public procurement is based on the quality and price of the procurement object, but Community Procurement Law permits the introduction of additional social criteria, unless they violate the freedom of choice. Social clauses permit the purchasers to consider the social value added resulting from awarding the contract to a social enterprise especially in the spheres of vocational development, integration and employment of individuals unlikely to succeed on the open labour market (e.g. persons with disabilities, the long-term unemployed, occupational training of young people etc.) Likewise, environmental clauses may specify certain preferences or requirements concerning the environmental aspects of the delivery of a good or provision of a service. The introduction of social and environmental clauses is allowed under Directive 2004/17/EC of the European Parliament and the Council of 31 March 2004. The application of such clauses, however, also requires appropriate domestic legislation, which was adopted in Poland in 2009. The first one was introduced by the amended Social Cooperatives Act and concerned, first of all, the preferences related to the employment of persons excluded from the labour market. The other one, concerning economic entities employing persons with disabilities was introduced by the amended Public Procurement Law. In the same year, the Ministry of Regional Development issued a special instruction on how to put it into operation practice, but the mechanism does not work and it is impossible to find even a single instance of its application. For the time being, it appears to be dead. It seems necessary to conduct a wide-ranging educational action concerning the application of social clauses in public procurement in cooperation with public administration, especially involving regulatory institutions, such as the Public Procurement Office.

It must be remembered that the point of public procurement is not simply to obtain the lowest possible price, but to obtain the greatest possible value in exchange for the public funds spent. The concept of value has, therefore, a fundamental significance. Especially at the local level, it is completely justified and formally possible to formulate procurement conditions in a way that invokes a more broadly conceived common good, especially if it has already been defined in locally developed strategies). For example, in such cases in the United Kingdom a special clause invoking community well-being applies. It is well-being that is supposed to be maximised as a result of using public funds.

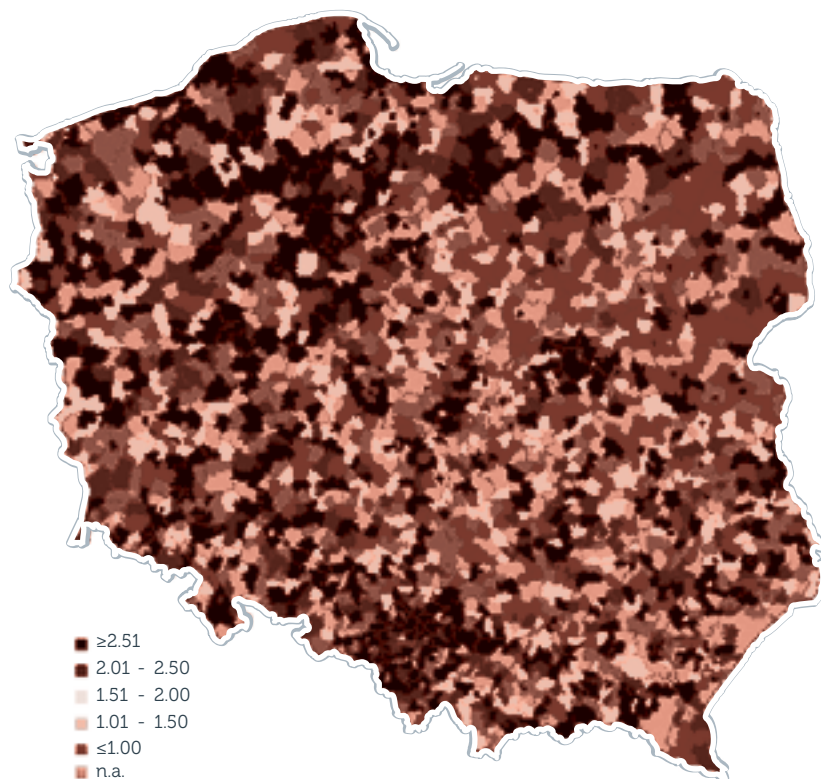


In Poland, a comprehensive review of current EU public procurement procedures as well as their applicability to non-governmental organisations was conducted as part of the EQUAL programme [de Rosa 2006]. The Ministry of Regional Development is also one of the coordinators of the European programme of exchange of experience in the area of social economy that was started after the completion of the programme. The fact that Poland is responsible for coordinating solutions in the area of public procurement orders is a bit of a mixed blessing.

## **2.2. The State as a donor and a purchaser: The Public Benefit and Volunteer Work Act**

From the perspective of our analysis, the Public Benefit and Volunteer Work Act in Poland can be perceived as a success. The process that led to its adoption, even if somewhat too long, involved several years of discussions on the most desirable features of cooperation between non-governmental organisations and public administration. Even though these relationships still leave quite a lot to be desired, the very fact that no local government unit in Poland may refuse to cooperate with non-governmental organisations cannot be ignored, since this is not the case in a number of other countries, especially in our region. A lot has been said about the British Compacts. Indeed, when work on the above-mentioned Act was in progress, the story of the British Compact was well-known in Poland. One can even say that the passage of the Act in Poland led to an obligation to conclude something in the shape of a local Compact in every local community (although it must be admitted that often the letter rather than the spirit of the Act applies). The fact is, however, that after eight years since the passage of the Act, the vast majority of local governments in Poland have developed cooperation programmes with non-governmental organisations (100% regional [voivodship], 94% county [powiat] and 87% district [gmina] authorities). The fact that public involvement in consultations on this document was not too high (from 41% at the community level up to 87% at the regional level) [Pracownia 2011] leaves something to be desired. The mechanism of cooperation has recently gained an additional underpinning by the statutory strengthening of public benefit councils. The Act provides for a number of forms of cooperation that considerably exceed financial issues. Collectively, they comprise a multidimensional space for cooperation. Lately, the KLON/JAWOR Association, which for over 10 years has been analysing relationships of various entities with local governments, proposed to develop an 'index of non-governmental organisations-friendly local governments.' Every district in Poland can be evaluated in respect of the quality of cooperation, and the aggregate results of this evaluation permit the development of a unique 'geography' of such cooperation.

Map 1. Local government as a partner: An Index of local governments cooperating with non-governmental organisations



Source: Map generated using the service Moja Polis.

The Act also defines the fundamental axiological principles of mutual relationships that include the following: subsidiarity, sovereignty of parties, partnership, effectiveness, fair competition and openness. Often they tend to be treated quite formalistically and applied without proper reflection. This particularly affects the principle of subsidiarity and the recognition that the existence of public mandates does not mean that they must be executed by public institutions (the principle provides that self-organizing citizens and their communities have a priority in this respect). The actual point is the division of labour between the state and self-organizing citizens. A genuinely constitutional answer to this question has not yet been given in Poland. It is even hard to say that the public opinion, let alone the political class, realises the need to find one. The principle of subsidiarity expressly written in the Constitution and repeated in Public Benefit and Volunteer Work Act is a readily recited platitude, but, it appears, often without a genuine understanding.

A separate and especially important problem from the perspective of the present chapter is how the Act regulates access to public funds. For obvious reasons, this issue has been and still is equally important, if somewhat sensitive. The legislators wanted to find a solution that would restrict the previous prevalent practice of discretionary decisions and lack of transparency. An important element was also the new context in which tens of thousands of organisations operated, as opposed to the times before 1989s when only a relatively small group of those (some of them licensed by the authorities) was allowed to apply for specified-user subsidies. It was clear that access to public funds should be made open, competitive and related to the accomplishment of broadly conceived social objectives.

The issue of how such access should be organised was of extreme importance. The Act introduces a crucial distinction into the so-called supportive and mandatory activities. The former consist in that non-governmental organisations in the broad spectrum of public benefit initiatives can formulate their own ideas for activities and expect financial assistance from local governments, whereas the latter are both determined and financed in full by public administration. The mechanism was supposed to resemble that governing the purchasing of services, but not identical. In fact, this very kind of relationship was supposed to constitute an alternative to the public procurement procedure in purchasing social services dedicated specially to non-governmental organisations.

In practice, the distinction between both mechanisms turned out to be problematic. In particular, there emerged a clear tendency to extend the application of the 'supporting mode' (that is, the one based on partial funding) to include narrowly-defined local government mandates, in other words, tasks that, given their nature, are obligatory and as such should be either delegated or purchased. These are cases that do not include broadly-conceived activities pursued in the interest of a given local community, but local governments' own mandates (e.g. the provision of housing to homeless persons). In such situations, it is not clear why non-governmental organisations would have to subsidise such activities with their own funds. They may do it if they choose, but this should not constitute a formal precondition for their applying for public funds.

From the perspective of the legislators, the Act did not succeed in achieving one of its fundamental objectives, which was to introduce limited competition between the public administration agencies and non-governmental organisations in the provision of services. Admittedly, the Act does contain relevant provisions that make it possible to compare different offers between public and non-governmental providers, but this option is not applied in practice. A pretext to abandon further attempts was offered by the fact that public administration units cannot transfer grants to its own agencies. In effect, this approach freed administrative units from competition and made them immune to change. Finally, even the option to compete in such a way was removed from the amended Act. This is a fundamental setback, because it effectively petrifies the current situation, in which the pre-emptive right in the provision of social services belongs to public administration. It directly violates the principle of subsidiarity included in the same Act.

The amended Act also introduced the concept of small grants (up to 10,000 zloty, ca. 2,500 euro). From the perspective of problems addressed here, this is a crucial solution, because it demonstrates a case of procedural deregulation that is rare and deserves further dissemination in Poland. It was introduced thanks to massive support both by local governments and non-governmental organisations.

The fact that numerous provisions contained in the Act and relevant to the issues discussed here have actually remained dead is certainly food for thought. This applies in particular to independent submissions of projects and solutions without the tender procedure (Article 12). The rationale behind the idea was to encourage innovation on the part of non-governmental organisations and to offer them an opportunity to challenge their competition, that is, the institutions that currently provide a given service (including public administration agencies)<sup>14</sup>. Other fairly rare, yet very valuable options include joint tender submission by several non-governmental organisations and the local initiative procedure (section 2a).

In summary, it can be said that the Public Benefit and Volunteer Work Act still has a large untapped potential in the form of acceptable, modern and advantageous solutions, which need to be more vigorously promoted. In this instance the best approach appears to be to create precedents and to disseminate them.

Here, we are touching a fundamental issue related to the mechanisms of implementing change in the practices of public administration in Poland. The above-mentioned examples (including the social clauses) demonstrate how insufficient is the purely regulatory/statutory approach to the problem. The learning process in administration occurs extremely slowly, especially in the area of optional solutions, that is, those that are not necessary and are not subject to sanctions. This issue exceeds the scope of this chapter, but the recognition of the principles of convergence in the operation of public administration constitutes a key to the development of a plausible theory of change in its practices [Mulgan 2007]. The Public Benefit and Volunteer Work Act offers numerous valuable lessons in this respect.

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14 This is the kind of the Polish equivalent of the now discussed in the UK Community Right to Challenge (see: <http://www.communities.gov.uk/publications/localgovernment/righttochallenge/responses>).

### 3. Structural barriers to entry of non-governmental organisations to projects financed with public funds: A Domestic perspective

#### 3.1. A Statistical picture

According to the recent KLON/JAWOR study<sup>15</sup>, representatives of non-governmental organisations consider the difficulties in accessing funds or needed equipment to pose the most serious problem in their activities (indicated by 62% of respondents). This issue has been raised persistently for quite a few years now. It is encouraging, though, that the number of organisations that consider this problem to be the most acute has recently decreased. From the perspective of issues discussed in this chapter it is also important that as many as fifty per cent of organisations surveyed believe that excessively complicated procedures connected with access to funds also constitute a serious problem. There is a lot of anecdotal evidence describing grotesque cases of bureaucratic absurdities connected with the use of public funds.

Chart 1. Percentage of organisations that consider a given problem to be ‘serious’ or ‘very serious’ in successive editions of the study

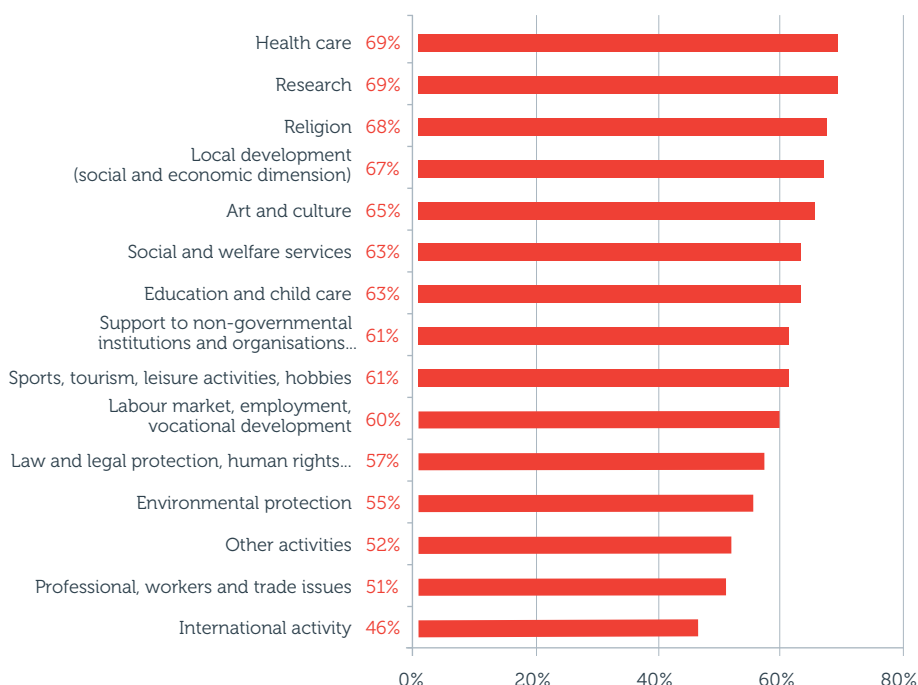


Source: Study KLON/JAWOR 2010.

<sup>15</sup> In this chapter, we use the data gathered by the most recent KLON/JAWOR survey conducted on a representative sample of 4 thousand organisations. The authors charted the data independently. A number of results presented here have never been published before.

In consideration of substantial differences within the sector, it is worth taking a look at ranking lists of the most pressing problems within individual major segments of the non-governmental sector.

Chart 2. Percentage of non-governmental organisations by sector that consider the problem of access to funds as 'serious' or 'very serious'



Source: Study KLON/JAWOR 2010.

Interesting insights emerge when we compare how the above-mentioned problems relate to organisation size. Almost all kinds of organisations consider problems with fund-raising and access to equipment to be the most serious. The only exception is constituted by the richest organisations. Those with annual incomes in excess of 500,000 zloty (ca. 125,000 euro) complain not so much about the lack of resources, but rather about excessively complicated formalities connected with their use, which is a kind of paradox. Quite often, due to such complications some organisations, if at all possible, avoid using public funds due to the excessive bureaucratic workload, problems with liquidity and, in general, serious risk for the organisation. This does not mean that wealthier organisations are satisfied with their financial standing. Over 50% of the richest ones consider problems with fund-raising to be serious and the frequency of this response does not decrease in proportion to increasing incomes. In the group of organisations with annual incomes ranging from 50 to 100 thousand zloty, as many as 71% indicated such difficulties, whereas those obtaining from 5 to 50 thousand zloty, this

percentage is smaller and amounts to below 65%. Predictably, larger organisations also have greater financial expectations. One may guess that some organisations that have grown beyond measure thanks to the EU funds will miss them sorely and will be in no position to sustain such scale of financing once Community programmes have ceased. Consequently, there arises a fundamental question of sustainability of results achieved thanks to those resources.

Out of a range of problems faced by non-governmental organisations, the list below includes only those that can one way or another be linked with the operation of public administration and its relationships with this group of organisations. The table indicates that these relationships are not easy, especially in the area of access to funds. Less often voiced complaints include too high taxes and excessive inspection powers, which suggests that Polish public administration does not hinder the activity of these organisations (which in itself is important and admirable), but does not necessarily help either.

**Table 1. The most pressing problems faced by individual types of non-governmental organisations**

	Problems with access to funds or equipment needed for organisational activity	Excessive bureaucracy in public administration	Overly complicated formalities related to obtaining funds from donors or EU funds	Unclear rules governing cooperation with public administration	Lack of regulations governing organisational activity or flaws in existing ones	Too high taxes	Excessive inspection powers of public administration
	% of N in line	% of N in line	% of N in line	% of N in line	% of N in line	% of N in line	% of N in line
TOTAL	62%	50%	49%	35%	26%	15%	15%
1. art and culture	65%	53%	50%	40%	27%	15%	14%
2. sports, tourism, leisure, hobbies	61%	47%	45%	32%	21%	14%	14%
3. education and child care	63%	49%	55%	33%	28%	16%	15%
4. research	69%	40%	43%	33%	25%	18%	19%
5. health care	69%	57%	51%	34%	31%	12%	17%
6. social and welfare services	63%	60%	56%	41%	29%	13%	14%

7. labour market, employment, vocational development	60%	53%	59%	41%	35%	33%	30%
8. environmental protection	55%	49%	46%	34%	26%	10%	12%
9. local development (social and economic dimension)	67%	58%	62%	42%	35%	14%	19%
10. law and legal protection, human rights...	57%	44%	43%	35%	28%	16%	16%
11. support to non- governmental institutions and organisations	61%	59%	71%	41%	34%	20%	17%
12. international activity	46%	60%	69%	38%	24%	11%	4%
13. religion	68%	62%	59%	37%	37%	29%	22%
14. professional, workers' and trade issues	51%	46%	30%	36%	25%	24%	16%
15. other activities	52%	39%	37%	31%	25%	14%	12%

Source: Study KŁON/JAWOR 2010.

Important differences also arise from the geographic area of operation of non-governmental organisations. Organisations that work locally (i.e. in neighbourhoods) comparatively seldom complain about public administration (excessively complicated structure, formalities or unclear rules of cooperation), which may be interpreted as a consequence of contacts with smaller municipal administrations rather than with offices situated higher up. Organisations from large cities, especially Warsaw, often face the problem of lack of staff willing to commit themselves to unpaid work. In turn, organisations operating for more than 10 years among the top five problems mention fatigue and professional burnout of leaders and individuals involved in organisational activity.

Another indicator is provided by the distribution of preferences concerning the themes of training workshops that representatives of these organisations would like to attend. It turns out that fund-raising is the most desirable topic. It appears that in the process of pursuing their mission, organisations consider access to funds to be the most important problem, with the



development of competencies in the domain in which they operate coming close second. Disturbingly little importance is attached to organisational development and management. This suggests the need to introduce a subtle but essential distinction between the needs and wants. In general, non-governmental organisations rate their own competencies very highly, yet it is debatable whether, in fact, such a high opinion is justified.

Chart 3. Desirable topics of training workshops

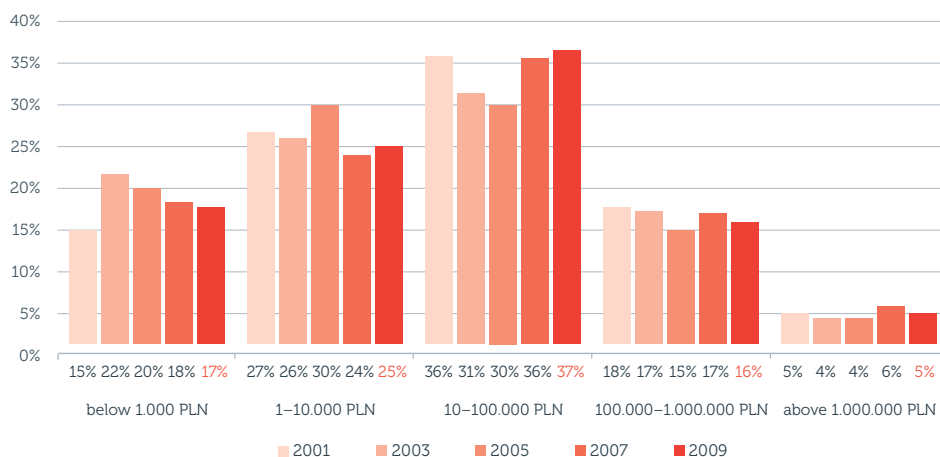


Source: Study KLON/JAWOR 2010.

**Financial standing of non-governmental organisations**

Thanks to the KLON/JAWOR study, we have fairly detailed dynamic data concerning the financial standing of this sector. The chart below shows changes occurring in the structure of their income over time.

Chart 4. Annual incomes of non-governmental organisations



Source: Study KLON/JAWOR 2010.

First, it is clear that there still exists a fairly large (although decreasing) group of organisations with small budgets. Collectively, a little more than 40% of them have annual incomes that do not exceed 10 thousand zloty. At the other end of the spectrum, there are 5% of organisations whose budgets exceed 1 million zloty. The chart also shows the successively widening circle of the so-called 'middle class' within the sector. Their budgets depend on individual organisation domain of operation. The annual budget of sports clubs, as well as organisations working in the area of art and culture or local development, in five out of six cases (among sports organisations, even seven out of eight) totalled below 100 thousand zloty<sup>16</sup> almost half of them have no more than 10 thousand zloty (data for 2009). At the opposite end of the spectrum, there are organisations operating in the area of health care, social services and support to other non-governmental organisations (over one-third with budgets above 100 thousand zloty, approximately 29% with budgets below 10 thousand zloty) and organisations dealing with the labour market and vocational development (especially vocational development centres), almost 45% of which exceeded the threshold of 100 thousand zloty in 2009<sup>16</sup>. In this context, there is a clear link relationship between the 'wealth' of a given organisation and its access to EU funds (in this case, primarily the ESF).

The non-governmental sector is extremely diversified. It comprises both small organisations that operate only on a local scale thanks to the commitment and enthusiasm of their members and strong nationwide institutions with hundreds of staff and huge budgets. There are much fewer of the latter, but they tend to represent the non-governmental sector in the eyes of the public. This is despite the fact that three-quarters of organisations do employ perma-

16 Differences statistically significant at  $p < 0.01$ .

nent paid staff, the budget of half of them does not exceed 20 thousand zloty, and over 90% of them do not receive any funding from the EU. In fact, the differences between small and large organisations are so great that it is hard to treat them as representatives of the same sector. The scale of stratification between them is perhaps best reflected by the fact that 5% of organisations whose annual incomes exceed 1 million zloty represent 75% of the total income of the sector. This proves that economic stratification of the Polish non-governmental sector is huge. The Gini coefficient for the non-governmental sector in Poland equals 0,9 (it ranges from 0 – complete equality to 1 – complete inequality) and has remained almost unchanged for years. Given these differences, organisational needs must also be viewed from different vantage points. Metaphorically speaking, different organisations need different 'diets.' The variety of organisations operating in the sector constitutes one of its fundamental features worth preserving rather than eliminating. One may even say that any isomorphisation of its activities may ultimately result in a loss of unique and valuable qualities of the sector as a whole [Frumkin 1998].

What are the sources of financing of this sector? In respect of the quantity of funds involved, the most significant 'sponsor' (or 'client') of non-governmental organisations is the public sector. This is nothing exceptional when compared with other EU countries. The funds involve both resources transferred by central administration and local governments. The former spend larger amounts (approximately one-fourth of the total income of the sector), but the latter fund over 50% of organisations (however, owing to the fact that the funds are smaller, their overall share in the budget of the sector is approximately 16%). Although local governments have smaller resources at their disposal, their amounts have increased in the past several years.

The third largest source of income of non-governmental organisations is their commercial activity, which generates at present approximately 12% of their total incomes. If we add to this the receipts from the paid statutory activities of the organisations, it turns out that both of these sources contribute almost a fifth of their total income (19%), in other words, they constitute the second largest source of financing non-governmental initiatives after funds obtained from the state budget. It is an important change with respect to previous years and a sign that organisations have taken a more keen interest in economisation. All domestic public funds (coming from both central and local governments) constitute as much as 38% of the total income of the organisations. With public funds coming from sources other than the domestic budget, i.e. the EU funds and international aid programmes, all public funds combined make up almost one-half of the budget of the entire sector. The 'diet' of the organisations varies. Funds from the central budget and from international public sources, although substantial, are used in practice by a relatively narrow group of organisations – those capable of coping with the reporting and accounting side of the process. In 2009, 23% of organisations received funds from the state budget, whereas approximately 12% received funds from abroad. Hence the only universally used sources of public funds are the local governments, which in 2009 were distributed to more than one-half of organisations. How frequently non-governmental organisations use local government funds is very closely linked with the area of their operation, with the direction of dependence being obvious enough. The smaller the locality, the more

often organisations use local government funds. In reality, they completely depend on them. This dependence is especially manifest in the case of sports organisations and fire brigades, the most stable elements of the landscape of the local non-governmental environment. In smaller localities, the introduction of regulations pursuant to the Public Benefit and Volunteer Work Act (instituting open tenders and design contests) often does not result in any change, since the number of tenders submitted is exactly the same as the number of organisations that receive funding. The situation is completely different in larger cities, where competition is much more forceful, with one winner sometimes having over 30 competitors. In rural areas, incomes from local governments were declared by more than 60% of organisations, and for nearly 90% of them (53% of all the organisations operating in rural areas) it was, at the same time, the largest and sometimes the only source of income. In the largest cities, the share of this source was half as large and the percentage of organisations obtaining more funds from local governments than from other sources was more than three times smaller (16%).

Only membership fees are more popular than local government grants. This source of income was declared by 61% of organisations. However, in the vast majority of cases the fees make up a very small portion of their budgets. Often, membership fees are symbolic, which results simply from the fact that a number of organisations operate as associations, which almost automatically entails a statutory provision stipulating the payment of membership fees. Almost equally frequent is the income from charity, both individuals and institutions (declared by 50% of all organisations).

A long-term analysis of the data collected shows notable changes in the model of financing activities of non-governmental organisations in Poland. Since 2003, the percentage of organisations using domestic (from 53% to 57% in 2009) and foreign (from 4% to 12%) public funds has gradually increased. However, the popularity of paid activities (from 18% to 15%) and charity (from 54% to 50%) is now declining. Still, with every edition of the survey more and more organisations take advantage of the '1% mechanism' (1% of individual income tax can be given to a public benefit organisation of taxpayer's choice) that did not exist in 2003, and at present contributed to the budgets of 17% of them.

Table 2. Percentage of organisations obtaining income from selected sources

Source of income		2003	2005	2007	2009
1	Membership fees	60	60	57	61
2	Local government funds (gmina, powiat, voivodship)	45	43	50	51
3	Donations from physical persons	41	36	36	37
4	Donations from institutions and firms	39	35	38	34
5	Central government funds (ministries, government agencies, regional authorities)	19	20	22	23
6	1% of individual income tax	-	6	13	17
7	Interest on deposits, profit on endowment capital, stocks and shares	15	14	16	14
8	Paid statutory activities	8	9	10	10

Source of income		2003	2005	2007	2009
9	Support from domestic non-governmental organisations	9	7	7	10
10	Income from public collections and charity actions	7	7	7	10
11	European Union funds**	-	3	7	9
12	Other sources	12	8	6	7
13	Income from commercial activity	11	7	7	6
14	International aid programmes from outside the EU**	4	3	6	5
15	Income from property, e.g. rental, equipment etc.	-	3	4	4
16	Transfers from another branch of the same organisation	3	5	2	3
17	Support from international non-governmental organisations	5	4	4	3

Baseline for percentage data 2009: all non-governmental organisations registered before 2010 (same principle applies to previous years).

\* In the 2004 survey, this category also included income from property, which in 2006 constituted a separate category (line 15).

\*\* In 2003–2007, category 11 involved only the Structural Funds, and category 14 all assistance programmes coming both from the EU and outside. Therefore the data cannot be compared with 2009.

Source: Study KLON/JAWOR 2010.

Unquestionably, the 'diet' of non-government organisations depends not only on their geographical location, but first of all on the domain in which they operate. The furthest-reaching differences connected with it are those involving the 1% tax transfer. Income from this source was declared by as many as 41% of organisations dealing with education and child care, and only one in ten sports organisations. For a fifth of the former ones, this source of income was the most important one. Substantial disproportions occur in earning income from organisations' own capital, from the EU funds, donations from physical persons and local government funds. For example, local government support is declared by almost two thirds of sports and leisure organisations (for over one-half it is the main source of financing), over one-half of social welfare and cultural organisations, but 'only' 44% of educational and child care organisations. Donations constitute an important source of funds for organisations providing educational, welfare and social services. Half of them receive income from this source, and for nearly 10% of them, donations constitute the most significant portion of their budget. However, given the focus of interest of this chapter, the most important differences involve public resources. These are shown in Table 3 below.

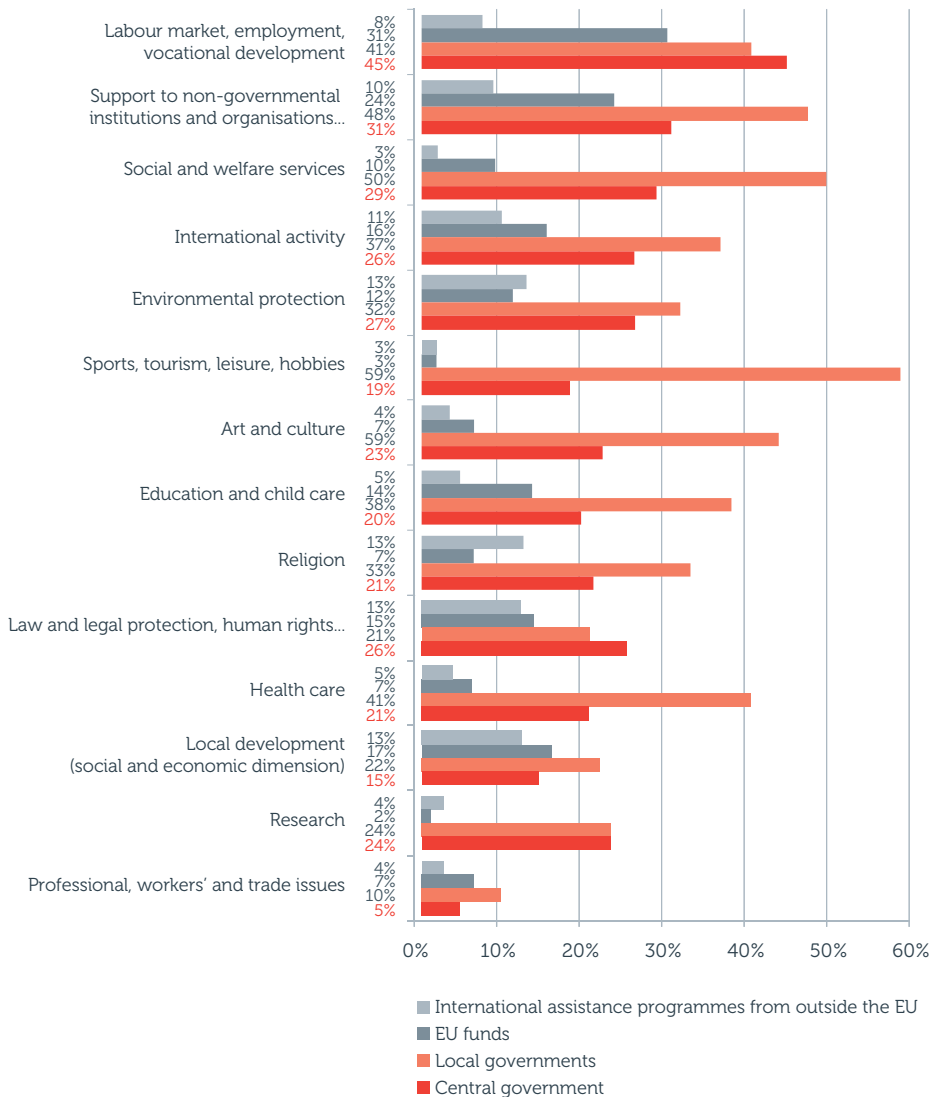
Table 3. Sources of funding for non-governmental organisations by sector (%)

Source of Funding/Sector	Art and Culture	Sports, Tourism, Leisure, Hobbies	Education and Child Care	Research	Health Care	Social and Welfare Services	Labour Market, Employment, Vocational	Environmental Protection	Local Development (Social and Economic Dimension)	Law and Legal Protection, Human Rights	Support to Non-Governmental Institutions And Organisations	International Activity	Religion	Professional, Workers' And Trade Issues
Public (central government)	22.9	18.7	20.1	23.6	21.0	29.5	44.9	26.7	15.1	25.8	31.0	26.3	21.4	5.3
Public (EU funds)	7.2	2.9	14.1	1.9	6.9	9.7	30.6	12.0	16.7	14.5	23.8	15.8	7.1	6.9
Public (international assistance programmes from outside the EU)	4.2	2.8	5.4	3.6	4.6	2.6	8.2	13.3	12.8	12.9	9.5	10.5	13.3	3.5
Public (local governments)	44.2	58.9	38.4	24.1	40.8	50.0	40.8	32.0	22.2	21.0	47.6	36.8	33.3	10.3
Support from other domestic non-governmental organisations	11.2	7.4	10.0	3.6	10.7	10.4	8.0	5.4	6.7	12.9	28.6	10.5	6.7	1.7
Support from other international non-governmental organisations	3.8	0.3	3.4	3.6	4.2	3.7	4.1	4.0	1.1	8.1	4.8	10.5	6.7	1.7
Donations from physical persons (except from 1% transfers)	29.9	28.2	35.1	30.9	48.9	48.1	38.8	41.3	22.2	37.1	50.0	26.3	57.1	13.8
Donations from institutions and firms	26.5	29.5	29.0	27.3	46.6	44.0	38.8	36.0	12.8	14.5	42.9	42.1	35.7	20.7
Donations from other branch or subsidiary of the same organisation	2.1	3.9	2.4		2.3	2.6	4.1	2.7	0.6	1.6	0.0	5.3	6.7	3.5
Membership fees	25.2	57.8	52.0	56.4	52.7	53.4	40.8	48.0	57.8	35.5	47.6	52.6	57.1	70.2
Public collections, charity actions, campaigns	7.8	5.8	10.1	3.6	14.6	20.1	14.3	12.0	1.7	11.3	14.3	5.3	14.3	5.2
Interest on deposits, profits from endowment capital, investments, stocks and shares	11.2	6.2	18.3	18.5	21.8	17.9	18.4	12.0	7.8	12.9	26.2	5.3	13.3	20.7
Income from property: e.g. rental, equipment, property rights etc.	3.0	3.9	5.3	1.8	2.3	1.5	10.2	1.4	3.3	0.0	2.3	5.3	7.1	3.5
Fees (refunds) as part of paid statutory activity of organisation	10.4	6.9	12.5	25.9	11.1	7.1	8.2	10.8	4.4	3.2	14.3	15.8	7.1	19.3
Income from commercial activity	6.3	2.1	7.2	14.5	6.5	6.0	22.4	5.3	6.7	3.2	7.1	5.3	6.7	14.0
Income from 1% tax transfers	8.3	9.8	19.6	10.9	36.8	32.5	16.3	18.9	3.9	16.1	16.7	15.8	42.9	1.8

Source: Study KLON/JAWOR 2010.

The chart below includes only public sources, and therefore more clearly illustrated the extent of use of (or dependence on) public funds.

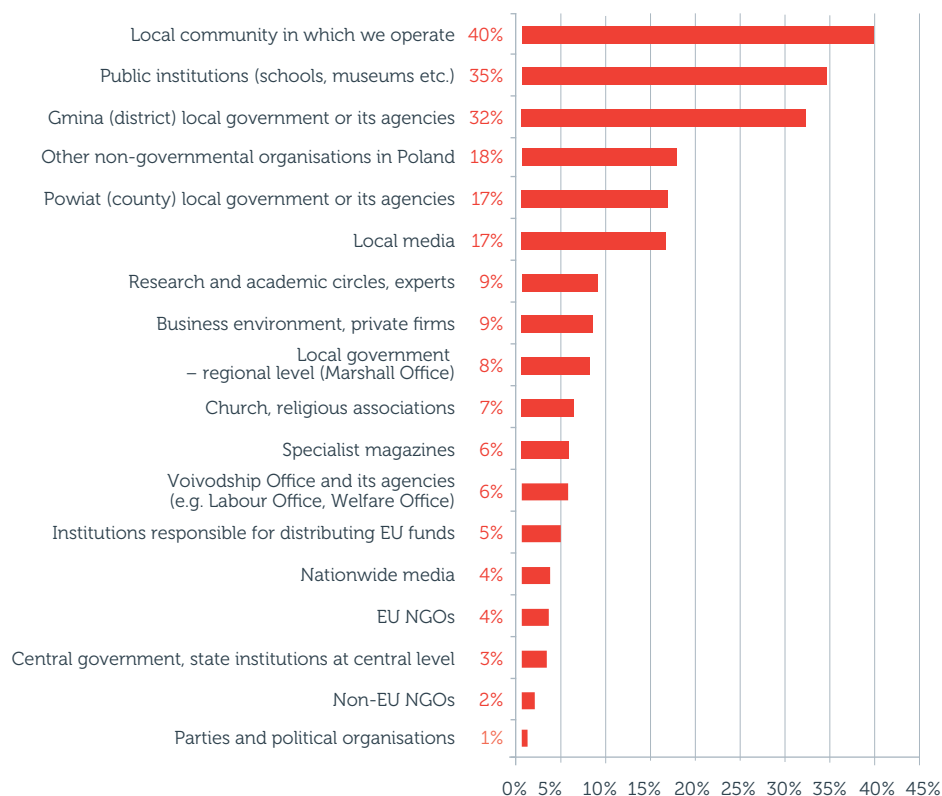
Chart 5. Non-governmental organisations and public funds by type



Source: Study KLON/JAWOR 2010.

In conclusion, we should address the issue of general relations between the non-governmental sector and other environments and entities. The KLON/JAWOR survey offers sociometric data concerning the circles and environments in which non-governmental organisations operate. The results are shown in the chart below.

Chart 6. Circles and institutions regularly contacted by non-governmental organisations



Source: Survey KLON/JAWOR 2010.

### Barriers to access to funds: A Qualitative perspective

Selected groups of problems concerning funding non-governmental organisations are discussed in more detail below.

#### The lack of funds

A number of non-governmental organisations complain about the lack of funds. This affects almost all kinds of organisations to such an extent that this kind of complaint is almost an inherent feature of such organisations. It affects both large and small organisations to an equal extent (paradoxically, it may be less of a problem for the smallest organisations, which have mastered the art of survival in an environment with limited resources).

#### Too little variety of available financial instruments

At times, one gets the impression that the non-governmental sector focuses too much on problems related to fund-raising (especially if they are used towards covering the costs of running



the organisation, not the achievement of statutory objectives). It seems that almost nothing is possible without money, that too often money constitutes the necessary precondition for any activity at all. Clearly underappreciated are the mechanisms employed by 'poor' organisations that can often achieve quite a lot with extremely modest resources. It would be advisable to create optimal conditions for their operation and to simplify access to smaller amounts of funding. Paradoxically, the operation of such organisations can be ruined both by a complete lack of resources and by too large available funds. Often, the funds ultimately received may turn out to be more than necessary and indirectly lead to a decay of an organisation. In other words, the problem lies in the lack of easily accessible small funds to be spent on modest local activities. To an extent, this problem can be solved by the mechanism of small grants and local initiatives, which was introduced by the amended Public Benefit and Volunteer Work Act. Other proposals of solutions in this respect have been presented later in this chapter.

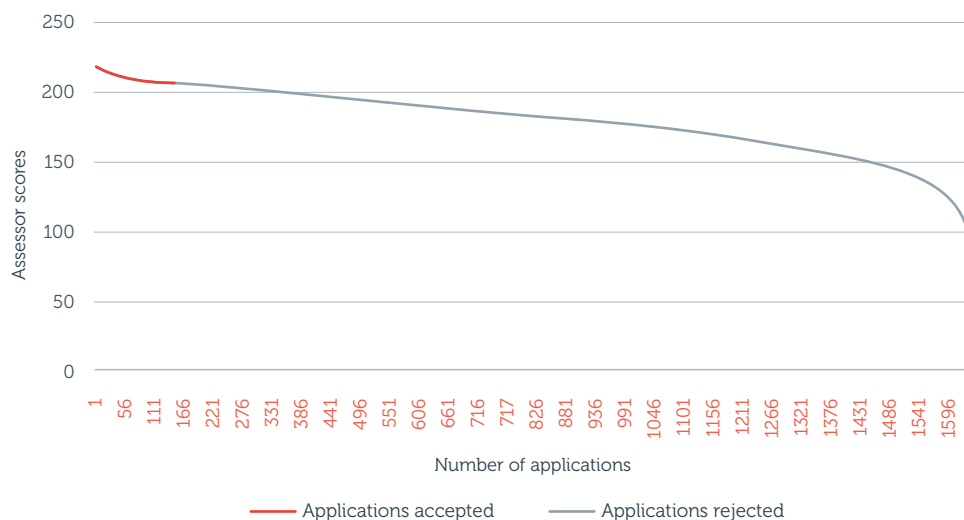
It worth remembering that the third sector is, in fact, a complicated ecosystem, in which the survival of individual institutions depends, among other things, on their access to funds to be spent on their statutory activities. One may say that non-governmental organisations seek resources in order to survive. In this respect, they may adopt different strategies, but one way or another they must either obtain them or considerably reduce their own needs. Organisations exhibit adaptational/opportunistic behaviours the more often the less varied are the available sources of funds. It appears that the lack of such a variety poses the greatest obstacle, although overcoming it does not depend entirely on public administration. In particular, the development of private charities, the foundation sector, and also the ability of organisations to generate their own income may go a long way to solving such problems.

#### **The problem of a 'crowded watering place'**

Given the scarcity of resources, organisations often tend to 'crowd at the watering place' and the crowd there can really reach extraordinary proportions. For example, let us look at the number of applications submitted to one of the most popular grant programmes, namely the Civic Initiatives Fund (Fundusz Inicjatyw Obywatelskich – FIO).

Clearly, opportunities to obtain funds within the framework of this design contest are limited. The quality of the winning applications is not really very much better than the rest. There is no perceptible exponential increase in their quality; in fact, the distribution of assessor scores is almost flat. The cut-off threshold appears suddenly because of limited funds available. This fact has extremely serious consequences in that approximately 1,500 organisations wasted their time preparing applications (although they were quite good). Very few of them were really poor (scores below 150). In other cases, applications did not meet the expectations of assessors. In consequence, a lot of time spent on submitting the applications was wasted, given that the number of required documents is huge, as is the risk of being disqualified on formal grounds.

Chart 7. Results of the FIO design contest: Promoting Social Integration (2009)



Source: Authors' calculations based on the FIO report.

### Too complicated procedures

Application forms, the number of required attachments and certificates deserve an entire separate report. Quite often, the requirements imposed on organisations are absurdly strict compared to the procurement objects. Some of these requirements are blatantly illegitimate (e.g. the requirement to submit an excerpt from the National Court Register issued within the last 3 months). It is also very easy to make mistakes when completing the forms. Applications have been rejected because their parts that did not apply were removed rather than crossed out. Certainly, formal errors do happen, and sometimes are significant, but in numerous cases they are completely minor. Errors can be corrected only in very rare cases. Formal elements in grant competitions are often treated by officials with extreme meticulous exactitude as if they were tenders for huge public ventures with a single winner, and the officials wanted to protect themselves against appeals by other tenderers. Rejections due to formal reasons are also a functionally justified means of reducing the number of applications subject to further assessment. Finally, in this system those who complete all forms correctly stand a better chance of winning funds than those who submit a better project. Hiring specialists to complete such applications has become a widespread practice (quite often, they are assessors in different contests since they can best understand the 'secret code' that permits the applicants to win).

### Extreme bureaucratisation of the contracting and payment system

All the hysteria surrounding formal issues by no means ends with the submission of applications. Often several months pass between the moment the positive grant decision is made and the moment a contract is signed and funds are transferred. For example, due to a certain internal instruction (under no circumstances a legal requirement), every single page of a multilateral

contract, not just the contract in general, must be signed by the legal council of a given ministry. Since we are talking about several hundred contracts, it is clear why matters drag on for months, even in the case of projects awarded funds in May, which should be completed by the end of the same year. At times, mindless attention to formalities lasts throughout the project and even afterwards, because inspections may occur at any time. Penalties for even the smallest oversights are very harsh and involve a ban on further applications for public funds for several years.

### **Asymmetry of parties**

The relationships between non-governmental organisations and public administration agencies are asymmetric. Contracts stipulate serious sanctions on the former for failure to execute any of its provisions. The same cannot be said about public administration, which practically without any consequences can delay the performance of its obligations. This concerns especially payment deadlines, which can be delayed for months.

### **Grant competitions as a lottery**

There are several reasons why so many non-governmental organisations crowd around public funds. First, there are too few alternatives. Second, the chances of winning a grant are small and it is hard to predict the result of a single competition, in consequence, organisations try their luck with a number of sponsors. Quite often hundreds or even thousands of organisations participate in national competitions and contests. For many of them, especially the local ones, it constitutes an opportunity to expand their activities in respect of what they can achieve relying only on local funds. Quite often, in the case of strictly local projects, which should be financed by local governments, organisations seek support from nationwide programmes.

### **The impossibility to finance institutional development of non-governmental organisations and long-term undertakings**

Undeniably, organisations competing for public resources should also secure funds for their own institutional development or even make a kind of 'quasi profit' to spend on statutory activities determined by organisations independently or their 'own contribution' to other projects. Unfortunately, most organisations literally subsist 'from one project to another' and do not develop as institutions. Quite often, they turn into a kind of workers' cooperatives (or even a source of cheap labour) that assemble in an ad hoc manner depending on the results of grant competitions. Such a situation nearly eliminates serious, institutionally sophisticated organisations. In recent years, a lot of them have experienced extremely difficult times or have foundered. Organisations that pursue long-term complex activities find themselves in an especially difficult situation. Frequently, among other things, due to the execution of various long-term social programmes (e.g. social rehabilitation), they have to plan for the long-term perspective and act consistently. This kind of activity cannot be replaced by episodic trainings. Similar problems affect organisations providing continuous services, such as shelters for the homeless. It is hard to say how to ensure continuity of financing of such institutions if the contests are announced once a year. The most comfortable position on the project market is occupied by organisations that deliver periodic training workshops for which they

recruit staff only if they win a contest. It is not hard to guess how this impacts on the quality of those workshops. In reality, grant decisions based on design contests are often a bit of a lottery, therefore it is virtually impossible to predict the probability of success. Given such environment, organisations tend to become ephemeral. They are institutionally too weak and often, by necessity, opportunistic. What we are facing now is a self-fulfilling prophecy. Organisations are too weak to take over serious public mandates, but they have become so, because nobody even tries to entrust such mandates to them. Finally, organisations usually get 'leftovers' or mandates with respect to which public administration chooses not to exercise its pre-emptive right, and which are, at the same time, not profitable enough to be of any interest to entrepreneurs.

### **The lack of resources for innovative high-risk activities that exceed instrumental interests of administration**

Quite possibly, the central problem to be discussed in this chapter is that virtually no funding is available for certain kinds of activities. Unfortunately, public administration shows absolutely no willingness to take risks, which happens to be an indispensable component of innovative projects and high-risk programmes, e.g. in the area of social welfare. Consequently, competitions are won by conventional and even banal projects. In turn, organisations cannot obtain support for projects in the social sphere catering for those most needy, who often require a special approach fraught with risk. As a result, it leads to the process called creaming, which is targeting assistance, such as training workshops, to those who need it least.

### **Impossibility to develop a reliable evaluation system of applications**

An important consequence of the above-mentioned multitude of applications, which especially concerns projects assessed at national and regional levels, is that in practice it is impossible to conduct a reliable assessment of every single one and build a reliable ranking list. This is a serious structural problem. When public money is at stake, the assessment procedure should be as impartial and objective as possible. However, opinions are divided on this issue. Local governments enjoy substantial latitude in their approach. In some places decisions are made by single individuals, while elsewhere complex systems involve independent experts and representatives of non-governmental organisations. The latter are often put in an uncomfortable situation due to a potential conflict of interests. It stands to reason that organisations should not evaluate applications that they have submitted themselves. This, in turn, discourages them from sitting on evaluation committees. The requirement of their presence was included in the most recent amendment to the Public Benefit and Volunteer Work Act, but it was promptly removed, because in some cases it was impossible to appoint an assessment committee.

Outside local governments, at the national and regional levels, the assessment procedure often involves assessors, i.e. individuals who are supposed to objectively grade submitted applications. They should have no links with the evaluated organisations, but, at the same time, should be competent in relevant areas of activity. We wish to refrain from commenting either on the principles of their selection or whether all of them indeed meet the criteria described above. Certain doubtful cases are commonly known; still the intention to develop

a system that would separate the decision-making process from administrative pressures (not to mention political ones) should be applauded. In theory, all this appears to be correct, but in practice certain problems occur. Technically speaking, every application is assessed by two independent experts. The score is the arithmetic mean of the two scores awarded by experts. If these vary substantially, the application is submitted to a third expert. Applications are assigned at random to individual experts who sign affidavits to the effect of impartiality and absence of a conflict of interests.

Regrettably, despite all the efforts to standardise the evaluation system among experts, the final effect leaves quite a lot to be desired. In theory, experts should evaluate applications a fairly uniform manner. However, it turns out that the final score depends on the expert to whom it was assigned. So how does the system work? Available data, based on an evaluation of this procedure in a certain project, suggest that up to 30% of the variance in the final score can be statistically explained by the pair of experts to whom applications were assigned. The problem is systemic in nature. One of the reasons for this is that experts have very different styles of assessment. Their average scores range from 43 to 81 out of 100. In competitions are won or lost by single points, this issue is of fundamental importance. Those extreme individual differences might be cancelled out if assessments were conducted by more numerous groups of experts. Why, then, are applications assessed only by two experts? The reason is simple – there are too many applications, or to be more precise, the time devoted to analysing them (the sheer number of documents and forms) is too long.

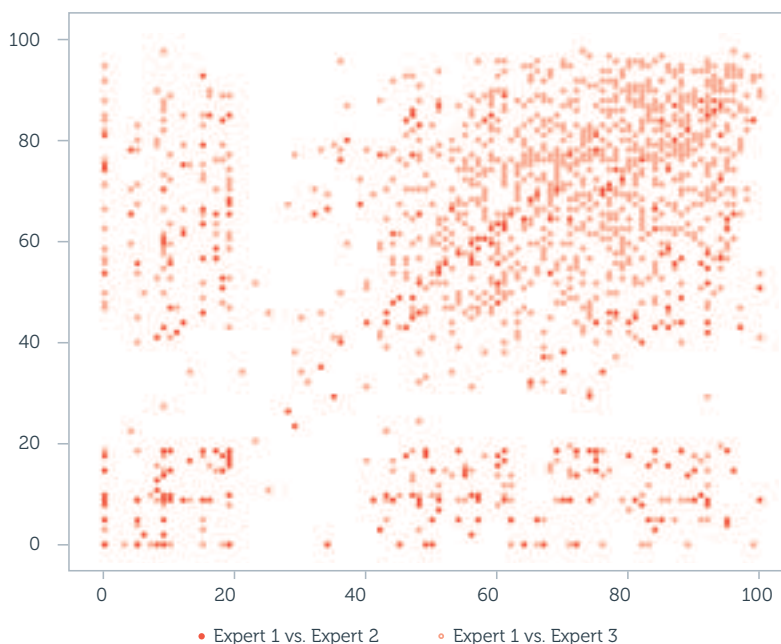
The problem of variance in scoring is illustrated in the chart below. The more coherent expert assessments (paired scores), the closer they should be aligned to the diagonal line. However, it is quite clear that in many cases they are quite distant from it.

In summary, all options, i.e. (1) arbitrary decisions made by officials, (2) arithmetic means of scores given by assessors and (3) organisations divide funds ‘amongst themselves,’ have serious drawbacks.

### **Uncertainty whether projects really address social needs**

Another problem is that no financing mechanism has built-in procedures to ensure that only those activities that benefit communities are planned and financed. Even assuming massive goodwill on the part of administration officials and members of non-governmental organisations, this may result in the planned activities being detached from the actual needs of communities. There are no regulations that would involve local communities in dialogue, which might result in a gradual expansion of their sense of influence. Consequently, it often turns out that organisations and their sponsors enter into a kind of symbiotic relationship, where the former adjust their activities to the latter’s expectations and are held responsible without really addressing the question whether and to what extent their actions meet the actual needs of communities concerned.

Chart 8. Variance in scores awarded by experts assessing applications for funding



Source: JJW, survey commissioned by the Cooperation Fund, 2009.

### Limitations on eligible costs

A serious problem is also posed by a peculiar and narrow official understanding of what can be treated as eligible costs in the area of public spending. Officials are extremely unwilling to finance any indirect costs (e.g. accountancy and management) and even salaries of organisational staff. They often adopt a hard-line attitude – some officials believe that non-governmental organisations must rely on unpaid volunteer work. The belief that organisations will be harmed by having any administration at all still persists. Thus, on one hand, non-governmental organisations are expected to scrupulously document all their activities, and on the other hand, they are refused the possibility of covering the necessary expenses to do so. Paradoxically, from the perspective of statutory aims of an organisation, it is sometimes easier and more sensible to enter into a simple commercial relationship with a local authority by issuing an invoice and deciding independently how to spend the funds. At present, the situation has changed a little, but it was necessary to amend the executive order that regulated the application forms submitted by organisations. However strange it may look, in practice another box was added to the form and in this way these expenses were made legal.

### **The lack of incentives to spend public funds sensibly**

The system under discussion also lacks incentives to spend sensibly, because no money can be saved anyway. All funds must be used up. Underspensing constitutes a more serious offence than overspending, and penalties are severe. No rewards can be expected for efficiency<sup>17</sup>.

### **The fundamental problem: the lack of mechanisms ensuring tangible project outcomes**

The system lacks concern for genuine and tangible project outcomes. There are no rewards for achieving good results or efficiency. Formally executed evaluations are almost invariably confused with monitoring and inspection. The procedures are dominated by concern for formal elements of payments, which often leads to a situation whereby all project participants together with its intended recipients (beneficiaries) feel treated instrumentally. Often activities undertaken for their benefit are ostensible in nature – eventually, both parties enter into an unwritten contract ‘for mutually ostensible activities.’

### **A paralysing fear of inspection**

Institutions involved in the distribution and spending of public funds are often mentally paralysed by the ‘pyramid of inspection,’ in which every successive level is afraid of problems that might result from an inspection coming from above. One can safely say that many (if not most) projects are designed to maximise the sense of formal security of every institution – both public and non-governmental – not the actual interests of intended beneficiaries of such activities. Often the results are outright tragicomical<sup>18</sup>.

### **Flawed indicators**

Quite often, built-in project indicators supposed to indirectly show whether the intended outcomes have been achieved, quickly become an end in itself. Consequently, organisations lose their main advantages, such as flexibility of action, empathy and ingenuity. They fall into the bureaucratisation trap aptly characterised by Michel Lipski over 30 years ago as ‘street level bureaucracy.’

### **Comparison of selected programmes financing non-governmental organisations**

Sponsors differ significantly with respect to how supportive they are of non-governmental organisations. Such comparisons are seldom conducted directly. Below we discuss the results of an evaluation survey of a grant competition<sup>19</sup>. Unfortunately, such procedures are very rare. Certainly, sponsors expect project evaluations on the part of the recipients of grants, but they readily excuse themselves from this duty or confuse it with reporting. This lack of self-reflec-

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17 The system of contracting for labour market services in Holland can be quoted as an example. First of all, it is based on the almost universally adopted principle ‘no cure – no pay,’ that is, all payments depend on the achievement of actual positive outcomes. Second, bonuses are awarded for timely action and sustainability of the proposed and enacted solution (amount depends on the category of the unemployed individual who must remain in gainful employment for at least one year). This kind of mechanism, generally described as a ‘cost-plus-award fee’ is also quite often applied in the USA to purchases of services from non-governmental organisations.

18 There are hundreds of such stories. For example, one of the organisations was refused final payment, because it bought a packet of cinnamon (price PLN 2.50, ca. 0.63 euro) which was produced in China, not in the EU.

19 Evaluation Study of the Fund for Non-governmental Organisations (Fundusz Organizacji Pozarządowych – FOP) administered by the Cooperation Fund. The study was conducted by JJW in 2009.

tion is actually an indirect major cause of flaws in systems of financing non-governmental organisations. A lot of them, could have been eliminated long ago if public institutions treated evaluation as part of their own organisational culture.

During the survey, FOP beneficiaries were asked for opinions concerning not only the fund itself, but also other 'popular' sponsors (including private ones). The study was conducted using several parameters, which appear to decide whether a given sponsor is viewed as friendly or not (the parameters correspond to headings of columns in the table).

Table 4. An Evaluation survey of donor funds for non-governmental organisations

### BEST:

Funds	Openness to novel ideas, non-standard projects	Availability of information about the programme	Clarity of guidelines, application forms	Level of bureaucracy, formality	Access for small organisations	Expected own contribution and security	Objectivity and reliability of application assessment process
Fund for Non-Governmental Organisation (FFW)	23.1	45.1	35.5	22.7	24.1	26.5	40.2
Fund for Non-Governmental Organisation (ECORYS)	6.0	18.9	14.0	10.9	8.6	9.4	18.6
European Economic Area (large projects)	1.7	4.9	4.1	2.5	2.6	3.4	0.0
Human Capital Programme	7.7	39.3	18.2	14.3	5.2	29.1	10.8
Civic Initiatives Fund	34.2	38.5	39.7	31.9	45.7	31.6	21.6
Batory Foundation	22.2	20.5	24.8	27.7	20.7	21.4	20.6
Polish-American Freedom Foundation	16.2	14.8	17.4	15.1	17.2	16.2	17.6



## WORST:

Funds	Openness to novel ideas, non-standard projects	Availability of information about the programme	Clarity of guidelines, application forms	Level of bureaucracy, formality	Access for small organisations	Expected own contribution and security	Objectivity and reliability of application assessment process
Fund for Non-Governmental Organisation (FFW)	22.6	11.8	13.7	18.7	23.0	24.3	22.8
Fund for Non-Governmental Organisation (ECORYS)	21.5	13.7	23.3	13.2	23.0	20.0	16.3
European Economic Area (large projects)	4.3	11.8	9.6	6.6	14.9	11.4	8.7
Human Capital Programme	55.9	23.5	45.2	58.2	60.9	35.7	54.3
Civic Initiatives Fund	7.5	13.7	6.8	8.8	6.9	8.6	12.0
Batory Foundation	6.5	5.9	4.1	1.1	1.1	1.4	3.3
Polish-American Freedom Foundation	5.4	5.9	4.1	1.1	2.3	5.7	2.2

Source: JJW, survey commissioned by the Cooperation Fund, 2009.

Openness to innovative, non-standard projects is most often mentioned as a feature that characterises the FIO. This programme also wins the category of ‘clarity of guidelines and application forms’ (though differences here are small), ‘limited level of bureaucracy’ and ‘access for small organisations’ (with a substantial advantage over runners-up). In the list of the ‘worst’ programmes, the POKL decidedly stands out, universally criticised almost in all the categories except for ‘availability of information’ and ‘expected own contribution.’

In this chapter, money coming from the EU funds serves as a kind of background for the activities of other sponsors, but, obviously, the presence of these funds and their accessibility (or inaccessibility) in itself constitutes a fundamental element of the financial landscape in which non-governmental organisations operate. A relatively small proportion of those organisations use these funds, but the amounts involved are fairly large. One can even say that there exists a certain group of organisations which owe their growth and, more indirectly, their operation to these funds. Once EU programmes expire, these organisations will find it challenging to survive.

A lot has already been said on the subject of the use of EU funds in Poland (particularly the European Cohesion Fund), including both benefits and problems. In public debate, quite frequ-

ently the issue comes down to 'how much we have been able to spend.' Quotations abound about 'squeezing out Brussels sprouts.' Politicians, ministries and even individual countries participate in this somewhat odd competition and many of them have achieved spectacular success. The outcomes of the Integrated Regional Development Operational Programme and its successor Regional Operational Programme are quite conspicuous. Less noticeable, however, are the outcomes of the 'soft programmes.' An interesting example is offered by the programme LEADER, which was supposed to support over three hundred Local Groups of Action. However, its procedures are too difficult and requirements imposed on applicants are considered too high. In effect, 'intermediaries' use the programme much more often than its alleged target groups, which has given rise to concerns that this potentially extremely helpful initiative might be called into question by the European Commission. Likewise, it is doubtful whether the combined expenses of 400 million zloty (ca. 100 million euro) on the development of infrastructure (mainly training courses) in the area of social economy would indeed and in appropriate proportions contribute to its development in the context of lacking elementary conditions for financial support (even if returnable) to the sector. Another serious problem is posed by the so-called systemic projects, which were intended to modernise and stimulate those systemic changes. In reality, however, they subsidise the current operation of public administration and petrify existing structures under the guise of change. Administration itself decides about the allocation of resources and for that reason its own institutional egoism prevails. In consequence, more and more often a systemic project means simply a project executed by public administration. Thus, administration instead of learning to think along project lines and engage in fair competition, exempts itself from this effort. Elsewhere in this chapter, we discuss the limited capacity of public administration for self-modernisation. Often systemic projects, instead of promoting change, encourage deception. Likewise, institutions created in order to efficiently administer the allocation of European resources, leave a lot to be desired. We believe that some of them make the process more difficult instead of facilitating it.

For some time, the efforts of a number of institutions and circles have focused not on how to spend funds in the current programming period, but rather on drawing conclusions and proposing better solutions for the subsequent period. A lot has been done in this area by non-governmental organisations. This concerns particularly the National Federation of Polish Non-governmental Organisations (Ogólnopolska Federacja Organizacji Pozarządowych – OFOP), which inspired a discussion on the subject, developed a clear position and also, thanks to the efforts of its representatives on the European Economic and Social Committee, contributed to the formulation of an important official opinion of this body regarding the future of the European Cohesion Fund (SOC 391). It includes numerous recommendations, particularly concerning the so-called global grants (hitherto applied in the United Kingdom), principles governing partnerships in the programming and implementation of the Fund. The whole clause 1.14 is worth quoting: "A number of improvements in the implementation of procedures and practical aspects of access to financing from the ECF must be introduced, first of all by considerably limiting bureaucracy, improving the payment system in order to minimise the financial burdens borne by programme executors, and by simplifying the procedures of invoicing and payment of bills e.g. through the use of lump sums."

To summarise, the European funds should become a source of modernisation of Poland and an important part in the process should be played by non-governmental organisations. Their present role is somewhat ambivalent. Numerous examples of positive effects of access to these funds can be listed, but, unfortunately, the list of examples of wasteful spending is not short either. The most important thing, however, is that gradually we will have to face the question what will happen once EU support terminates.

#### **4. Postulates concerning the elimination of structural barriers to access of non-governmental organisations to projects financed with public funds (including the EU funds)**

Below we present selected solutions – both domestic and international – which can offer inspiration for possible modifications in the system of financing non-governmental organisations. The fact that it is necessary becomes clear for an ever-increasing number of domestic and foreign institutions. In Poland, discussions on the subject are regularly conducted by a dedicated working group at the President's Office of the Republic of Poland. Such activities have also been pursued for some time by the National Federation of Polish Non-governmental Organisations and KSNRO. This discussion recently gained momentum as a result of activities of the Citizens of Culture circle (Obywatele Kultury), which is currently conducting a systematic review of public funds (and principles governing access to them) in the interest of broadly conceived culture. An important element of the new shape of objectives of public spending is constituted by the debate concerning the 9th Development Strategy (especially the Efficient State Strategy and Social Capital Development Strategy). An incentive for the search for solutions is also the fact that the present edition of the FIO is due to finish in 2013, which leaves little time to devise and implement its successor.

Likewise, on the European level a lot is being said about the need for innovation in this area. The opinion of EESC concerning the future of the ECF is not everything. An important element in the discussion was the 2009 OECD report *New Nature of Social Innovations*, and the another prepared in 2010 by BEPA for the European Commission titled *Empowering People, Driving Change, Social Innovation in the European Union* ([http://ec.europa.eu/bepa/pdf/publications\\_pdf/social\\_innovation.pdf](http://ec.europa.eu/bepa/pdf/publications_pdf/social_innovation.pdf)).

The latter document initiated the European network of social innovation (<http://www.social-innovationeurope.eu>). One of its objectives is to seek new of models of financing<sup>20</sup>.

##### **4.1. Examples of alternative / innovative solutions in the area of financing**

Below we briefly review selected ideas for the modernisation of the system of financing civic initiatives. All of them are aimed at the diversification and stabilisation of sources of financing

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<sup>20</sup> The meeting of the circle dedicated to these matters is scheduled to take place in Poland in December 2011.

as well as seeking alternatives to development based on a temporary system of access to the Structural Funds. Quite a few ideas mentioned here have been presented in different forms and places over the last dozen years or so, however, in most cases the circles concerned lacked the determination to implement them. It appears that the development of strategic solutions for the coming years constitutes a good opportunity to revisit some of them.

### Local funds

Local Grant Organisations (Lokalne Organizacje Grantowe – LOG) administer competitions locally. In Poland, there are 523 LOGs operating as a joint venture by the Polish-American Freedom Foundation (Polsko-Amerykańska Fundacja Wolności – PAFW) and the Academy for the Development of Philanthropy (Akademia Rozwoju Filantropii w Polsce – ARFP). The competition mechanisms are flexible, applicant-friendly and tailored to local needs. Applications for auxiliary funding are submitted to LOGs are assessed by local committees that include representatives of different stakeholders (local government representatives, respected local activists, experts on local communities, representatives of business, media, and donors). Grants within the framework of this mechanism are awarded to non-governmental organisations, informal groups affiliated with public institutions and initiatives of groups of local residents. 50% of the grant budget comes from the local grant organisation, while the remaining 50% is contributed by the Polish-American Freedom Foundation (for more information see: <http://www.dzialajlokalnie.pl>).

### The Civic Initiatives Fund (FIO)

It is necessary to ensure the continuity of the Civic Initiatives Fund (FIO). This mechanism, in operation for over five years, has become one of the most important instruments for the development of the civic society. Annually, it receives applications from approximately 4,000 organisations. It is governed by principles considerably more user-friendly than those of the European Social Fund, both in terms of procedures and range of eligible initiatives. The FIO is an operational programme financed with domestic resources and, at least formally, it is due to end in the near future. Attempts to include it in the amended Public Benefit and Volunteer Work Act have been unsuccessful so far. Certainly, it is necessary to extend its operation and give formal legal basis, but at the same time, it needs to be modernised. It also appears indispensable to increase the pool of funds at its disposal (originally, it was supposed to constitute the equivalent of the amount allocated within the 1% tax transfer, which is ca. 400 million zloty) and the institution of a different mechanism of its distribution. The new edition of the FIO should be significantly decentralised. Some of its resources should be earmarked for endowment capital in order to stop current financing from the state budget in 10–20 years in favour of a more permanent solution (similar to the US National Endowment for Democracy).

### Local civic initiatives funds

The idea of local civic initiatives funds is often mentioned in the context of decentralisation of the previous FIO. Generally, the experiences with village council funds have been positive thanks to two important features of this mechanism. First, such funds receive contributions from both national and local resources (matching funds). The other important feature is that

decisions concerning allocations are made collectively. A similar mechanism may also be applied with respect to grassroots initiatives in urban areas. In this case, it makes excellent sense to take advantage of the local initiatives mechanism introduced by the Public Benefit and Volunteer Work Act.

Especially interesting domestic and national solutions involve the so-called Local Funds (Community Foundations). Currently, a network of local grant donors operates in Poland ([www.dzialajlokalnie.pl](http://www.dzialajlokalnie.pl)), which could potentially act as a supervisor and redistributor of public grants allocated at this level (see above).

Another important inspiration for these activities is offered by the experience of the British New Deal for Communities (NDFC). The programme was implemented in 88 poorest communities in the United Kingdom and in 2001–2006 allocated 183 million pounds. This initiative consists in an integrated single-fund approach to the issues of financing. The NDFC constitutes a kind of social contract between the central government and local communities based on joint financing of projects with local funds. In the polarisation-diffusion model adopted in Poland, such ventures would be especially valuable.

The concept of larger regional funds financed with regional or regional and national resources also appears to be attractive. The National Civil Fund established by the Hungarian parliament in 2003 operates in accordance with this general principle ([www.nca.hu](http://www.nca.hu)).

### **The regranting mechanism**

There have been repeated calls for the establishment of a regranting mechanism, whereby funds (including the public ones) are entrusted to an external operator (e.g. a local non-governmental organisation) for further distribution. As a result, non-governmental organisations may employ more flexible procedures, which was recently confirmed by the amended Public Benefit and Volunteer Work Act. An interesting example of practical application of regranting is the Association Centre of Active Citizens (Stowarzyszenie Centrum Aktywnych) in Gniew. The district of Gniew contracts with the Association for the execution of public mandates in the area of organisation and promotion of cultural events, ecological education and supports activities undertaken by District Subject-Based Teacher Teams. The Association, using the security of district funds, is in a position to develop strong mechanisms to obtain external funding. Every public grant to the organisation is multiplied to perform individual mandates better. For example, the amount of 580,000 zloty granted to the Association in 2009–2010 was increased by 500,000 zloty (ca. 125,000 euro).

### **Reforming the principles of access to the Structural Funds**

It is advisable and even necessary to analyse the actual impact on the Structural Funds spent to date on civic activities. On the whole, it appears to be ambiguous. On the one hand, these funds constitute an important source of support to non-governmental organisations, while on the other hand, they lead to organisational opportunism. It is generally believed that access to funds depends on formal skills in writing applications rather than on actual competencies in relevant areas of activity.

It is necessary to better harmonise the hard and soft resources from the Structural Funds, particularly in the area of improving social infrastructure, which is at present extremely narrowly understood (usually as an asset of public administration). This line of thought must be changed, otherwise non-government organisations will be in no position to develop their own institutional resource base for the purpose of executing socially important mandates. An interesting inspiration for such actions is offered by the British programme FutureBuilders (<http://www.futurebuilders-england.org.uk>).

The currently operating system of civic participation in fund management mechanisms must be subjected to an in-depth review. This involves especially the monitoring committees and the participation of representatives of non-governmental organisations. The monitoring committees were supposed to ensure rudimentary civic supervision over the directions of support and they way the funds are spent. We believe that all too often they have a purely formal and titular nature.

### Micro-grants and start-up grants

One of the crucial problems faced by civic initiatives is that quite often they cannot obtain start-up support, especially if they involve individual persons or informal groups. In general, few support mechanisms include a deregulation procedure, which means that the same bureaucratic scrupulousness is applied to undertakings regardless of whether they cost millions or hundreds. This has disastrous consequences, especially in the case of innovative mechanisms for developing social capital, because at the very beginning such initiatives require very modest resources, a strong focus on the idea and spontaneity, not a struggle with complicated formalities. An important example of such a solution can be the British charity UnLtd (<http://www.unltd.org.uk>) that invests in small undertakings run by enterprising individuals. So far, it has supported approximately 20 thousand young people throughout the United Kingdom. The organisation provides not only financial backing (up to two thousand pounds) but also a package of support to help make their ideas a reality. Another interesting initiative is the programme Awards for All financed by the British National Lottery. Grants are relatively modest (300 to 10,000 pounds), but numerous – approximately 70 thousand annually. In Denmark, the support mechanism for smaller organisations is aimed at providing institutional support and is fairly loosely connected with the requirement to achieve and report tangible outcomes (The Young Foundation, p. 25). Important contributions come from the state lottery (of which 80% is owned by the state and the remaining 20% by non-governmental organisations).

### The provision of endowment capital

In the search for a mechanism of diversified and sustainable financing of civic activity, the provision of endowment capital to non-government organisations in Poland is certainly worth considering. The idea behind such a solution is that social activities are financed with interest earned on the capital. Currently, in Poland there are only a few examples of such endowments, e.g. the National Ossoliński Institute (Zakład Narodowy im. Ossolińskich). However, greater support is needed for the provision of endowment capitals in key fields of civic activity. One of its main sources may well be the modified Civic Initiatives Fund (FIO).

Initiatives of this kind are especially important owing to their sustainability. For example, in the Czech Republic in the early 1990s, foundations working in different areas were provided with such capital, which was funded by receipts from the privatisation of state-owned property.

Establishing nationwide institutions financing certain objectives in the area of broadly conceived civic activity is also worth considering. Interesting examples of such solutions in Poland include the Foundation for Polish Science (Fundacja na Rzecz Nauki Polskiej) and the Polish Film Institute (Polski Instytut Sztuki Filmowej). In Belgium, similar principles underlie the King Baudouin Foundation, which was founded in 1976 by the Belgian parliament and granted the sum that now equals 30 million euro. Later the foundation obtained regular support from the national lottery. Currently, it is one of the best known European foundations and something of a symbol of numerous activities aimed at promoting democracy in Belgium and elsewhere. The US National Endowment for Democracy, founded in 1983, operates in accordance with similar principles in order to strengthen democratic institutions worldwide.

### **National lotteries**

In a number of countries, broadly conceived civic activities are often supported with a percentage of earnings from national lotteries. The largest individual donor in Europe is the British National Lottery.

The Polish solution, which confines the distribution of lottery funds almost exclusively to the spheres of sports and culture appears to be anachronistic in this respect. A related solution involves organising lotteries at the local level (modelled after British, Dutch and German examples).

### **Participatory budgeting**

Participatory budgeting is a process that combines financial aspects with participatory democracy<sup>21</sup>, which has gained popularity since the well-known Porto Alegre experiment in Brazil. In some countries it has a normative character, for example in the United Kingdom such a mechanism will be mandatory to all local levels of administration. In Poland, first experiments in this area are beginning to emerge. One of them was carried out by the non-governmental organisation Civil Initiatives Development Centre (Centrum Rozwoju Inicjatyw Społecznych – CRIS) (<http://www.partycypacjaobywatelska.pl/techniki/35-budzet-partycypacyjny>).

### **Returnable funds**

It is also necessary to provide for the existence of returnable funds in the form of patient (i.e. long-term) capital, which will be extremely important for undertakings in the area of social economy, especially in the context of the planned passage of the Social Enterprises Act. All ventures in this area must cope with the scarcity of start-up capital. Again, it may be a good

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21 Participatory budgeting is a democratic process of discussion and decision-making in which every resident of a city decides about how to spend portions of municipal and/or public budgets. It is usually conducted using such tools as determining spending priorities by members of a given community, the choice of budgetary delegates representing local communities, technical support on the part of municipal (or local) councillors, local and regional debates and voting on priority expenses, and then implementation of ideas with a direct impact on the quality of life of members of a given community.



idea to draw inspiration from solutions in various countries such as the Italian Banca Ethica, the British Adventure Fund or the German BFS<sup>22</sup>. A transnational agreement was even signed to that effect in the form of a European Federation of Ethical and Alternative Banks (Fédération Européenne des Banques Ethiques et Alternatives – FEBEA). Similar instruments have been developed in Poland, but they have yet to be put into effect.

### Hybrid forms of funding

From the perspective of the traditional paradigm of spending public funds, the most difficult are different kinds of solutions that involve co-financing of projects. They are complicated even at the central government–local government interface, although the success of roads and sports stadiums construction efforts on the local level proved it to be an effective approach (a decentralised version of the FIO is also likely to be based on the same principles). Another experiment in this area involves the Malopolska Fund for Social Economy (Małopolski Fundusz Ekonomii Społecznej – MFES). It seems that the participation of private entities (especially when they invest their own resources into a venture) contributes to greater prudence in spending these funds. An interesting example of such a hybrid is the US White House Innovation Fund (<http://www.whitehouse.gov/administration/eop/sicp/initiatives/social-innovation-fund>). In 2010, despite serious budgetary constraints, the administration contributed to it 50 million dollars. Private sponsors topped up the amount threefold. The resulting 200 million were transferred to 11 nationwide organisations to be spent on prototyping and scaling the most effective solutions in the area of selected social policies.

### Social Impact Bonds (Pay for Success Bonds)

This innovative mechanism consists in a commitment on the part of public administration to use a proportion of the savings that result from improved social outcomes to reward non-government investors that fund early intervention activities (the outcome must be clearly and unambiguously defined using tangible indicators, such as reduction in the number of children who demand support). Public administration redeems the bonds as long as a defined outcome has been achieved. In this way, organisations focus on achieving tangible results and risk is divided between the parties to the transaction. More information can be found at <http://www.socialfinance.org.uk>

### Social Stock Exchange

It is an experimental solution (actually a kind of charity) in which investors buy into activities that are likely to result the most social 'profit.' For these mechanisms to operate properly, social profit must be measured in an objective way that permits comparison. One of such methods is Social Return on Investment (SROI). In Poland, the method was tested, among other things, within the framework of the EQUAL programme.

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22 A systematic description of similar projects was prepared within the framework of one of EQUAL projects (In Search of a Polish model of social economy) as the Atlas of Good Practices for Financing Social Economy (<http://ekonomiaspoleczna.info/media/biblioteka/es/atlas-dobrych-praktyk-es.pdf>).



### Grants as rewards

Under this mechanism, especially important for innovative activities, grants are treated as rewards for institutions or individuals who succeed in achieving outcomes determined by the sponsor. This is a kind of institutionalised bet inasmuch as it requires the applicant to bear the entire risk connected with designing the solution. Solutions can address a number of problems in the areas of environmental protection, medicine, education etc. One of the best known foundations that employ such methodology in practice is the X Prize Foundation (<http://www.xprize.org>).

The activities discussed above are not exclusively reserved for private institutions. Some initiatives target individuals, such as the US government service challenge.gov or the British contest Show Us The Better Way, in which the government offers prizes of 20 thousand pounds for the best ideas of innovation in its area of activity.

## 4.2. Technical solutions to facilitate access to funds

Quite often, it is the non-financial issues that decide whether or not such funds will play a positive part in the non-government organisations' landscape. The qualities most often mentioned by their recipients include effective dissemination of knowledge about eligibility conditions, friendly navigation and uncomplicated access procedures. Modern technologies usually facilitate these, although, paradoxically, sometimes they may make them more difficult, as may sometimes be the case with faulty application generators.

A reasonable approach would include the development in Poland of an integrated information system on the availability of funds and their intended beneficiaries, a sort of one-stop shop for those seeking support in the form of public funds. Interesting examples of these services include <http://www.grantslink.gov.au>, <http://www.grants.gov> and <http://www.goodpractice-funding.govt.nz>

An important labour-saving approach to improving and 'de-congesting' the current inefficient application assessment systems should involve a two-stage procedure for submitting applications. In stage one, applicants would submit letters of intent describing the most important aspects of their projects, and if they are accepted, in stage two they would deliver complete applications. This would be a considerably more effective solution, saving all the parties concerned a lot of work, especially in the so-called soft projects.

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# The Development Potential of Social Economy Entities and the Quality of Public Regulations

## Introduction

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First European initiatives in the area of social economy appeared between the 1970s and early 1980s as individual actions usually financed by private funds, and under no circumstances related to public interventions. A direct impulse for such ventures was provided by growing social dissatisfaction with the effects of conventional practices pursued in the area of labour market policies coupled with the crisis of Fordism as a model of socio-economic development [Amin, Cameron, Hudson 2004, p. 29]. Increasing unemployment, including long-term unemployment, forced third sector entities to undertake non-standard actions from which active policies in the labour market developed, among other things, the idea to employ market mechanisms to solve purely social problems [cf. Laville, Lemaitre, Nyssens 2006, p. 279].

In Poland, the first practical implementations of ideas in the field of social economy can be dated to the 1990s, which coincided with the EQUAL Community Initiative [Frączak 2010, p. 7], however, it was already in the 19th century that Stanisław Staszic (Polish philosopher, statesman and scholar) laid the foundations for the future social economy in the form of co-operative movement.

At present, the social economy sector in Poland is at its initial stages of development. Its legal basis has recently been established or is currently being developed (such as the Social Entrepreneurship Act). Simultaneously, a vigorous debate is taking place concerning the issue of institutional placement of social economy entities (SEE) and their relationships with public authorities, welfare and social integration institutions as well as private organisations.

The problem of determining the relationships between social economy entities and public authorities is directly related to regulations in the area of financing activities undertaken by these entities. This issue is now being widely discussed by theoreticians and practitioners of economy. The most frequently asked questions concern on the one hand, ways and means to increase the capacity of the public procurement system as a potential source of financing SEE activities, and on the other hand, methods of increasing their independence from public resources.

The discussion on the subject of financing activities of social economy entities acquires new significance in the context of increasing tension between what is economically rational and the social orientation these entities [Bode, Evers, Schulz 2006, p. 252]. Some practitioners place substantial hopes in the public procurement system as a potential source that might ensure SEEs stable access to resources, meaning less dependence on the payer than typical public subsidies.

This problem appears to be especially important in the case of social enterprises in which profit maximisation may occur in compliance with two types of logic – the free-market logic and the logic of public procurement. The latter, as suggested by Julian Le Grand and the Will Bartlett, is based on specific quasi-markets created by the public procurement system [cf. Le Grand, Bartlett 1993]. A number of SEEs attempt to adjust their activities to both types of logic. However, our main focus of interest is the process of adaptation of social economy entities to the quasi-market logic shaped by the state that purchases products and services.

Our research is founded on the perspective of unintended effects generated by public regulations, including specifically the public procurement system. Consequently, we assume that given certain external conditions (e.g. a low level of social trust), legal regulations that have been adopted in order to fulfil a lofty aim (e.g. to increase the efficiency of public spending) may generate various unexpected effects (e.g. increased bureaucratisation of procedures involved). Unfortunately, in the long run such effects generate still further outcomes – this time external ones – that influence directly the behaviour of social economy entities (e.g. steering them towards meticulous observance of procedures rather than achievement of intended goals). Behaviours thus fostered may have little in common with the broadly conceived public interest; moreover, they may also result in outcomes incompatible with the original aim of operation of these entities.

Needless to say, this research perspective is not new. It was employed, among others, by Robert Merton in his analysis of self-fulfilling prophecies, and Raymond Boudon in his description of reversal effects identified in the French higher education system. Both authors focussed on analysing how individual rational decisions made by civic actors produce effects that have subsequent negative consequences not only for a group, but also for individuals [cf. Merton 1936; Boudon 2008].

This chapter is divided into two parts. Part One outlines the operation of the social economy sector in Poland and presents key concepts developed in the subsequent discussion. The discussion concerns on the one hand definitional and classificatory problems against the background of the operation of social economy entities in their broader environment. Thus, we shall define SEEs for the purposes of this chapter and specify entities that may be subsumed under this name, others that may not and on what grounds. Further, we shall characterise the key goals currently expected of these entities. Such a classification of their functions shall constitute a reference point in the ensuing sociological and legal analysis of unintended socio-economic effects of public regulations.

In Part Two, we shall restrict our considerations to the specific issue of how public regulations influence the operation of social economy entities. We shall analyse certain legal regulations that apply to SEEs. Next, we shall attempt to illustrate the main point of this article, namely that public regulations, like all intentional actions, may generate unintended effects (both positive and negative ones). The art of developing public regulations should therefore consist in anticipating negative effects and in limiting those effects that to the greatest extent impede the developmental potential of affected entities.

## **I. Social economy in Poland: Basic information**

Before attempting to analyse the impact of public regulations on the achievement of goals commonly associated with social economy entities, it is necessary to be a little more specific on two matters. First, we should decide which entities belong to the group in question. Second, in order to check whether public regulations change the directions and effects of operation of the institutions, we need to determine what they actually do and what outcomes are expected as a result of their work. Consequently, in this part of the chapter we shall take a look at social economy entities from the perspective of their function as well as the goals that were behind their creation. This information shall constitute the foundation for further considerations on the subject of the impact of public regulations (including first of all those applicable to public procurement) on the efficiency and effectiveness of actions undertaken by SEEs.

For that reason, we can say that in our analysis of SEEs we adopted a unilateral perspective of mandates executed by them and determined by external units. However, this does not mean that we agree with such a simplified concept of relationships that link SEEs with public policies, in which the latter, by determining socially important objectives, become the key initiators of actions undertaken by SEEs. Following in the footsteps of Jacques Defourny and Marthe Nyssens, we can say that at present, the institutions of the third system<sup>23</sup> do not restrict their activities to areas ignored both by the free market and the state, but often themselves become imaginative creators of public policies [cf. Defourny, Nyssens 2006, p. 12].

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<sup>23</sup> The notion of the 'third system' was introduced in order to unify the connotations of concepts such as 'the third sector' and 'the co-operative movement.'

However, we are primarily interested in the impacts of public decisions in the form of legal regulations on the potential of SEEs rather than in the influence of social economy entities on the potential of public institutions.

### I.1. Social economy: Definitional matters

As was aptly noted by Jakub Wygnański, the domain of social economy is currently characterised by considerable conceptual muddle, which should not be surprising to anybody because this is a relatively young research discipline [Wygnański 2006, p. 32]. Consequently, for the sake of clarity of further argument, it is worth trying to delineate at least a minimal conceptual framework, including the classification of Polish SEEs into groups of institutions subject to different legal regulations.

Here, we focus on three issues of key importance for a better understanding of arguments presented further. First, for the sake of elementary conceptual clarity, we shall attempt to demonstrate the differences in the connotations of notions such as the third sector and social economy (both old and new). Second, we will make an attempt to place social economy in the context of the universally accepted division of socio-economic activity into three sectors: public, private and non-governmental. Third, we shall propose a classification of social economy entities that will be referred to throughout the latter part of the chapter devoted to the impact of public regulations on the operation of these institutions.

The first dilemma arises when we try to grasp the difference in meaning between the terms 'the third sector' and 'social economy.' The simplest definition of the third sector describes it as what is left of an economy after subtracting the first sector (the business, private sector) and the second sector (the state). Such a definition – although limited to what the third sector is not – allows for a relatively unequivocal classification of entities into each of these groups, which means that it can be quite handy in practice. The division of economies into three sectors also has its own weak points of which the most significant is the issue of classification of some entities. For example, cooperatives are difficult to assign unambiguously to any of the above-mentioned groups.

Owing to the absence of a single coherent definition, it is definitely more difficult to explain the concept of social economy. It is usually understood in two ways: (1) as a current in economics characterised by a certain outlook on the economy<sup>24</sup> or (2) as a specific segment of the economy. Quite often, social economy is identified with entrepreneurship and the social aspect of economy, which places it, accordingly, in the sphere of practice rather than theory [cf. Wygnański 2006, p. 4].

Significant differences in the way social economy is defined by different authors derive from their approach to the conceptual scope of the terms 'third sector' and 'social economy.' For

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24 Some researchers even maintain that this is an entirely distinct social domain.

example, Wygnański assigns the third sector<sup>25</sup> to the domain of social economy that includes social enterprises, the civic sector and the so-called institutions of the old social economy [Wygnański 2006, p. 10]. The same author proposes an interesting alternative definition of social economy as a paradigm for the description of phenomena that occur within the framework of the third system, competitive with respect to the traditionally dominant non-profit principle.

From the vantage point of social practice, social economy should be placed at the interface of what is typically market- and state-oriented. Consequently, it is to a certain extent identified (as was already mentioned) with the third sector, although it is hard to disagree with the statement that entities that operate in the area of social economy possess only some features in common with typical NGOs. In many cases, both groups of entities fulfil similar functions and have comparable goals and missions. What distinguishes SEEs from typical foundations and associations is the method of achieving their goals, which, to use a significant simplification, consists in the use of market mechanisms with a view to generating not so much business outcomes (profit<sup>26</sup>) as social ones (e.g. social inclusion of selected social groups). Certain foundations and associations may well meet this rule; consequently, we shall assign them to the group of social economy entities.

In view of the foregoing discussion, we decided to propose two definitions of SEEs. The first one focuses on specific kinds of goals and forms of operation of these entities, while the other one identifies institutions of interest with respect to their organisational and legal form. These definitions should be treated as complementary and useful only when used in combination in the process of identification of entities operating in the area in question.

Organisations that constitute our focus of interest in this paper can be defined as all entities that operate in order to achieve social outcomes using free-market rules. Obviously, the point is not to subordinate them entirely to free-market principles or permanently stimulate them to compete ruthlessly, rather the market mechanisms are viewed as tools that encourage these entities to systematically improve their services and introduce innovations. In the case of social enterprises, such mechanisms favour profit generation and the preservation of a stable market position. Likewise, the profit should not be distributed among the owners, but reinvested into the social enterprise or the local community with a view to achieving specific social outcomes.

The definition presented above touches upon matters fundamental for the understanding of the idea of a social enterprise. In a way, it subordinates business practice to strictly social tasks and uses profit-generation mechanisms to achieve collective goals. In consequence, the profit produced by such an entity does not belong to it (i.e. its owner), but acquires community value.

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25 In a narrow sense, the third sector is identified with non-profit organisations.

26 Although in the case of social enterprises, this effect is equally important as the social outcome.

In a somewhat different way we can define social economy entities as those that meet specific definitional criteria (the so-called institutional approach). However, when applying this method we are not always certain whether the classification proposed by us is appropriate, besides, it tends to be quite static in nature. This typology also ultimately depends on local characteristics of the third system, which is why its applicability is usually limited to single countries.

In Poland, SEEs most often adopt legal forms typical of entities of the new social economy or the third sector (non-governmental organisations conducting commercial activity and/or continuous paid-for public benefit activity). However, we should not forget that an important role in the process of expanding the area of social economy is also played by entities organised in a typically free-market manner (mainly companies).

Moreover, as was mentioned before, it is hard to talk about homogeneity of the social economy sector since entities assigned to it often adopt different institutional logic often determined by a specific regulatory system that defines their mode of operation, including regulations concerning profit distribution. The broad-spectrum division into old and new social economy entities testifies to their exceptional organisational variety. It is enough to compare any cooperative (e.g. a production cooperative)<sup>27</sup> whose activities are usually completely subject to free-market rules<sup>28</sup> with an entity that provides occupational therapy workshops to which such rules usually do not apply, and if they do, then it must at the same time observe the principles that pertain both to the public and non-governmental sectors.

New social economy organisations usually adopt hybrid forms and become partnership-based trans-sectoral initiatives subject to regulations that govern these different sectors. In their case, it is assumed that the main source of financing their activity will gradually come from public procurement with only a supplementary role played by specified-user subsidies and independently generated profit<sup>29</sup>.

Figure 1 below shows a classification of social economy entities that often appears in literature. We shall refer to it throughout the latter part of this chapter; however, it does not mean that this is the only acceptable classification around. Some theoreticians expand it to include additional entities such as e.g. mutual assistance funds [cf. Natęcz 2008] and/or self-governing business and professional organisations [cf. Dąbrowska 2008]. Such classifications often include other organisations that perform public benefit activities, such as church legal persons and their organisational units, associations, local government agencies or sports clubs.

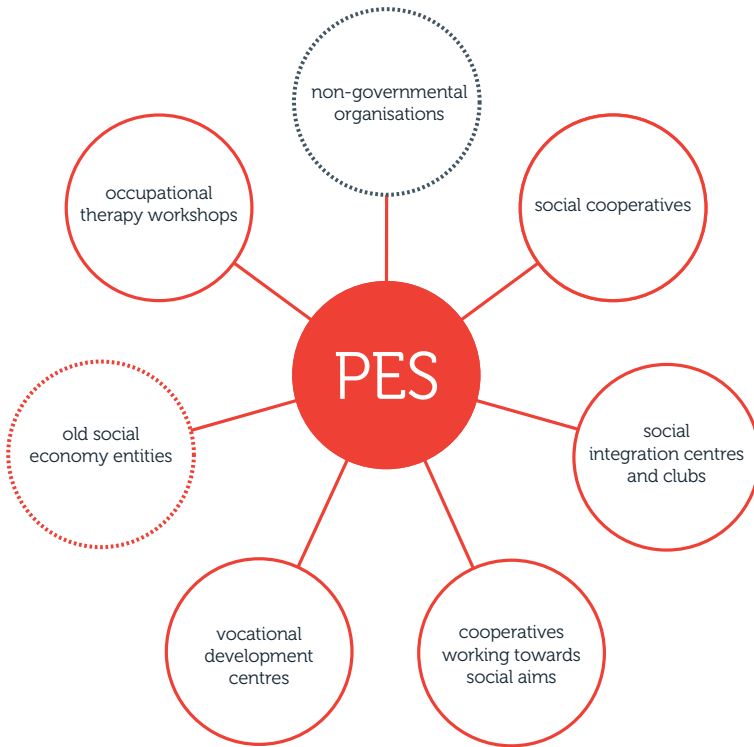
27 Some authors include in the old social economy not only cooperatives (e.g. workers' cooperatives, farmers' cooperatives), mutual insurance companies and mutual assistance funds, but also non-governmental organisations (the so-called third-sector). Given the lack of agreement whether they belong to the young or old economy and the fact that some of them do not engage in commercial activity and therefore have little to do with the economy as such, it is suggested that representatives of the third sector should be assigned to a separate group.

28 With the major part of profits generated from the sale of goods and services.

29 An example of a different classification of SEEs is a typology that identifies the key features of such entities. According to Borzaga and Defourny's suggestion, social economy entities ①serve supraindividual goals (community or social) which must be more important than profit generation, ②are independently administered, ③employ a democratic decision-making procedure and espouse the primacy of man and work over capital and its distribution [Borzaga, Defourny 2001].



Fig. 1. Typical organisational and legal forms of SEEs



Source: Authors' own research.

In summary, typical social economy organisations include all new social economy entities (such as vocational development centres, occupational therapy workshops, social integration centres and clubs, and social cooperatives), companies oriented mainly towards the achievement of social outcomes and certain non-governmental organisations conducting continuous business activities or paid-for statutory activities.

More controversies arise when we attempt to classify old social economy entities into typical SEEs. This results from the fact that these entities are not subject to limitations related to profit distribution, which, in principle, can be freely transferred to their shareholders. These entities include e.g. workers' cooperatives, agricultural cooperatives, disabled and blind workers' cooperatives, folk art and handicraft cooperatives, building societies, mutual insurance companies, cooperative banks and also business and professional organisations.

Table 1. Typical social economy entities and legal basis for their operation

Entity		Legal basis
Social integration centres (SIC)	Usually founded by non-governmental organisations or local government agencies for the purpose of temporary employment of people with serious disabilities and/or dysfunctions (social, physical, mental). The aim of SICs is to facilitate social and vocational rehabilitation leading to employment in the open labour market.	Social Employment Act of June 13, 2003 (Journal of Laws of the Republic of Poland no 122, item 1143, as amended)
Vocational development centres (VDC)	Usually founded by non-governmental organisations, local government agencies or other social organisations whose statutory objectives include vocational and social rehabilitation of their charges for the purpose of providing temporary employment to people with seriously or moderately serious disabilities. Financed mainly with public funds (PFRON – State Fund for the Rehabilitation of People with disabilities); allocation of profit on sales of products/services strictly regulated by law.	Vocational and Social Rehabilitation and Employment of People with disabilities Act of August 27, 1997 (Journal of Laws of the Republic of Poland, 1997 r., no 123, item 776, as amended)  Labour and Social Policy Ministry's Executive Order Concerning Vocational Development Centres of December 14, 2007 (Journal of Laws of the Republic of Poland no 242, item 776, as amended)
Social cooperatives	Combine the characteristics of a firm and non-governmental organisation. They aim to employ individuals threatened with social exclusion, which is supposed to lead to their vocational and social inclusion. These entities also promote the development of local communities.	Social Cooperatives Act of April 27, 2006 (Journal of Laws of the Republic of Poland, 2006, no 94, item 651, as amended)
Occupational therapy workshops (OTW)	Usually founded by cooperatives, non-governmental organisations or local government agencies. They have no status of a legal entity, but they are distinct organisational and financial units. They are not-profit oriented (potential profits are spent on vocational integration of workshop participants), mainly financed with public funds (PFRON – State Fund for the Rehabilitation of People with disabilities), sometimes from other sources such as local governments grants, donations from non-governmental organisations, private persons and other sponsors. OTWs work towards social and vocational rehabilitation necessary for persons with disabilities to engage in gainful employment.	Vocational and Social Rehabilitation and Employment of People with disabilities Act of August 27, 1997 (Journal of Laws of the Republic of Poland, 1997 r., no 123, item 776, as amended)  Labour and Social Policy Ministry's Executive Order concerning occupational therapy workshops of March 25, 2004 (Journal of Laws of the Republic of Poland, 2004, no 63, item 587)
Foundations and associations	Non-governmental organisations that conduct continuous business activities or paid-for statutory activities.	Foundations Act of April 6, 1984 (Journal of Laws of the Republic of Poland, 1984, no 21, item 97)  Associations Law of April 7, 1989 (Journal of Laws of the Republic of Poland, 2001, no 79, item 855, as amended)

Source: Authors' own research.

A unique subclass of social economy entities is constituted by social enterprises that fulfil tasks related to the functions of other SEEs, but simultaneously undertake business risk by offering products and services usually in a certain local or otherwise defined community. In the opinion of a number of authors, they constitute a typical and key subgroup of social economy entities [cf. Hausner, Larius 2006, p. 9] which aims to achieve commercial balance by

increasing their independence of non-market sources of financing and generosity of private donors [cf. Leś 2005, p. 35].

When defining social enterprises, most authors emphasise three crucial elements that distinguish them from other institutions. First, such entities usually act for the benefit of the local community and contribute to increasing its social capital. Second, such enterprises are commercial in nature (they should aim to maximise profits), but at the same time they fulfil a social mission. Third, researchers emphasise the uniquely European formation of social enterprises, which have very often evolved from purely non-profit entities into profit-oriented initiatives in order to preserve at least a minimal financial independence of potential public and private donors [Bull, Crompton 2005, p. 6]<sup>30</sup>.

## 1.2. Key functions of SEEs

Each detailed typology of functions fulfilled by social economy entities is fraught with a significant risk of imperfection and reductionism, because – which is rightly emphasised both by theoreticians and practitioners in the field – the specific tasks of these entities have changed in the space of the last several years towards more freedom in determining them. SEEs are thus described as multifaceted, which reflects the plurality of resources, stakeholders and intended objectives [Bode, Evers, Schulz 2006, p. 237]. Mandates executed by the above-mentioned institutions cannot therefore be reduced to strictly social activities or even those aimed at vocational and social integration [cf. Borzaga, Loss 2006, p. 72]. However, the above entities are linked by a common theme and grounds for determining their objectives, namely disappointment with the outcomes of implementation of the welfare state idea and a strong determination to change reality.

In literature, there are several different classifications of social economy entities with respect to their functions. For example, there are those oriented towards social and professional integration (Work Integration Social Enterprises – WISE) of individuals who face serious problems in the labour market (among others, people with physical and intellectual disabilities, women in a difficult life circumstances and minorities) and entities that offer socially desirable products and services [Laville, Lemaître, Nyssens 2006, p. 290]. Another example might be the typology proposed within the framework of the PERSE project that divides the objectives pursued by social economy entities into three groups of functions: social, economic and socio-political ones [Nyssens 2006, p. 315].

In this chapter, we proposed a classification inspired by the typology of functions of social economy entities developed by Piotr Salustowicz, who lists four key areas of operation of social economy entities:

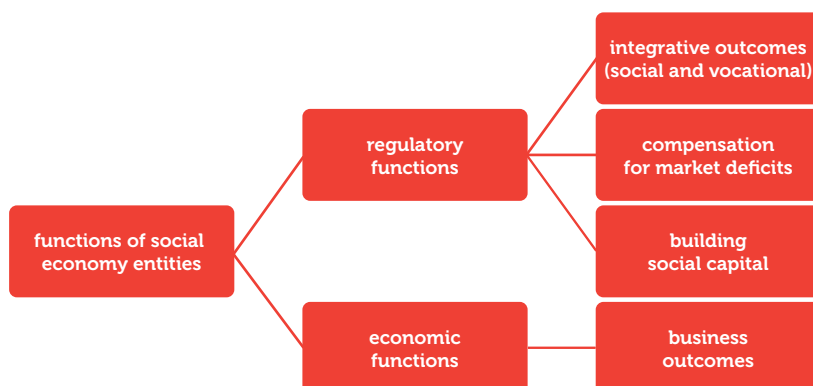
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30 It is worth remembering that several attempts have been made to determine a set of distinctive features that identify social enterprises, of which the best known is the definition proposed by EMES based on the following criteria: social enterprises are entities that in a fairly continuous and regular manner conduct activities based on economic instruments, i.e. sell goods or services, are independent and sovereign in relation to public institutions, are exposed to business risk, employ staff, work towards a socially useful outcome, are initiated at grassroots level (i.e. are formed as a result of civic initiatives), possess a specific democratic management system, their activities have a participatory nature and include their beneficiaries, limited distribution of profits.

- 1) Creating new jobs, targeting especially marginalised people or those threatened with social marginalisation, offering services in the area of vocational training and facilitating their transfer into the so-called first labour market (employment policy and labour market perspective).
- 2) Social economy as a 'producer' of social capital – the task of social economy is to develop/increase social capital (perspective of social integration/cohesion policy).
- 3) Social economy as a means of compensation for the 'fallibility of the market and the welfare state' – provision of welfare services to individuals, communities or local communities especially where the private and/or public sector are not in a position to meet growing social needs (social policy perspective).
- 4) Social economy as 'a school of democratisation' – the process of inclusion of individuals and social groups in the political decision-making [Sałustowicz 2007, p. 12].

We entirely concur with the first three functions mentioned by the author and have decided to include them in our classification of the so-called regulatory functions. However, we do have certain reservations concerning the fourth function, which imposes onto SEEs the duty to commit themselves to the process of inclusion of social groups and individuals in political decision-making. At the moment, this expectation appears to be a little far-fetched<sup>31</sup>.

Fig. 2. Key functions of social economy entities



Source: Authors' own research.

Regulatory functions of social economy entities result from the need to solve a number of problems connected with the inadequacies of the free market, such as its inequity, but also its ineffectiveness. They are the result of direct observations of socially destructive mechanisms that constitute specific side-effects of processes taking place in the free market, such as e.g. the problems of unemployment, unacceptable working and employment conditions and environmental pollution.

<sup>31</sup> A similar opinion was expressed by Jerzy Hausner who pointed out to certain overstated expectations typical of the writings of Sałustowicz [cf. Hausner 2009].

Within the above-mentioned domain, the key activities of SEEs are associated with the initiatives aimed at the integration and reintegration of certain groups in the labour market by employment leading to social inclusion of groups threatened with exclusion (e.g. people with disabilities, former prisoners), temporary employment in framework of Social Integration Centres (SIC), or financial and consultancy assistance in the creation of jobs for individuals threatened with exclusion.

The group of regulatory functions also includes tasks related to the process of compensation for market deficits, which consist in the provision of goods which are not available on the free market or the delivery of goods to individuals to whom they are not usually delivered [cf. Wygnański 2006, p. 7]. These goods and services include first of all the following:

- social welfare services (among others, provided to elderly people, people with physical and intellectual disabilities, child-care services),
- public goods and services in the area of education, culture, health care, environmental protection and fair trade,
- services related to social control of the market (consumer protection, responsibility for results of actions of commercial entities).

A special kind of good that appears to be in short supply on the market is social capital, usually understood as "mutual trust, norms and connections that may improve the efficiency of a society by facilitating coordinated actions" [Putnam, Leonardi, Nanetti 1995] or as "a set of informal values and ethical standards common to members of a certain group that facilitate their effective cooperation" [Fukuyama 2003, p. 169]. This capital is both used up by individuals in the process of achieving socially desirable aims and simultaneously built, constituting the basis for further actions undertaken within local communities. In our typology, actions connected with building social capital constitute a separate group given their fundamental significance for further socio-economic development of countries and regions.

Finally, it should be mentioned that a certain group of social economy entities, such as social enterprises, fulfils additional functions – namely commercial ones – related to the need to demonstrate certain outcomes of their activities, such as profit. Depending on the type and mission of a given institution, this objective may play a smaller or a greater part, accordingly defining the principles of operation of these entities.

## **II. The Impact of public regulations on the operation of social economy entities**

The idea of public legislation consists in the protection of state, social and individual interests whilst placing the least possible constraints on people. Consequently, it is very important to preserve the principle of the proportionality, so that the resources applied do not significantly infringe on values protected by the law.

It should also be remembered that existing regulations (or those being introduced) must not upset the decision-making process in the area of rational action, e.g. undertaking socially useful activities, since it may well be the case that economic analysis finds in favour of absence of any legal regulation [Strzyczkowski 2008, p. 33]. For example, overregulation may inspire and/or preserve certain types of behaviour that avoids or outright violates legal provisions.

Social economy entities, given their scope of activity, require the support of public authorities in the process of conducting social and commercial operations. Another question arises as to the acceptable range of such assistance, whose infringement might violate the principle of equality in treatment by those authorities.

In this chapter, in keeping with the convention proposed in the Introduction, we shall deal with the impact of public regulations on the behaviours of social economy entities and identify those that contribute to the occurrence of socially disadvantageous outcomes. First, we shall look at the consequences of selected general regulations, in order to discuss in more detail the social consequences of regulations contained in Poland's public procurement legislation.

## II.1. Social economy entities in the light of selected public regulations

As was aptly noted by Krzysztof Herbst, the legal basis for the operation of SEEs, including especially social enterprises, demands a comprehensive change in current legislation, specifically, as regards regulations connected with financing socially beneficial activities [Herbst 2006, p. 7]. A change in the approach of the public authorities to matters connected with such activities appears to be indispensable. First of all, it is necessary to develop separate regulations that will not only facilitate the establishment of such enterprises, but will also ensure a greater freedom of operation to them<sup>32</sup>.

The treatment of SEEs mainly as a burden to public finance – which is how legislators tend to perceive them – is not legitimate and leads to opinions that do not take into account the priority aspect of social benefit of activities performed by these entities. From the legal point of view, SEEs to a considerable extent assist the state in the execution of its constitutional mandates (cf. Articles 67–69 of the Constitution of the Republic of Poland), especially those related to the provision of social welfare. Additionally, these entities supplement the above-mentioned benefits to an extent that decidedly exceeds the statutory obligations placed on public administration units.

The current state of public finances in Poland<sup>33</sup> means that public authorities are incapable of fully meeting the financial expectations of SEEs, besides, it is questionable whether this would contribute to the effectiveness of their operations. For this reason, SEEs conducting activities

32 In Poland, the first attempt to determine the legal status of social enterprises was through the Social Entrepreneurship Act of 2011.

33 In 2009, the current budget deficit amounted to 7.1% of GDPs which substantially exceeded the Maastricht criteria setting the maximum debt level at 3% of GDP [www.bankier.pl, accessed on 10 August, 2011].

in this area (e.g. social reintegration) more and more often seek additional resources. Apart from the support of sponsors and donors, the only rational way of obtaining the necessary funds appears to be either engaging in commercial activities or public procurement. Naturally, doing business on a competitive open market is extremely difficult for SEEs. Reasons for such a state of affairs should be sought first of all in the usually unpaid-for profile of SEEs' operation and their limited resources (whether financial, staff or material).

Analysing the legal regulations in Poland with a special focus on the concepts developed by the European Research Network EMES and with the provisions contained in the Social Entrepreneurship Bill<sup>34</sup>, it is clear that SEEs can also operate as firms pursuing commercial activity on their own behalf. In accordance with Article 2 of the Freedom of Economic Activity Act of 2 July, 2004 (Journal of Laws of the Republic of Poland no. 173, item 1807), the fundamental aim of commercial activity conducted on the territory of the Republic of Poland is to generate profit. Interestingly, what the legislators have in mind is not the maximisation of financial profit, but the undertaking of any activity aimed at the achievement of a certain economic outcome. Consequently, the absence of generating material benefits as the primary feature does not eliminate SEEs from the definitional range of commercial activity [Strzyczkowski 2008, p. 209].

Such a duality, although seemingly justified and correct, may give rise to certain doubts regarding the possibility of reconciliation of these two extreme aspects of SEEs activity, i.e. the achievement of statutory non-profit goals with commercial activity aimed at generating financial profit. It makes sense to inquire how to interpret the current regulations. Are SEEs entrepreneurs (professionals) who also happen to be performing socially beneficial activities, or maybe they are institutions of public trust incidentally involved in commercial activity? On a number of occasions, the absence of a set definition of the status of a social economy entity may complicate their activities and consequently bring about unwanted side effects.

This issue is especially pressing in the case of SEEs applying for state funding in order to perform actions targeted at the elimination of socially disadvantageous phenomena. Social enterprises, which in a way appear to be suspended in a legal vacuum between typically commercial entities and non-profit institutions may have serious problems with obtaining subsidies towards social activities if they are classified as typical businesses [cf. Mituś 2008, p. 34]. Likewise, SEEs that do not conduct commercial activities receive some support from local governments (e.g. exemptions from court and land register fees, preferential leases of business premises from the communal supply), but, at the same time, are practically barred from receiving large grants reserved for businesses. The fact that grant decisions are made on the basis of the organisational form adopted by individual SEEs forces them to focus their attention on legal acrobatics, which may lead to their losing sight of the social sphere.

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34 Available at: [http://www.konsultacje.ofop.eu/index.php?option=com\\_content & view=article & the\\_id=87 & Itemid=80](http://www.konsultacje.ofop.eu/index.php?option=com_content&view=article&the_id=87&Itemid=80) [10.08.2011].

Naturally, social economy entities face a number of other legal dilemmas, of which the Public Procurement Act is but an example. It is enough to mention the complications caused by the hybrid principle (combination of features of a company and a public benefit organisation) of social cooperatives, often criticised for the parallel institution of two legal orders, which, in the context of domination of economic order over the social one, may lead to numerous abuses. The issue of defining the relationships between statutory and commercial operations of social enterprises appears to be unregulated – primarily on the societal level, not at the legal level. In our opinion, this constitutes one of the most important challenges facing the social economy sector in Poland.

In the case of public grants, the beneficiary entities involved in social work also face the problem of temporary character of public subsidies, which contributes to the so-called slip effect, i.e. increased tendency of SEEs to employ staff who are likely to be more productive (cost-effective) once public subsidies have ceased. It should be added that, as a rule, those individuals are to a lesser extent threatened with social and labour market exclusion [cf. Laville, Lemaitre, Nyssens 2006, p. 290]. Under such circumstances, social economy entities quite often face the same dilemmas as typical small and medium-sized commercial enterprises in which the jobs of individuals threatened with exclusion are subsidised (e.g. people with disabilities) and the solution finally adopted is not always advantageous for the workers.

Similar problems are caused by the principle of asset lock<sup>35</sup>, which, by definition, should strengthen the social orientation of social economy entities and protect them from excessive economisation. In effect, it generates unintended destructive effects by decreasing the motivation of individual actors to undertake economically profitable activities, which strengthens the image of social and vocational reintegration institutions as passive recipients, financially dependent on public grants. This principle may also favour ineffective practices – both economic and social ones – of which an excellent example is the strategy of ‘cost-inflation to avoid profits’ so frequently seen in the circumstances of asset lock.

Additionally, avoidance of this principle does not pose considerable difficulties. Symptoms of this phenomenon can be detected in the activity of not-for-profit foundations and associations – their statutory activity only constitute a front for regular commercial activity, with profits, instead of serving the achievement of set outcomes, are distributed among their members (shareholders, workers) in the form of payments in kind, various allowances, bonuses etc.

A host of other regulations favour socially undesirable behaviours of social economy entities. Undeniably, an important example of such regulation is the Public Procurement Act, which will be discussed in more detail below.

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35 The key issue is not so much the introduction of the asset lock principle, because it is popular enough in the domestic legal order as its supplement. In the present shape, it prohibits the redistribution of profits on other aims than statutory ones or those linked with community needs [Danielas 2008, p. 11]. Unfortunately, the regulations do not specify when this principle is met and when it is glaringly violated.



## II.2. Public procurement system in Poland as an example of functional/dys-functional public regulation vs. tapping the potential of social economy entities

We shall now attempt to evaluate opportunities for awarding public procurement contracts to SEEs and analyse the impact of current legal regulations on their operation. Current legislation does not exclude such a solution, and even encourages SEEs to participate in public tenders. Again, the question arises whether legitimate normative solutions do actually work in practice. Unfortunately, as will be demonstrated below, the existing dysfunctions in the public procurement system quite often eliminate SEEs from it. What is reasonable on the European level is effectively lost in Poland due to prejudicial practices of officials.

### II.2.1. Public procurement in EU legislation and its impact on Polish regulations

In accordance with EU legislation, public procurement refers to the procedure of awarding paid-for contracts for the performance of construction work, delivery of products or provision of services. The contracting parties include at least one purchasing institution and at least one economic entity. The participants of public procurement procedure may include SEEs, which was expressly emphasised in the justification to the classical directive (item 28). EU notes that some entities that have the status of a supported employment enterprise or those that participate in programmes geared at the employment of people with disabilities, may not necessarily be capable of competing under normal conditions. Consequently, EU member states have the power to create such legal conditions in the interest of these entities as would guarantee their participation in procurement procedures and enable them to execute contracts within the framework of supported employment.

The European legal system of public procurement is expressed first of all through directives, which include in particular the following:

- Directive 2004/18/IN of the European Parliament and of the Council (a.k.a. classical directive)<sup>36</sup>
- Directive 2004/17/IN of the European Parliament and the Council (a.k.a. sectoral directive)<sup>37</sup>,
- Council Directive 89/665/EEC (a.k.a. the first coordination directive)<sup>38</sup>,
- Council Directive 92/13/EEC (a.k.a. the second coordination directive)<sup>39</sup>.

The European system of regulations in the sphere of public procurement is supplemented by Commission's regulations amending the above-mentioned directives. As opposed to regulations that apply directly in all the EU member states, EU directives must first be implemented

36 Directive 2004/18/EC of the European Parliament and of the Council of 31 March 2004 on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts.

37 Directive 2004/17/EC of the European Parliament and of the Council of 31 March 2004 coordinating the procurement procedures of entities operating in the water, energy, transport and postal services sectors.

38 Council Directive 89/665/EEC of 21 December 1989 on the coordination of the laws, regulations and administrative provisions relating to the application of review procedures to the award of public supply and public works contracts.

39 Council Directive 92/13/EEC of 25 February 1992 coordinating the laws, regulations and administrative provisions relating to the application of Community rules on the procurement procedures of entities operating in the water, energy, transport and telecommunications sectors.

in their respective legal systems. Consequently, the EU member is neither allowed to do more nor less than what is stipulated by the regulations. The type of directive<sup>40</sup> is defined by a special clause contained in it.

The above-mentioned sources of regulation impose the minimum harmonisation duty on EU member states, i.e. the European norm must be incorporated in the domestic legal order, leaving a margin of freedom only with respect to matters not regulated by European legislation. However, this does not entail a complete latitude to act, because in accordance with Article 249 (3) of the Treaty Establishing the European Community (ECT), replaced at present by Article 288 (3) of the Treaty Establishing the European Union (EUT), it is the duty of each member state to use such forms and resources as make it possible to achieve desirable results. In summary, it can be said that in spite of the need to preserve legal concordance between EU directives and regulations related to the sphere of public procurement in individual countries, every member state has a certain margin of freedom in passing its own regulations adapted to local needs.

From the perspective of European law, public procurement must first of all ensure transparent spending of public resources (by public administration agencies and by other public organisational units obliged to apply the procedures contained in domestic public procurement regulations). This spending is justified by the need to meet the current needs of the purchasing institution acting in accordance with its statute. Priority is given to the choice of the best terms and conditions of delivery of a good, performance of a service or construction work offered by the winning tenderer who is subsequently invited to sign a contract to that effect. This condition must be considered from the vantage point of the economics of operations of the purchasing institution, yet without prejudice to other public values, particularly as regards ensuring access to public procurement and economy with entrusted funds [Dzierżanowski 2010]. The best example is the obligation to reject a tender if it constitutes an act of unfair competition, despite the best price offered. It may occur in two cases: the tender constitutes an act of unfair competition (e.g. price dumping) or the price offered is glaringly low in comparison with market prices. Although the aspect of economic advantage constitutes an essential component of Public Procurement Law, an equally important aim is to ensure other public interests that may include in particular:

- unlimited, fair and equitable competition among contractors,
- equal treatment of contractors (producers, importers) in the course of public procurement procedures,
- granting access to the internal market,
- openness and transparency of procedures governing spending by agencies operating in the public finance sector,
- environmental protection,
- promotion of dignity at work,
- support to individuals threatened with social exclusion (including persons with disabilities),

<sup>40</sup> Minimal harmonisation directives permit the regulation to take place at least at the level specified in the relevant directive. Full harmonisation directives demand inclusion of regulations whose contents is identical with the directive's provisions.

- promotion of equal opportunities and the principle 'accessible and intended for all,'
- inclusion of balanced criteria with regard to fair and ethical trade while respecting treaty rules and directives in the area of public procurement.

For these reasons, it can be stated that public procurement is now becoming not only a mechanism for the most effective allocation of public resources, but also act as an instrument that promotes proper development of markets operating on the EU territory [Sołtysińska 2004, p. 3]. This may take place among other things thanks to the incentives to prospective contractors to introduce socially responsible management systems. Such management should be rewarded with preferences in awarding public procurement contracts to entities that promote socially acceptable attitudes, while simultaneously eliminating those that act to the detriment of important public interests (e.g. firms run by convicted criminals, ones that fail to pay public dues and taxes or violate the rights of individuals in gainful employment).

Fundamentally, the Polish system of public procurement is a mirror reflection of norms of the classical and sectoral directives and two coordination directives. The basic piece of legislation is the Public Procurement Law of January 29, 2004 (Journal of Laws of the Republic of Poland, 2010, no 113, item 759 as amended). These regulations have been supplemented by specific executive orders, of which the most important are:

Prime Minister's Executive Order of December 30, 2009 concerning the kinds of documents that can be required by the purchaser from the contractor and forms in which these documents can be submitted (Journal of Laws of the Republic of Poland no 226, item 1817),

Prime Minister's Executive Order of December 23, 2009 concerning the value of products and services subject to procurement regulations and tenders that must be announced to the Office of Official Publications of European Communities (Journal of Laws of the Republic of Poland no 224, item 1795).

Unfortunately, the regulations contained in the domestic system of public procurement must be described as 'dead,' since they remain behind the solutions adopted by other EU member states. Polish regulations, despite their completeness and regulatory compliance with European legislation, are not completely effective. It appears that domestic legislators implemented only the initial systemic provisions, such as economical spending of public funds and preventing discrimination in access to public resources. Consequently, it does not take into account the process of evolution of public procurement that occurs at the level of EU and member states. Below, we discuss several European solutions that take into consideration the participation of the social economy sector in the public procurement process.

As regards the implementation of EU policies in the area of public procurement, regulations adopted in Scotland deserve a special mention. Public procurement in the Scottish legal system is based on the value for money principle<sup>41</sup>. Spending must constitute a conscious

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41 Introduced as part of a system-wide transformation Transforming Procurement: Accelerating Delivery.

result of balancing such aspects as price, durability and quality of the planned delivery. Yet these are not the only principles, since the structural component of the public procurement procedure is the achievement of seven strategic objectives (called '7C's') that include the duty to observe the programming principles of Socially Responsible Public procurement as well as consultations with civic organisations [cf. PASE 2011]. The above-mentioned activities serve to increase the synergy effect among the implemented EU policies. Moreover, they also permit public authorities to maximise the advantages that accrue from cooperation with the social economy sector.

The general principles governing the facilitation of SEEs' access to public procurement are included in the instructions of the Basque State government concerning the application of social, environmental and other public policy criteria to public procurement. Public administration and their units are obliged to take into account social issues in public procurement procedures with a view to, among other things, promoting the employment of disadvantaged groups on the labour market, elimination of unequal treatment of genders in the labour market and combating unemployment.

Interestingly, the system stipulates that if the specification for a given tender contains more than a single evaluation criterion, the purchaser is required to attach a condition concerning the adaptation of the subject service or delivery to the needs of people with disabilities. As opposed to other countries, the implementation of this objective is supervised by relevant government departments (including the Department for Social Exclusion).

A somewhat different strategy to ensure wider access to public resources to SEEs was adopted in Sweden. SEEs are invited by the Social Security Agency (the procurement institution) for consultations whose objectives include:

- the preparation of tender specification for deliveries and services in consideration of the principles of Socially Responsible Public Procurement (minimising the risk of socially negative results arising from the implementation of a given procurement contract, e.g. the creation of working conditions that contradict the provisions of employment law),
- ensuring active participation of SEEs in the public procurement process in the area of social welfare services; in this case, consultations inform interested parties about the planned tender procedure.

French legislation also takes into account other functions of public procurement besides the purely economic ones. For example, the purchaser may specify that participants in a public tender must employ at least 50% of people with disabilities as provided by Article 19 of the classical directive. In the French legal order, this clause reflects the policy of sustained development in the area of employment of individuals threatened with social exclusion. Specifically, the French Labour Code requires that an employer employing at least 26 staff must reserve at least 6% of jobs to people with disabilities. Clearly, social clauses in public procurement have not been adopted separately from other regulations. Consequently, they have a solid grounding in the overall system, and are put into effect much more easily.

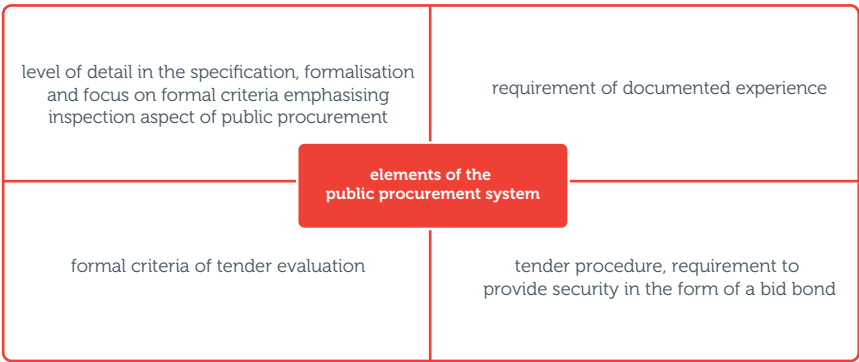
II.2.2 Functions and dysfunctions of the Polish public procurement system

Poland, as an EU member state, when implementing Community directives in its domestic legal system is obliged not only to implement the norms contained in them, but also to ensure the realisation of Community objectives. Automatic harmonisation of European regulations is insufficient, especially in the absence of a critical reflection concerning the adjustment of laws to domestic conditions, including the manner of operation of public administration, market characteristics and the stage of socio-economic development. It is also necessary to consider potential unintended effects (different from those planned) that may arise when even the most basic institutions of Public Procurement Law are applied. Some of these effects may create barriers directly caused by regulations themselves.

The most fundamental dysfunction of the public procurement system is evident at the definitional level. Public procurement law favours only two categories of purchasers: classical and sectoral ones. The profile of operation of classical purchasers is quite varied. For example, the group of institutions obliged to apply Public Procurement Law includes local government and all its organisational and auxiliary units, public health care units, courts, tribunals and other law enforcement institutions, central agencies of the state, the Social Insurance Institution and a number of others. Unification of procedures for every single one of the above-mentioned units may lead to the contravention of the principle stipulating that awarding a public procurement contract must not disrupt public order and public morality, safety and public health (item 6 of the preamble to the classical directive). The most glaring example involves medical equipment procurement procedures pursued by health care institutions. In practice, it is hard to justify time-consuming purchasing procedures if a delivery has a priority character with respect to the statutory objective of the institution, which is protecting human life and health.

Figure 3 contains sample dysfunctions that may occur in the process of awarding public procurement contracts to social economy entities.

Fig. 3. Sample components of Poland’s public procurement system generating unintended effects



Source: Authors’ original idea.

### II.2.2.1. Specification of the procurement object

A number of problems arise at the stage of identification of actual purchaser needs, which are caused particularly by insufficient professional knowledge of the purchaser and the lack of appropriate description of the procurement object as provided by Article 29 items 1–3 of Public Procurement Law. The intention of this regulation was to enable an unlimited number of contractors, suppliers and service providers to participate in the procedure under the conditions of fair and equal competition. Competition should be interpreted broadly, i.e. the idea was to foster competition not only among the contractors, but also producers.

Unfortunately, in practice specification of the procurement object tends to be formulated on the basis of data connected with tried-and-tested, universally known solutions or a range of services identical with those offered by the previous contractor/provider. Moreover, quite often at the stage of procurement object specification, the purchaser includes conditions that restrict the participation in the procedure to several or even a single economic operator by providing too detailed a list of requirements. Too much detail, especially in the case of intrinsically innovative services, generates a host of socially undesirable effects. The first one consists in the elimination of the expected effect that was supposed to arise out of the execution of the contract. In the case of social services, excessive specification defeats their purpose. On a number of occasions, the execution of contracts demands innovative solutions difficult to fit into the framework of a simple procurement object description. Placing an order for a set of computers on the same level as an intervention whose aim is, for example, to provide vocational development of workers from the former state-owned farms results in the provision of low quality services within rigid frameworks of descriptions.

### II.2.2.2. Tender procedures in the process of awarding public procurement contracts

The aim of the basic modes of public procurement are supposed first of all to enable all economic operators that meet the minimum requirements instituted by the contracting authority to compete for the provision of a service/goods delivery.

Awarding a public procurement contract by tender is not always legitimate. Contracting authorities cannot always properly define their needs in terms of reference as provided by Public Procurement Law. It is often the case with specialised services, since officials responsible for the procedure find it difficult to appropriately describe these. Consequently, the economic operators 'decide for' the contracting authority, presenting tenders that admittedly meet the requirements, but only just. These situations usually occur when complex deliveries (e.g. rehabilitation equipment for people with disabilities) or services (e.g. specialised services for unemployed people) are required. Tenders make sense provided that the person entrusted with the preparation of the terms of reference possesses the necessary detailed knowledge concerning the object or the service needed. In reality, such descriptions of procurement objects are prepared by officials who have a limited knowledge of the beneficiaries of a given service and/or the product from the perspective of their intended user. A substantial flaw of this procedure is the impossibility to select an offer on the basis of subjective properties of economic operators. Public Procurement Law does not take into account whether a given

economic operator specialises in a field of activity related to the procurement object or its experience and knowledge. In such procedures, it is essential that the economic operator meets the minimum requirements.

Regrettably, in the event of an improper or too detailed a definition of the required service, a social economy entity that applies for a contract is forced to adapt its own offer to the requirements specified in relevant terms of reference. As was mentioned before, these requirements, owing to a unique nature of the service, do not necessarily have to be defined in a manner that emphasises intended user needs. Such inconsiderate application of tender procedures where there are alternative methods of selecting the best offers causes an unintentional negative effect that consists in the adjustment of services to be provided not to the needs of their final recipients but to the requirements set by the payer who defines the rules in the form of terms of reference.

#### **II.2.2.3. Experience of economic operators**

In order to ensure a timely and otherwise appropriate completion of a public procurement contract, the legislators included an optional clause stipulating that tenderers must document appropriate experience consistent with the procurement object (or a concrete service). The regulation acts as a sort of credibility check of the tenderer, i.e. is meant to ensure that a given economic operator will not only appropriately execute the contractual obligation undertaken, but also has technical and financial means to execute the procurement object without prejudice either to himself or the contracting authority.

From the perspective of social economy entities, the above-mentioned regulation often creates an impassable barrier (as is the case with small and medium-sized enterprises) as it promotes large entities that have a long-standing experience and decidedly greater potential in terms of staff and financial resources. However, what social economy entities have to offer is a unique social potential that may be translated into appropriate execution of contracts compatible with their intended outcome. Moreover, quite often the requirement of experience in the provision of a service to the unemployed is specified in quantitative terms, such as the number of projects above a certain amount completed by a given institution. Such an approach, even though it may not entirely bar social economy entities from applying for public procurement contracts, may increase internal divisions within the sector by offering broader opportunities to large institutions that have operated on the market longer. An uncritical application of the criterion of documented experience may lead, on the one hand, to an oligarchisation of social economy entities, and on the other hand, it may become an effective way of nipping innovative initiatives in the bud, whose only drawback is that they are new.

#### **II.2.2.4. The Bid bond**

Public Procurement Law as applied to procurement objects whose value does not exceed the so-called European thresholds allows contracting authorities to forgo the bid bond or the experience requirement. Unfortunately, contracting authorities quite often apply these optional guarantee and documentation regulations also to procedures below European thresholds.

Consequently, social economy entities, having very limited sources of financing their activity, are automatically excluded from the procedure.

Theoretically, the bid bond serves as a guarantee for the contracting authority in the event that the tenderer refuses to execute the contract (that is, assuming his/her bid was found to be the best). Additionally, the bid bond constitutes a financial barrier that ensures that only economic operators with a genuine interest in the project will participate in the procedure.

Here, again, a regulation that was adopted for worthy reasons may generate effects that do not necessarily conform with its spirit. Social economy entities, given limited sources of financing their statutory activities (limited amounts of state grants, sponsorship), must conduct their financial operations with exceptional attention to detail. Requiring bid bonds indisputably restricts the opportunities of these units to apply for public funds, even though they may actually be capable of delivering the required product and/or service. In summary, a provision whose original goal was to eliminate unreliable economic operators, may ultimately exclude social economy entities from the process, even those with excellent references.

#### **II.2.2.5. Tender evaluation criteria**

Evaluation criteria are designed to reflect the economic value of individual tenders. Apart from the criterion of price, the contracting authority may apply any indicator of the economic value of tenders related to the procurement object and the manner of contractual performance. The criteria must be objective, i.e. they cannot depend on an arbitrary opinion of the contracting authority. They may include, among others, criteria such as quality, functionality, service provision/goods delivery deadline or the use of the best commercially available solutions. All this is intended to ensure that the completed procurement contract is cost-effective not only in financial terms, but above all, economical.

Unfortunately, in practice, the highest weighting in the process of tender evaluation is accorded to the price. Once again, the rationale behind such a regulation is to protect the contracting authority against possible accusations on the part of the relevant inspection agency regarding the formal side of the procurement procedure. However, under such circumstances, one can be sure about one thing only, namely that the contracting authority will pay the lowest possible price. Unfortunately, the procedure fails to recognise other important constituent elements of tender documentation and economic operators' characteristics that may potentially increase the cost-effectiveness of the entire procedure.

For example, in the area of provision of training services to unemployed persons, social economy entities may possess a unique insight into the re-education of individuals who have not been engaged in gainful employment for some time. Such insight comprises first of all personal identification of the beneficiary, the reasons behind his/her problems and also an opportunity to use innovative resources to effectively influence a given individual. It appears to have a key significance in the matter, because a broad range of solutions increases the likelihood of achieving the main objective, which is vocational development. The resulting



service will be thus comparatively more expensive, which does not mean that ultimately it is not worth the extra outlay.

Unfortunately, the contracting authority, driven by the principle of cost-effective management of public funds, invariably seeks the least expensive solutions without considering the above-mentioned arguments. A public procurement contract will be awarded to the tenderer that offers the lowest price of all. In consequence, solutions based exclusively on the criterion of price, especially in the case of specialised services – which include a significant proportion of activities of social economy entities – may not lead to the intended outcome and generate losses instead of savings in public finances.

#### **II.2.2.6. Inspection in public procurement**

Contracting authorities (especially local government units) can be inspected by Regional Accounting Chambers, Voivodes, the Supreme Audit Office, President of the Public Procurement Office and grant-awarding institutions. Regardless of the remit of respective institutions governed by specific regulations, it stands to reason that given their organisational differences and competencies to verify the operation of contracting authorities, there can and will be discrepancies in the interpretation of procedures for awarding public contracts. In other words, contracting authorities tend to carry out the entire procedure for the sake of supervisory bodies without taking into consideration their own justified needs with respect to the required good or service or the desired outcomes.

The awarding procedure involves standard solutions, such as e.g. evaluation of tenders exclusively on the basis of the criterion of price. Inspections tend to focus on aspects of procedural correctness of public procurement, with scant attention paid to the negative consequences on the quality of the purchased good, service or construction work.

In compliance with legal provisions, inspections of ongoing projects (such as those within the framework of the Cohesion Fund) should only highlight instances of serious negligence in the area of spending allotted resources, so as to at least disturb the progress of the project. However, in reality such inspections quite frequently cripple the operation of the entire inspected unit. Inspectors will point out even the most minute formal oversights (e.g. a non-competitive purchasing order for office supplies by a beneficiary). This leads to an absurd, but factually justified conclusion that public authorities care more about the formal side of the procurement procedure than its actual intended outcomes.

The vast range of powers of supervisory bodies also has a negative effect on the operation of social economy entities, which, when wishing to offer structurally extensive services, are limited by the terms of reference that satisfy in the first instance the expectations of inspectors. Instead of contracting for comprehensive services geared towards the achievement of intended outcomes, economic operators who wish to be awarded a public contract are forced to offer incomplete services. At times, one gets the impression that it is not at all important what outcomes will be achieved by a given service or goods delivery. Programme beneficia-

ries are analysed in quantitative instead of qualitative terms. Under such circumstances, the issue whether the programme participant has actually benefited in any way appears to be of little significance.

#### **II.2.2.7. Liberalisation of public procurement procedures for social economy entities**

Current regulations contained in Article 29, item 4 of Public Procurement Law enables the contracting authority to restrict access to the tendering procedure exclusively to economic entities that employ individuals threatened with social exclusion. The overall intended effect of regulation is to implement EU policy in the area of supporting employment of people with disabilities, the unemployed and others whose vocational/occupational development is difficult.

Although this regulation has noble aims, it may still lead to socially undesirable effects. Economic operators, when faced with such an exclusion clause, may choose to employ e.g. people with disabilities only for a period of time necessary for them to be awarded the contract. Consequently, the idea of vocational development of individuals threatened with exclusion may be thwarted, which results in frustration on the part of the intended beneficiaries of the programme instead of a sustainable added value.

The above-mentioned possibility is rarely applied in practice, because of the existence of an additional requirement, namely the need to prove the existence of a connection between the clause and the procurement procedure in question. An official who has no clear and unequivocal interpretative guidelines will be more inclined not to apply this clause, the more so that Article 36, item 2, point 9 of Public Procurement Law imposes on the contracting authority the duty to check whether or not the tenderer actually meets the stated employment criterion.

Opportunities for social economy entities related to this regulation remain untapped, which is the sole fault of Polish legislators who, pursuant to the classical directive, were supposed to create conditions favouring the employment of persons threatened with social exclusion in the process of awarding public contracts. The only thing that has been achieved so far is the technical transfer of European legal norms into the Polish legal system.

#### **II.2.2.8. Procurements below the 14-thousand euro threshold**

Contracting authorities are exempted from the obligation to apply public procurement procedures when the value of the procurement object in question does not exceed 14 thousand euro. The purpose of this regulation was to reduce the number of formalities connected with smaller contracts, whereby procedural costs may exceed several times the advantages of choosing the best offer.

However, despite the rationale behind the idea, exemption regulations contained in Public Procurement Law are replaced by other rules. In such situations, the spending of public funds must occur in a purposeful and economical manner (Public Finance Law), including the principle of competition. It must be said that the practice is tantamount to a step backwards, because

even in such cases economic operators are required to submit various kinds of financial guarantees, credentials and documents, even those which are not allowed when procurements above 14 thousand are considered (e.g. higher education diplomas of individuals participating in the procedure, certificates of membership in training organisations etc.). Certainly, all the activities aimed at minimizing corruption deserve praise, but this should on no account occur at the expense of efficiency and manageability of the public procurement system as a whole [OECD 2009, p. 22].

### **II.2.3. Proposed improvements to the public procurement system involving the participation of social economy entities**

Poland's public procurement system does not take into consideration the advantages that accrue to contracting authorities on account of cooperation with social economy entities. Such cooperation is usually evaluated only through the prism of cost-effectiveness in total separation from other important social objectives that might have been achieved in the course of public procurement (e.g. life protection, health care, vocational development of people with disabilities, environmental protection).

In the present legal context, there is no regulation that might indicate the possibility of a complete exemption of social economy entities from Public Procurement Law. The Provisions of Community law, as superior, underscore the need to implement the principles of free and fair competition and equal treatment of tenderers. In reference to social economy entities, the same provisions may already have a qualifying character due to their distinctly weaker economic potential and experience in (professional) trade relations in comparison with other economic operators. It was noted that social economy entities are not in a position to compete on the open market owing to, among other things, objectively lower productivity, higher operating expenses etc. [Frączak 2010, p. 52].

The EU attempts to solve the normative conflict that arises in the case of awarding public contracts to social economy entities by introducing the programme of Socially Responsible Public Procurement containing a number of suggestions and guidelines that make it possible to take into consideration the unique nature of social economy entities when awarding public contracts. However, they are supposed to occur only at certain stages of the procurement procedure.

Yet the introduction of solutions to facilitate access of social economy entities to public procurement proves to be insufficient. In order to ensure that the amended regulations do not become defunct, they must impose on contracting authorities the obligation to apply the social clauses if they are closely linked with the procurement object (especially vocational development of groups threatened with occupational exclusion, rehabilitation of persons with disabilities and mentally ill persons).

At present, social clauses can be applied exclusively in compliance with existing regulations that, as was demonstrated in this chapter, effectively discourage systemic innovations and

participation of social economy entities in public procurement. Social economy cannot be just 'transplanted,' it must meet appropriate social response. Public authorities should treat the activities of social economy entities as an instrument that helps them to resolve social problems [Hausner 2007, p. 15]. Until it actually happens, incentives and legal conditions must be introduced to allow social economy entities to take priority when applying for public contracts: clear and distinct regulations contained in acts of legislation leaving no doubt regarding their legitimacy. Only if such duties are imposed on the contracting authorities can these clauses be applied in practice, otherwise they shall remain dead regulations. For example, in the regulations quoted above, there are no legal or financial incentives, whereby the contracting authority would be inclined to apply the social clauses. The only thing that can be gleaned from these regulations is the possibility of awarding a public contract to SEEs and a number of applicable restrictions. Social benefits that accrue from awarding a public contract to a social economy entity remain unidentified, unjustified and largely unknown for the contracting authority. Therefore, it appears indispensable to introduce special regulations that boost the participation opportunities of social economy entities in public procurement. Some examples include:

1. Introduction of threshold amounts below which the contracting authority is not allowed to require bid bonds, guarantees of proper execution of the contract or documentation of experience relevant to the procurement object in question. This will permit them to avoid redundant formalities when dealing with smaller procurements. Thanks to such a regulation, social economy entities are much more likely to apply for public contracts, along with small and medium-sized enterprises.
2. Apart from the justified regulation that restricts access to public procurement to economic operators listed in Article 29, item 4 of Public Procurement Law, a compromise may be achieved that would also include other entities in the process. The contracting authority would be permitted to apply a tender evaluation criterion, whereby a social economy entity might obtain bonus points for conducting socially beneficial activities. It should be noted that the European Commission permits the use of social criteria unless they violate the principles of equal treatment and bring economic advantage to the contracting authority [de Rosa 2007, p. 6]. If economic advantage is still equated exclusively with financial advantage, the idea will have no impact on practice whatsoever. Hence it appears necessary to transfer this principle into the Polish legal order. This may occur in the form of an amended Article 91, item 2 of Public Procurement Law that lists sample tender evaluation criteria.
3. Improved factual quality of a tender may result in awarding a portion of the public contract to a social economy entity. This is a legitimate option if the scope of the procurement or its value makes it impossible for social economy entities to participate in such a procedure due to the lack of requisite human resources and capital. Such a solution warrants the development of cooperation between businesses and social economy entities. An additional advantage of such a solution would be to shift all the formalities related to the procurement onto the main contractor/provider. Consequently, the activity of a social economy entity might focus exclusively on proper provision of the required service.

4. Orientation of public procurement towards intended outcomes instead of procedural correctness. This is a priority issue not only for social economy entities, but also for the entire public procurement system. Therefore the interpretation of the principle of effective detection of irregularities before paying the programme beneficiary should be modified. Inspections should be aimed at the identification of critical irregularities that manifestly violate the provisions of the contract between the fundholder and the beneficiary. Minor errors should not be a subject of interest for the inspecting agency.
5. Article 4, item 8 of Public Procurement Law, which exempts all the procurements below 14 thousand euro (ca. 56,000 zloty) from the procedure might encourage contracting authorities to award contracts to social economy entities [Guć 2006, p. 8]. This requires a liberalisation of public finance regulations, especially in the area of 'economical' spending of public funds. Awarding a public contract to a social economy entity entirely on the basis of its status demands justification, which may be both the nature of the service (rehabilitation of people with disabilities) or goals to be achieved (vocational development for persons threatened with social exclusion).
6. It appears to be a sensible idea to develop a closed catalogue of services whose provision, regardless of the procurement value, can be entrusted to a social economy entity without the tendering procedure or via negotiations without announcement. One of the reasons for the existence of such a catalogue is the institution of administrative purchasing contracts that makes it possible to contract for the performance of a public mandate with any organisational unit (including a non-public one). Social economy entities as units specialised in their field guarantee proper execution of an entrusted public mandate in the area of social insurance programmes.
7. Lastly, social economy entities should be encouraged to participate in the identification of needs and preparation of technical specifications for public procurement. At present, the system incorrectly assumes omniscience on the part of the officials responsible for the execution of the procedure without the option to engage an expert.

More preferences in access to public resources granted to social economy entities might considerably disturb competition. For that reason, the above-mentioned proposals should be considered sufficient. However, no regulations will be helpful in this area as long as the activities of social economy entities do not obtain the status of socially beneficial activities. After all, they supply and quite often supplement services whose provision is primarily the responsibility of the state.

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## Conclusion

Socio-economic literature often describes three models defining the relationships among social economy entities and public authorities. The first one is the free-market model, in which social economy entities compete with other enterprises for the customer – the public sector – according to market rules. The welfare state model assumes a different perspective in examining the relationships between SEEs and the state, which often lead to dependence and subordination of the former to the regulations and modes of financing determined by

the state. The third model, currently acknowledged as a standard to be imitated, consists in negotiating the manner of allocation of public money by introducing the principle of reciprocity to the process of redistribution of financial resources [Du Tertre 1999, quoted in: Gardin 2006, p. 134]. Such a rule can be introduced by the properly reformed public procurement system, which is more and more often expected to achieve the typical functions of public regulation<sup>42</sup> through a system of formally established preferences regarding the specific qualities of an enterprise that will be awarded a public contract.

This chapter was intended to show, using practical examples, the ways in which public regulation may produce unintended effects in the behaviour of social economy entities, thereby reducing their social utility.

Dysfunctions in the social economy sector that tend to be reinforced by the public procurement system, and which have been discussed above are related to:

- oligarchisation of the sector (with concurrent diminishing opportunities of smaller economic operators in access to public resources), which confirms the validity of the Matthew effect<sup>43</sup>,
- the process of excessive economisation of SEEs,
- orientation of activities of SEEs towards funds (and fundholders) instead of customers, or towards purchaser satisfaction instead of intended outcome for the end user<sup>44</sup>,
- limited innovation efforts of social economy entities, with priority given to safe activities,
- excessive focus of social economy entities on the formal side of the procurement procedure instead of the outcomes of its activity,
- emergence of lip-service behaviours only formally related to the achievement of the intended social goal<sup>45</sup>.

The public procurement system in the context of tenders, procurement procedures and public contracts steers its participants towards a quasi-market logic that does not necessarily have to be beneficial to society when considering the end-results of purchased activities. First, the present system is oriented towards accountability and cost-effectiveness. On a number of occasions, social economy entities are required to document the outcomes of their activities

42 It is worth pointing out that economists disagree on the role to be played by the state in a market economy and how far the state should go when designing an intervention or a public regulation. Although most theorists of public regulations agree that these actions are undertaken in the public interest, it does not mean that theoreticians are aware only of their positive sides. For example, they indicate that such interventions may often result from pressure on the part of various interest groups, according to the well-known argument by Georg Stigler that regulations do not necessarily protect consumer interests – which is ostensibly why they are introduced in the first place – but equally often they are promoted by producers in order to protect their market position. Likewise, in Ronald Coase's view, regulations not necessarily achieve what they are supposed to, because at the same time they generate considerable expenses, and hence result in losses for the society at large [The Concise Encyclopaedia of Economics 2008].

43 "For unto every one that hath shall be given, and he shall have abundance: but from him that hath not shall be taken away even that which he hath" (Gospel According to Sr. Matthew 25:29).

44 E.g. trying to outdo competitors in terms of gadgetry and catering or 'lifting' beneficiaries by social economy entities and public institutions (such as local employment offices).

45 E.g. employment of workers from socially excluded groups only for a period of time that is necessary to obtain and keep public money.

in figures, e.g. the number of persons they have trained who found employment on the open market. Such requirements may generate unintended effects in the form of pre-selection of beneficiaries and the choice of those to who are likely to find employment more easily. This effect actually undermines the logic of operation of SEEs.

Second, public funds tend to be earmarked for predictable actions, consequently limiting the opportunities for all innovative initiatives. It turns out that social services do not necessarily have to meet the needs of beneficiaries, often are of the run-of-the-mill type and are designed on the basis of certain popular and financially safe templates. Rejection of financing socially necessary innovative but simultaneously risky activities and cost-intensive services favours the creation of a market of social services that is as standard and predictable as the expectations of contracting authorities specified in terms of reference.

More and more often, the public procurement system is expected to perform not only cost-effectiveness functions but also regulatory ones, increasing opportunities of certain entities to gain access to public resources. A question that will be the subject of debate in the coming years concerns the functions that such a system is supposed to fulfil. Does public procurement constitute only a tool for spending of public money effectively, or should it be a tool for 'both effective and fair' spending? In other words, should public money be spent economically, or economically and in a way that generates additional positive social effects?

Examples of the fairness principle include, among others, the social clauses (Community Benefit Clauses – CBC) discussed in this chapter, which strengthen the position of social economy entities in the process of competing for public contracts. Such clauses introduce additional evaluation criteria of institutions applying for public resources of which the most important one is the anticipated social added value of a given undertaking [cf. Wojciechowska 2010, p. 123]. Unquestionably, before such clauses can be introduced, it is necessary to develop a reliable tool to measure the social added value of civic initiatives<sup>46</sup>.

By way of a summary, the authors would like to emphasise the fact that the system of public regulations, including Public Procurement Law, may exert a considerable influence on the operation of social economy entities. However, it does not mean that the driving force of regulations is unconditional and changing current legal rules is sufficient to effect improved efficiency of institutional operation. One should rather concentrate on the transformation of the sphere of social practices and inter-institutional relationships, because, as Yohan Stryjan notes, "[...] charting a new institutional way of leaving exclusion and returning to employment is a matter of new practice, not additional regulations; it demands rather a removal of boundaries among various offices, not changing them." [Stryjan 2005, p. 9].

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<sup>46</sup> Methods to evaluate the social added value of social economy entities are currently being developed within the framework of the project Integrated System of Support for Social Economy (Project no: POKL.01.02.00-00-005/09) carried out by the research team of the Malopolska School of Public Administration, Cracow University of Economics. Its next step will involve the creation of a system to evaluate social added value of projects carried out by social economy entities.



No legal system can anticipate every situation and ensure the fulfilment of all the positive intentions of legislators. Every piece of legislation will generate greater or lesser unintended effects, sometimes positive, sometimes negative ones. These effects depend not only on the current law, but also on the level of development of society, its awareness, lifestyle, organisational culture and morale.

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# Higher Education Institutions: Potential, Barriers, Costs, Opportunities

## 1. Functions of higher education institutions

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Higher education institutions play an important role in economic and social life. They are first of all responsible for human capital formation and knowledge production. This points to two basic functions of higher education institutions, namely education and research. In many regions they are also major employers and make a substantial contribution to economic development. Higher education institutions constitute an important element of national and regional innovation systems. Numerous empirical and theoretical studies underscore the significance of the sector as an important development factor (a review of the most important approaches can be found e.g. in Olechnicka, Pander, Płoszaj, Wojnar [2010]).

### 1.1. Models of higher education

Functions performed by higher education institutions are determined by a host of factors among which an important role is played by the model of higher education adopted by a particular country. A point of reference for the classification of models of higher education systems in individual countries is the so-called functional model of higher education, which offers theoretical operational frameworks for this sector. Theoretical models involve the entirety of formal and practical mechanisms as well as relationships at the levels of ministries and universities, including among others state, regional and local authorities, students, academic staff, university management, national and regional markets, international and global markets as well as supranational networks [Pawłowski 2004, Thieme 2009].

The simplest way to classify models of higher education is to define the relationships between academic and vocational training [Pachociński 2003]. With respect to the study mode, there are three models: integrated, binary and fragmentary. A characteristic feature of the integra-

ted model is the short academic programmes that lead to a degree with simultaneous strong links to middle level education [Kyvik 2004]. In the binary model, traditional universities co-exist with higher vocational schools. And finally, the fragmentary model of higher education is characterised by a comparatively large dispersion of institutions of the higher education [Pachociński 2000].

One of the best-known models of organisation of higher education is the three-factor model, also known as Clark's triangle of coordination. Clark built his model around the relationships that hold among the state, market and academic oligarchy influences on the shape of higher education institutions and the entire higher education system. Depending on the dominant influence, there are bureaucratic, market and academic oligarchy models of education [Clark 1983]. The bureaucratic model, characteristic of the French and Soviet systems, involves a large role played by the state and limited impacts of the market and academic oligarchy. The state creates a unified system of education, coordinates and manages most issues connected with the higher education institutions [Malewski 2008]. First of all, the state is the main source of funding universities and regulates all matters related to spending public resources on higher education, including the salaries of academic staff [Clark 1998]. This model is based on a bureaucratic hierarchy of power – academic staff is appointed by the Minister of Education and constitute part of the Civil Service corps. For these reasons, university autonomy is limited. The state regulates matters pertaining to recruitment, syllabi, examinations and organisational structures of higher education institutions [Felt, Glanz 2002].

In the market model, typical of Anglo-Saxon countries (which is gaining popularity in developing Asian countries), the main mechanism that influences the operating framework of higher education institutions is the market. In this context, academic oligarchy plays a secondary role and is subordinated to the achievement of university objectives on the market, with a minimal state influence [Farnham 1999]. In this model, higher education institutions enjoy wide-ranging autonomy with respect to syllabi, recruitment procedures, objectives of their activity and organisational structure [Felt, Glanz 2002]. Such institutional conditions stimulate competition among individual institutions for students who are customers seeking high-quality educational services and qualifications valued by the labour market. For these reasons, universities are professionally managed, and their effectiveness is displayed in the development of effective institutional financing mechanisms and employment of the best academic staff [Clark 1995].

In the academic oligarchy model, also sometimes called the professorial corporation, the shape of the higher education system is under the predominant influence of the academic circles over the state and a small part played by the market. This model was popular in the 19th century in German-speaking countries, Central and Eastern Europe and in Scandinavia [Clark 1983]. In this system, academic staff have a strong representation on advisory bodies and on expert committees dealing with the issues of higher education at central government and legislative levels. The state provides only legal, financial and accreditation frameworks for the operation of academic institutions. These institutions enjoy a wide-ranging autonomy

with regard to syllabi, organisational structures and the allocation of funds, which first of all come from public sources [Malewski 2008].

The above-presented three-factor model was later subject to modifications. In a simplified one-factor option, the only variable determining the shape of the higher education system is the part of external authorities with respect to these institutions [Vought Van 1989]. Depending on whether this relationship consists in a direct control or indirect supervision, continental and Anglo-Saxon models are distinguished, respectively [Jabłeczka 2002]. In the continental model, the state owns the assets of higher education institutions, makes detailed legal provisions concerning their operation, allocates financial resources for their activities, supervises their operation, formally awards academic degrees and determines the main directions of education and research. University authorities are directly subordinated to ministerial institutions, while university administration plays an executive rather than decision-making role. Conversely, in the Anglo-Saxon model, universities operate within general frameworks determined by the state and are characterised by substantial autonomy, including also awarding academic degrees. Universities own their assets directly and have diversified sources of financing. Quality control and supervisory activities are exercised by independent institutions and organisations. University authorities enjoy broad decision-making competencies and are voted in by electoral colleges [Thieme 2009].

A further refinement of Clark's model based on characteristics of internal academic order was proposed by D. Braun and F. Merrien [Braun, Merrien 1999]. In their own multifactorial theoretical approach, they took into consideration three elements: 1. direct prescriptive and material power of the state (large vs. small), 2. extent of legal and procedural regulation (strict vs. loose) and 3. system of values (cultural vs. service-based). Various configurations of these permit them to isolate eight potential models. More importantly, the proposed classification involves both historic (e.g. collegiality) and contemporary models (e.g. market, bureaucratic-oligarchic, etatist), with some configurations of factors possible in their model, which emphasise a significant role of the state and a cultural system of values, non-existent in practice (cf. Table 1).

Table 1. A multifactorial approach to models of higher education

Name	State <sup>1</sup>	Regulations <sup>2</sup>	Values <sup>3</sup>	Country/Period
Collegial	small	loose	cultural	Middle Ages
Market	small	loose	service	USA
Bureaucratic-oligarchic	small	strict	cultural	Germany, Poland
Etatist	small	strict	service	France
–	large	loose	cultural	Non-existent
New-managerial	large	loose	service	The Netherlands
–	large	strict	cultural	Non-existent
Planned	large	strict	service	USSR, Cuba, North Korea

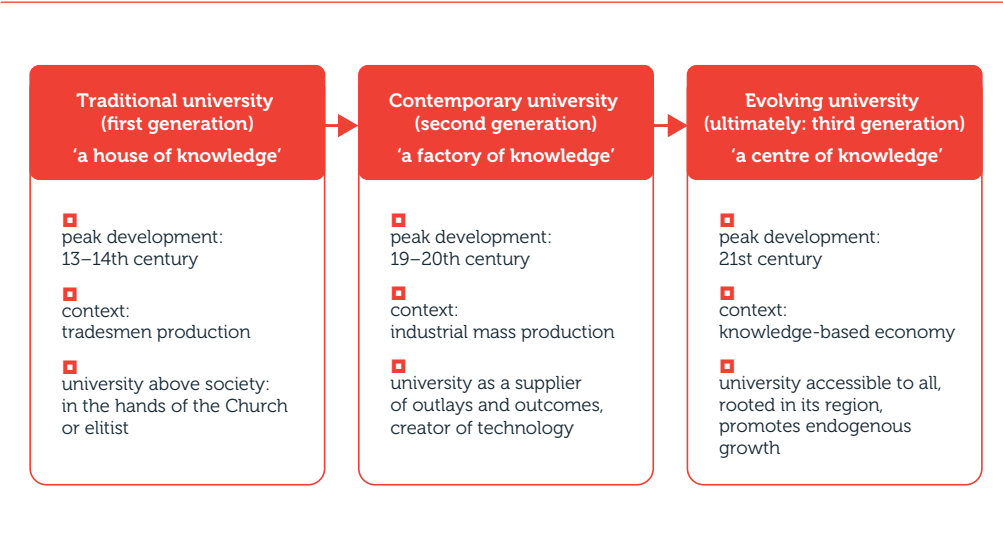
1 state influence; 2 legal regulations; 3 system of values

Source: Thieme 2009.

1.2. Evolution of the role played by higher education institutions

The science sector, to a considerable extent composed of universities, constitutes a social-cognitive system that operates in a specific environment. This means that science and society interact with each other mainly in the spheres of the economy and culture. On one hand, science shapes society, while on the other hand, society decides about the directions of development of science (Chojnicki 2009). Even though researchers agree that the sector of science exerts a vital impact on the prosperity of societies, in the course of time, the perception of functions of universities and their influence on the environment is subject to change [Uyarra 2008, Wissema 2009]. Since the establishment of the first university in Bologna in the 11th century, institutions of this kind are subject a continuous evolution toward building increasingly stronger relationships with their external environment, including the economy (Fig. 1). In our times, science is treated not only as a potential source of strategic possibilities and a set of instruments for problem solving, but also as an engine of development, also at the regional level [Edqvist 2003]. It is hard to precisely delineate the stages where individual models of universities prevailed: traditional, contemporary and third generation universities. This is all the more complicated, because these models simultaneously operated side by side, moreover, they were not internally uniform. Earlier periods were characterised by considerable separation of scientists from economic reality. In time, both worlds – the world of science and the world of economy – headed towards closer integration, although the process progressed at a different pace in Europe and in North America [Wissema 2005, pp. 21-39].

Fig. 1. The evolution of missions and objectives of universities



Source: Authors’ own research based on Wissema 2009, p. 34, Youtie, Shapira 2008.

Mediaeval universities were elitist institutions operating on the basis of rights granted by cities and/or spiritual authorities. They were associations of teachers and students formed for the purpose of transferring knowledge, cultivating traditions and values according to the Church doctrine. They worked in separation from worldly needs. Their influence on their external environment was limited and mostly consisted in the education of elites, both secular and clerical, which indirectly affected the political and social processes. In spite of the existing potential, relationships with the real economy, i.e. with the producers and buyers did not actually occur. Discoveries and technical progress was often credited to divine influence [Wissema 2005].

The epoch of Enlightenment initiated far-reaching changes in the operation of European universities. As result of a combination of events, of which the most important was the emergence of new scientific disciplines, research methods and scientific institutions independent both of the state and the Church (including engineering and agricultural institutions competing with traditional universities), in late 18th century a new type of university emerged, the so-called Humboldtian university. Based on a Berlin model, it was characterised by strict state control of procedures and:

1. full autonomy of academic self-governing bodies in the areas of syllabi, research and management of their institution,
2. freedom to present and discuss scientific views,
3. unity of research and teaching.

The primary objective of a university was to form individual personalities in the process of education, not short-term material gain. The main principle of the Humboldtian university was based on scientists conducting research independent of social interests. Consequently, despite the change in the direction of scientific research, this kind university effectively cut itself off from its environment. Papers on practical application of research results were rare, with the system of learning built on this principle was characterised by a considerable degree of indifference of science towards industry [Jóźwiak 2003, Leja 2006, Metcalfe 2010]. The internal organisation of this type of university made it fairly resistant to all attempts at reform [Enkenberg 2001].

Scientific sources indicate that an essential breakthrough in the perception of the functions of the research and development sector occurred in the 20th century, when the 19th-century Humboldtian concept of university was questioned. Since the 1960s, it was perceived that the old type of university, even though it exerted a significant impact on the modernisation of economies in continental Europe, turned out to have a number of features deemed unfit for the new socio-economic conditions in the 20th century. Nationalisation of universities was particularly problematic since it effectively hampered the exchange of both research staff and students. In the long run, observed was a limitation of positive effects of competition coupled with deteriorating quality of research and education. Making university education available to masses revealed bureaucratic ossification, poor management systems and financial limitations at universities. Narrow specialisation of research conducted by individual university faculties made them unable to meet multidisciplinary challenges, including those that required co-operation with extramural entities [Wissema 2005].



Researchers agree that now we are at the stage of formation of a new type of university – more open to its environment. This is a transition period characterised by the need to adapt to a developmental paradigm called the knowledge-based economy [Youtie, Shapira 2008]. Several fundamental issues determine popular expectations of contemporary higher education [cf. e.g. Kukliński 2001, Lawton Smith 2006]:

1. increased demand of the economy for knowledge and results of research, which may be supplied, among others, by universities,
2. increased demand for educated labour force, especially in knowledge-intensive enterprises,
3. changes toward greater interactivity, networking and openness, which means that business enterprises seek out sources of innovation in a broad circle of potential suppliers, from cooperating firms to public and private research institutions,
4. changes in the nature of regional/local development – universities constitute important elements of the local scene, are perceived as development stimuli in their areas of operation,
5. competition on the part of other educational and research institutions – the need to seek own areas of excellence.

In consequence, traditional functions of universities that include scientific research (knowledge production function) and education (human capital creation function) are broadened and defined anew. Besides, they are supplemented with new functions, of which the most frequently mentioned is the capacity of a regional actor. It is next to impossible to completely separate these functions, since the results of university activities appear simultaneously in all the above-mentioned domains [Boucher et al. 2003, Goldstain, Renault 2004].

The classical function of universities consists in human capital formation [Goldstein 2009]. By ensuring a regular supply of qualified staff with appropriate profiles, universities contribute to the modernisation of the economic structure of their cities, regions and the country as a whole. Human capital resources also determine the innovation absorption capacity of firms [Broström, Lööf 2006]. One ought to remember that human capital is created not only as a result of educating students, but also in the process of improving the qualifications and skills of university teaching and research staff. This kind of university influence is well documented, however, its cumulative effect on its nearest regional environment depends on the activity of graduates who remain in the region. The degree of mobility of qualified staff increases in line with their level of education. University graduates tend to more often inclined to migrate further to other metropolitan areas, regions or even countries for professional reasons [Paytas et al. 2004]. The scale of this problem depends on individual research centres [Herbst 2009, Westlund 2004]. Moreover, it is also important to adjust the courses offered to the needs of regional labour markets [Nieuwenhuis et al. 2003]. Accordingly, advantages that accrue to the region on account of educational institutions that operate in it are determined by the nature of the local labour market, dynamics of the regional economy and relevance of training to the needs and requirements of firms operating in the region.

Modern universities broaden their opportunities in the area of human capital creation in two ways. First, they expand their range of influence using information technologies for distance learning. Second, they increase the inventory of target recipients of their educational offer by launching graduate and postgraduate courses for entrepreneurs, public administration specialists, among others, in the area of recognising large-scale civilisational and cultural development trends as well as opportunities, limitations and needs of individual regions [Kobylarek 2005]. As a result, it becomes progressively more and more difficult to grasp the entire cumulative influence of higher education institutions [Goldstain 2009, Lawton Smith 2006].

The second traditional function of this sector is the production of new knowledge – both easily applied in practice (applied research) that may bring short-term results and theoretical, whose application requires a long-term perspective (fundamental research) [Colyvas et al. 2002, Drucker, Goldstein 2007]. In this area, the role of the research sector involves primarily the establishment of the so-called spin-off companies or new firms founded by university graduates irrespective of university participation [Dahlstrand 1999]. Universities can create a positive climate conducive to entrepreneurship thanks to the combination of various factors that they control, such as access to competent staff, research, positive examples of firms founded by graduates already operating in the environment [Kirchhoff et al. 2002]. This type of impact of scientific institutions on regional environment is confirmed by numerous European and American examples [Hugo et al. 2007, Jones-Evans 1997, Roberts 2009]. The impact of universities on the size and nature of the business sector in their region, apart from stimulating the establishment of new firms, also includes attracting enterprises from outside. The presence of a reputable university may constitute a magnet attracting companies from outside the region [Benko 1993, Westlund 2004]. Institution of higher education as producers of knowledge enter into various interrelationships with the commercial sector [Lawton Smith 2006], which may manifest themselves in various forms and differ with respect to the character and strength of impact [Perkmann, Walsh 2010]. The nature and intensity of cooperation of the commercial sector with the research and development sector depend on a number of factors both on the part of businesses and scientific institutions [cf. e.g. Olechnicka, in press]. For example, research shows that in the case of businesses, crucial factors include the size, sector and level of technical development, whereas the key characteristics of scientific institutions include not only their strategies and reputation, but also the profiles of individual scientists, their professional career paths, age and gender [Bercovitz, Feldman 2006]. A literature review confirms that cooperation exerts a positive impact on innovativeness [Broström, Lööf 2006, Caloghirou et al. 2006, Kaufmann, Tödtling 2001, Vuola 2008].

The production of new knowledge manifests itself not only as technological innovation, i.e. as commercialisation of newly developed products and processes within a university, but also as knowledge transfer. Universities are more and more often perceived as a link between the creators and recipients of knowledge in a given domain. It is assumed that an effective system of knowledge transfer provides a regular supply of innovation to businesses, civic organisations, central and local government institutions as well as individual citizens in a given geographical area. This aim is furthered by e.g. centres of technology transfer or business incubators [Castells, Hall 1994].

More and more often, higher education institutions are perceived in terms of their special regional significance. Functions performed by those institutions in their regional environments are called in literature their 'third role,' apart from education and research. It may manifest itself in a number of ways. The most evident sphere of impact of research and development units in this respect consists in their role as economic entities, i.e. employers paying salaries, purchasers of products and services from local firms and institutions that attract students. Apart from the direct impact of employment, including consumer spending of researchers, lecturers or administrative staff of higher education institutions, there are indirect effects in the form of increased employment in such areas as commerce, construction and child care [Boucher et al. 2003].

Universities often build or modernise their premises, laboratories, research parks and other facilities complete with their requisite infrastructure, including transportation. Such activities trigger various consequences in terms of local spatial planning and may provide developmental stimuli for certain locations [Benneworth, Hospers 2007], especially in the case of new campuses, where entire university departments and faculties are transferred from the city centres. The best known examples include the Adlershof Campus, Humboldt University of Berlin, the Morasko Campus, Adam Mickiewicz University of Poznań [Gaczek 2008] or the commitment of universities to the processes of revitalisation (Biedermann Palace in Lodz, the Warsaw School of Social Psychology) [Nowakowska, Boryczka 2008]. However, the activities of this sector in their spatial dimension may also have negative consequences. As result of such transfers, areas of city centres are deprived of an important element that determines their identity [Drucker, Goldstein 2007]. These changes are closely linked with the necessary changes in infrastructure (e.g. transportation, housing) and the provision of services. Sometimes they also involve various branches of industry that accompany universities (such as technology parks) [Armstrong et al. 1997, Olechnicka, Wojnar 2008].

Apart from purely material relationships that exist between universities and regions, there are also non-material ones. According to some studies, university activities attract highly qualified, creative residents to a certain area, which contributes to its unique local dynamics. Universities attract gifted individuals and work as 'anchors of creativity' attracting the interest of students, researchers and entrepreneurs from other countries [Florida 2004, p. 249, Gertler, Vinodrai 2005]. The institution of university also constitutes a special symbol of education and research with a strong impact on its broader environment. Universities with a worldwide reputation for excellence, such as Oxford or Cambridge, constitute important elements of their regional brand and consequently have a positive impact on its perception not only by students and researchers, but also by business institutions [Power, Malmberg 2008].

Discussion on the changes affecting the functions of the university constitutes an important element of numerous theoretical conceptions, including the area of knowledge production methods, e.g. the conception of the second knowledge production method, the triple helix model and the committed university [Hessels, van Lente 2008], or the networking concept of the process of innovation e.g. as regional innovation systems, an open model of innovation or

the concept of clusters [Olechnicka, Płoszaj 2010]. It must be borne in mind that despite the differences among the above-mentioned approaches, all of them underscore the increasing role of external relations in the system of knowledge production, which, in consequence, recognises the need to open up the scientific sector to the needs of the environments and circles in which it operates and to cooperation with a view to achieving development advantages.

### 1.3. The impact of universities on development in economic theory and empirical research

From the perspective of economics, the impact on the university on socio-economic development results first of all from knowledge production. Economic literature mentions three main ways in which knowledge influences economic growth. The first one, based on the Lucas growth model [Lucas 1988] and on empirical research into labour markets, involves direct influence of knowledge and skills on labour productivity. An individual with a higher human capital potential is more productive, and therefore, earns a higher income. On an aggregated level, a group composed of individuals with a high average level of human capital should earn a high per capita income. To continue this line of thought, increasing human capital resources of a group in a given period of time should translate into an increasing per capita income, other things being equal.

Two other mechanisms of how human capital influences economic growth were introduced and then verified experientially by R. Nelson and E. Phelps, J. Benhabiba and M. Spiegel [Benhabib, Spiegel 1994, Nelson, Phelps 1966]. According to these conceptions, human capital resources affect the combined productivity of factors of productions (A). In models of economic growth, this aspect is traditionally identified with the level of technological development, however, more and more often it is also thought to include the institutional environment of the economy and its other features that influence the efficiency of factors of production. The influence of human capital on A can be explained that, first, substantial knowledge resources facilitate the generation of broadly conceived innovation in a given economy, and second, the promotion of development by 'catching up' (i.e. using ready-made solutions such as importing technology and organisational solutions from more developed countries or regions). This means that factor A, often interpreted as exogenous with respect to individual economies and describing global technological progress, can also be treated as an individual feature of a given region.

Nowadays, a number of researchers work on new theoretical models of growth that include human capital. In recent years, most important achievements in this area constitute the works of L. Hendricks [Hendricks 2002] and R. E. Manuelli and A. Seshadri [Manuelli, Seshadri 2007]. A comprehensive review of the latest models based on the accumulation of human capital was offered by K. Cichy and K. Malaga [Cichy, Malaga 2007]. These authors also propose their own model of the growth that takes into consideration both differences in the supply of human capital and the unequal pace of technological development as reasons explaining differences in the GDP of different economies.

A series of empirical articles verifying the implications of theoretical models of economic growth was initiated by N. Mankiw, D. Romer and P. Weil published in *The American Economic Review* [Mankiw et al. 1992]. They tested in practice Solow's neoclassical model of economic growth and proposed to extend it by including human capital as an additional factor of production.

Research demonstrates that a 10% increase in human capital translates into a 6.7–7.6% GDP per capita growth, depending on the sample. The estimated share of human capital in GDP (parameter  $\beta$  in the Cobb–Douglas production function) amounted to approximately 0.3. A similar value was reached by parameter  $\alpha$ , so the share of physical capital and its impact on GDP was found by the authors to closely reflect the actual state of affairs. It should be remembered that when the model did not take into account human capital, the share of physical capital in GDP was estimated at approximately 50% (average of results of three samples), which was much more than the results of research on the decomposition of GDP in the USA. This fact, according to Mankiw, Romer and Weil, lent considerable credence to the considerable impact of human capital on economic wealth. The next argument was that the new approach that takes human capital into account, explained a considerably larger part of per capita income differences amongst various countries. In the initial equation based on Solow's model, the coefficient of determination  $R^2$  equalled 0.59 for the sample that included all the countries for which relevant statistical data was available (except the oil-producing countries), whereas the inclusion of human capital in the model increased  $R^2$  to 0.78. The original value of  $R^2$  for OECD countries alone was only 0.01, but after the inclusion of human capital it grew to 0.24. Results obtained by Mankiw, Romer and Weil opened up a debate on the role of human capital in GDP and generating growth. This impact (or, at least, its strength) was repeatedly questioned by researchers, who perceived it as a statistical artefact rather than a true causal relationship. The analysis was repeated using more recent, better data sets and methodological modifications. One of the best known analyses was conducted by B. S. Bernanke and R. S. Gürcaynak [Bernanke, Gürcaynak 2001], who repeated the experiment using data for 1960–1995 (the original study was based on data from 1960–1985). In order to ensure better comparability with the old study, the authors applied an identical selection of samples with the same explanatory and explaining variables. Their general conclusions were compatible with observations made by Mankiw, Romer and Weil. The improved Solow's model, which includes the accumulation of human capital, has a better quality than the original one. It explains a considerably larger part of per capita GDP variability among various countries and permits considerably more realistic estimations concerning the share of individual factors of production in GDP. Although the results of the repeated study showed minor deviations from original ones, the most important conclusions formulated by Mankiw, Romer and Weil were upheld.

The basic tool for studying the relationships between human capital and regional development is loglinear growth regression, in which the variables explaining regional development rates are different measures of human capital resources, including, among others, the average duration of school education (school expectancy) and innovative achievements in the area of technology.

J. Temple [Temple 2001] divides growth regressions into two categories. The first one involves models that serve to verify the impact of the initial level of human capital on the economic growth rate in subsequent periods of time. A theoretical rationale for this approach derives from the work by R. Nelson and E. Phelps: "An economy with a high initial level of human capital should develop faster, because, first, it has a greater potential to create its own innovations that increase productivity, and second, it may import outside innovations much more easily" [Nelson, Phelps 1966].

One of the best known works based on the above-discussed general model, is the study by R. Barro [Barro 1999] based on statistical data from about a hundred countries from 1960–1995. Barro proves that increasing the average length of post-primary education by one year translates into an increase in the future economic growth rate of about 0.7%. Additionally, Barro observed that not only the formal education level, but also its quality exert a strong influence on economic development. Introducing as a measure of quality the results of comparable international tests in sciences, Barro demonstrated their huge positive impact on the growth rate. Although as was expected, if the model simultaneously includes both the resources and quality of education, the impact of the former one (measured by the regression coefficient) decreases by about 50%, both factors remain statistically significant determinants of the economic growth rate.

A somewhat less significant, but also meaningful positive influence of human capital resources on the economic growth rate was observed by D. H. C. Chen and C. J. Dahlman [Chen, Dahlman 2004], who carried out a regression test on a sample data from 92 countries for 1960–2000. In their opinion, increasing the average number of years of education (measured for all the levels of education collectively) results in an increased average annual growth rate by about 0.13%.

R. J. Barro and X. Sala-i-Martin [Barro, Sala-i-Martin 2004] used the percentage of children attending primary school as a measure of human capital resources (the study included approximately 100 countries worldwide) and estimated that the value of this indicator in 1960 had a significant positive impact on the economic growth rate in 1965–1995. Particularly, increasing enrolment rate by about 10% was accompanied by increased annual development rate on average by 0.27%.

Certain recent empirical studies emphasise the variety of human capital and suggest that models should include different kinds of knowledge and skills separately, instead of synthetic measures. A. K. Cosar [2011] proves that such an approach reveals a considerably stronger influence of human capital on economic development than is shown by traditional growth regression models.

The other kind of growth regression studied by Temple is based on aspects of dependence between economic growth and changes of human capital resources in a given period of time. Such an approach is directly inspired by the findings of microeconomic research into labour

markets. Among macroeconomic conceptions, a theoretical justification for regression based on the accumulation of human capital can be found in the Lucas model [Lucas 1988], which proves that the contribution of human capital to GDP takes place through direct influence on labour productivity. The growth of human capital resources should, then, be reflected in a simultaneous increase in the economic growth rate.

In comparison with the estimations based on the initial level of education, findings that take into account the accumulation of human capital are less unequivocal. Especially in earlier studies, the relationship between education and economic growth frequently turns out to be statistically insignificant. Sometimes the influence of human capital even appears to be negative.

The best known examples of research denying the influence of human capital on the growth rate are the findings by Benhabib and Spiegel [Benhabib, Spiegel 1994], who carried out a large-scale study on a sample of about 80 countries. As their explained variable they adopted the average economic growth rate in 1965–1985. The resulting coefficient at the variable characterising the increase in the level of the education ( $\beta_2$  from the general formula) equalled  $-0.059$ , whereas the influence of the variable on the growth rate turned out to be statistically insignificant. A similar result was later obtained by A. B. Krueger and M. Lindahl [Krueger, Lindahl 1999] who repeated the study using a more complete data set.

When interpreting their results, Benhabib and Spiegel referred to the theoretical basis of their own model and concluded that the role of human capital in economic development consists first of all in facilitating the production and importation of technology from abroad, rather than directly influencing labour productivity. Such an interpretation of findings, however, raises certain doubts, since it does not explain why the results of micro- and macroeconomic analyses are so different<sup>47</sup>. Many researchers suspect that one reason for this may be the low quality of data used in early comparative studies. Indeed, more recent studies, based on improved data collections, in general prove that changes in human capital resources have a strong impact on the economic growth rate [De la Fuente, Domenech 2006, Ciccone, Papaioannou 2009, Arnold et al. 2011].

#### 1.4. Higher education institutions as centres of social innovation

For centuries, universities have generated and spread new ideas – not only scientific and technical ones, but also those related to culture or the organisation of public life, now called social innovations, whose significance for socio-economic development is more and more often emphasised by researchers [Goldsmith 2010]. Higher education institutions in play two basic roles in the area of social innovation. First, they are sources of new ideas for the organisation of public life, solving problem important for individual societies and refining functions performed by institutions (including the establishment of new institutions). This role of universities is an

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<sup>47</sup> A discussion of hypotheses concerning the anticipated and empirically observed impact of changes in human capital on economic growth can be found in Krueger and Lindahl [1999].



example that shows direct utility of education in the area of humanities and social sciences – domains of learning usually considered as having lesser practical importance than science and technology. Significant, critical social innovations, such as technological breakthroughs, by definition appear quite seldom. That is why the most important role played by higher education institutions with reference to social innovations is their dissemination, and that is why they are sometimes called ‘agents of change.’ [Janiunaite, Gudaityte 2006]. The importance of higher education institutions in this area results first of all from their educational function. To a large extent, they shape elites in society, which, in turn, exert actual influence on the socio-economic reality of individual countries. Moreover, higher education institutions also disseminate social innovation, because their staff often perform important advisory functions for government, non-government and business institutions.

## 2. The third role of the university: An institution promoting regional development

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### 2.1. The main aspects and ways of measuring them

The traditional approach to estimating the extent of impact of universities on their regions focussed mainly on their direct expenses and investment. Subsequently, studies in this field included a number of other fields of analysis, such as the creation of human capital and inducing migrations on the regional level. The latest research directions focus on knowledge infrastructure, technological innovation and technology transfer from universities to the industry [Drucker, Goldstein 2007, Martinelli et al. 2008, Salter, Martin 2001]. Owing to methodological difficulties, little research so far has been devoted to the issues of social, cultural and political aspects of impact of universities [Godin, Doré 2005].

At present, considering the emphasis on the development of innovation and the need for intensification of knowledge transfer from the science sector, researchers and politicians focus on the issue of cooperation between the science and business sectors [Dosi et al. 2006, Polt et al. 2001]. Instruments used to measure innovation data in this area are defined in the Oslo Manual [OECD 2005], and the literature supplies a number of different approaches to this issue.

Measurements of cooperation between universities and firms may be subsumed under two headings: end user-pulled commercialisation and science-pushed commercialisation [Gulbrandsen, Slipersæter 2007, p. 121]. Authors of this classification point out that the tendencies in the use of these two groups of indicators will be subject to change. At the moment, user-initiated commercialisation indicators are more popular owing to accessibility of data sources. These comprise first of all:

- income from research commissioned by the industry sector,
- co-authorship of university publications with the industry sector,
- consultancy services,



- confidential studies for the industry sector,
- exchange of graduates with the industry sector.

The tendencies observed so far in the area of knowledge transfer between the science and industry sectors – which consist in setting up technology transfer centres, awarding scholarships and development of programmes to foster entrepreneurship and to introduce legislative changes in the area of intellectual property rights – may result in a gradual transfer of focus, in the case of measuring interaction between science and industry from user-pulled commercialisation indicators to science-pushed ones. To that end, the following indicators are used:

- number of patent applications submitted and patents granted to a research institution or its staff,
- income from licence fees,
- establishment of spin-off entities by the university or its staff,
- presence of institutions supporting commercialisation,
- existence of formalised regulations governing the division of income from the commercialisation of research results,
- provision of academic courses in entrepreneurship.

The division into two categories of measurements depending on the entity that initiates co-operation aimed at commercialisation is somewhat hazy. Some examples of activities in the area of commercialisation of knowledge are initiated simultaneously by the science sector and the end users of its products. Hence, there exists a third group of measurements that may include the number of quotations from academic journals in patents, publications in special areas of interest to the business sector or the degree of staff mobility between the spheres of science and business [Gulbrandsen, Slipersæter 2007].

Researchers agree that the activities of higher education institutions bring most advantages to the local environment if they involve themselves in the socio-economic development of the region in a number of dimensions simultaneously, not limiting their own relationships with the environment to contacts with firms, however profitable they may be. Such an impact may adopt softer forms and involve not only technical faculties of universities directly associated with the development of novel products and processes, but also departments of social studies and humanities. Proponents of such a holistic approach indicate that economic processes (particularly those based on innovation) are characterised by complexity, with universities playing the part of a catalyst rather than the driving force and may in many areas stimulate this process, even though it may not be fully compatible with their general perception as 'knowledge factories' [cf. e.g. Bramwell, Wolfe 2008].

An interest in research into achievements of universities in their so-called 'third role' influences the ways of their evaluation. Not only products of the sector are subject to evaluation, but also their outcomes and impacts, although this is more difficult and decidedly more subjective [Schneider 2009]. The so-called social quality of research is measured e.g. through case studies involving research with potential considerable impact on the natural environment (Australian Research Quality and Accessibility Framework) or on the basis of researcher self-

assessment surveys (Dutch Evaluating Research in Context, British RAND/ARC Impact Scoring System) [Grant et al. 2009]. An especially interesting example in this respect is provided by the Netherlands, whose evaluation of academic research comprises, apart from the quality of findings, productivity and management quality, also social relevance understood as social utility of research (such as the way in which research groups cooperate with stakeholders), social impact of research (e.g. research leading to the adoption of new laws and regulations) and commercialisation of research (e.g. the application of research to newly developed products and processes). Priority assigned to this problem area led to the initiation of a nationwide project ERiC ([www.eric-project.nl](http://www.eric-project.nl)) whose mission is to raise the awareness of researchers in this respect, develop methods and disseminate information [ERiC 2010]. In the same spirit, within the framework of 7th EU Framework Programme researchers from The Netherlands, Spain, United Kingdom and France implement a project titled SIAMPI (Social Impact Assessment Methods). The project's aim is to develop on the basis of case studies from these countries, methods for measuring the social impact of scientific research in several domains: nanotechnology, health, teleinformation technology, social sciences and humanities ([www.siampi.eu](http://www.siampi.eu)).

### 3. The main barriers to cooperation between universities and the business sector in Poland

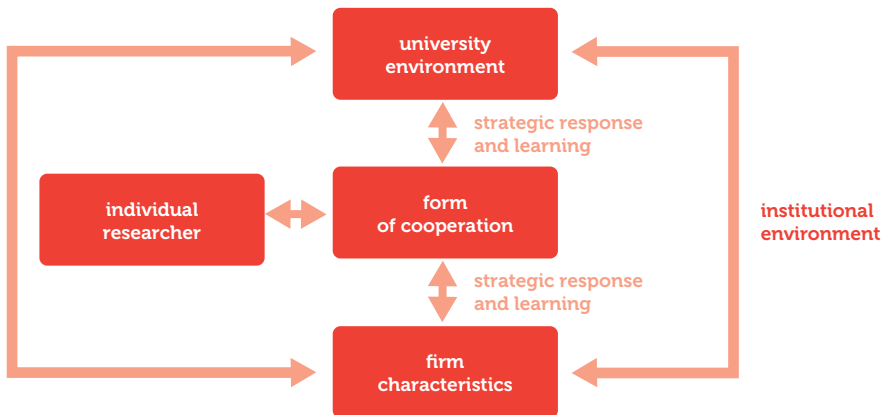
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The necessary condition for cooperation between a firm and its scientific partner is the existence of mutual advantages. This is not easy, because both sectors are different. Barriers to cooperation between researchers and businesses have been quite well recognised and are thought to be rooted mainly in the different aims of operation of both cooperating sectors, in the nature of their respective activities, cultural, legal and organisational conditions and problems with mutual communication [Santarek 2008]. A lot depends on the motivation and conditions in which the institution of the science sector operate and on the personal qualities of researchers themselves. In the case of research institutions, important features include their strategies, employment and promotion policies as well as their presence in national and worldwide rankings, whereas scientists tend to be characterised by their professional recognition, research interests, age and gender [Bercovitz, Feldman 2006]. Cooperation of the science sector with industry positively affects the results and quality of research, despite problems resulting from the so-called classified effect and complementarity [Krimsky 2006, Perkmann, Walsh 2010].

Interactions between higher education institutions and firms adopt various forms, which may involve both commercialisation of solutions and free of charge knowledge transfer [Bercovitz, Feldman 2006]. The choice of the form of cooperation between the researcher and the practitioner results from a combination of institutional factors and motivation of both parties (cf. Fig. 2). Certain kinds of cooperation develop in particular where the entities are located in close proximity to one another, e.g. spin-off firms. Proximity also favours informal bonds, which not only unite cooperating partners more strongly, but also constitute a good point of departure for more institutionalised forms of cooperation. The location of firms close to uni-

versities does not constitute a sufficient condition for cooperation, especially if the intended effect is increased innovation. On the one hand, proximity in space is important, because it promotes an exchange of hidden knowledge and facilitates interpretation of codified knowledge. On the other hand, activities undertaken jointly with more distant partners facilitate access to new knowledge and favour more radical innovations [cf. Olechnicka, in press]. In extreme cases, focusing cooperation exclusively on the closest partners may have a negative effect on innovativeness [Boschma 2005, Gaczek 2009].

Fig. 2. Factors that influence university–industry relationships



Source: Based on Bercovitz, Feldman 2006.

The case of insufficient cooperation of Polish enterprises with the science sector is widely commented on in the literature [Łapiński 2010, Matusiak, Guliński 2010, Santarek 2008, Starczewska-Krzysztozek 2008]. It has been diagnosed on the basis of research into innovative activities of firms conducted as part of the European Community Innovation Survey (CIS). The small scale of cooperation of universities with the business sector is confirmed by observations that the role of higher education institutions as sources of information for innovation is limited, the existence of few formal cooperation contracts between the parties concerned, an irregular pattern of research and development spending dominated by public funds [GUS 2010]. A further proof is also the relative scarcity of private-and-public publications [IUS 2011, UIRCS 2011]. Qualitative analyses conducted both in companies and in research and development units point to a number of limitations in the area of mutual cooperation between these two sectors. Good examples include the results of surveys commissioned by the Ministry of Science and Higher Education on the barriers to cooperation of the business and science sectors (MNIŚW 2006), analyses performed within the framework of Regional Innovation Strategies (Regionalne Strategie Innowacyjne) and their updated versions [Gorzelak et al. 2006], surveys of firms that cooperate on joint publications with university researchers in the Web of Science database and those participating in the 6th EU Framework Programme [Olechnicka, in press].

The Polish Agency for Enterprise Development (Polska Agencja Rozwoju Przedsiębiorczości – PARP) commissioned a survey which resulted in a catalogue of limitations and obstacles that constrain effective knowledge transfer and commercialisation in Poland, thus blocking cooperation between scientific institutions and firms as well as broadly conceived innovative entrepreneurship [Matusiak, Guliński 2010b]. Review of the literature, panel discussions and consultancy meetings in business environment institutions allowed researchers to identify four characteristic groups of barriers: structural, systemic, related to culture and awareness, and competencies. Structural barriers include, in particular, excessive formalisation and bureaucratisation of mechanisms intended to support the cooperation between the science and the business sectors as well as irregularities in access to European Union funds and their use. The main targets of criticism in this area are the discrepancies between programme objectives and proposed instruments of support, as well as unsatisfactory support of academic entrepreneurship. A number of barriers are due to insufficient structural changes implemented by universities, especially their reluctance to adapt to the dynamically changing economic environment in the area of commercial opportunities. Higher education institutions tend to focus their activities on teaching and earn their income thanks to the current boom in education, not to their entrepreneurial activity. The situation is further complicated by the occurrence of an academic grey market that consists in the use resources of innovation-producing universities for private ends. An additional problem that unfavourably influences cooperation with industry is the extraordinary scarcity of firms interested in financing research conducted by the science sector. This results mainly from the imitative character of innovation in the Polish business sector. The fact that the market is dominated by small and medium-sized enterprises results in lack of mutual understanding between science and industry. Firms expect greater flexibility and faster response. Other barriers concern innovation support institutions, which are inappropriately positioned within university structures, ineffective, and, to make matters worse, their actions often remain uncoordinated. Authors indicate that some structural barriers are rooted in the lack of strategies, lack of policies and poor performance of regional economic growth centres.

Systemic barriers to cooperation include elements that directly ensue from current legal regulations and policies in the areas of supporting innovation and entrepreneurship. Authors of the report point out “on the one hand, an excessive number of legal acts and overregulation, and on the other hand, the lack of regulations that respond to current challenges of the times and the changing economy that would stimulate the research sector and the economy as a whole to develop in an innovative manner.” In particular, the report emphasises the inadequacy of regulations in the area of spin-off firms and tax liabilities incurred by virtue of transfer of non-material goods from the science sector to the economy hinders the development of academic entrepreneurship. Within university structures, another barrier is posed by the principles of evaluation of research staff, which causes pressure for publications and limits patenting efforts. Cooperation with the business sector is also hampered by the fact that compensation of university staff depends primarily on their obligatory teaching load, by the requirement to obtain successive degrees within specified timeframes and unclear rules governing the protection intellectual property rights. Additionally, from the students’ point of view, the rigidity

of curricula within individual departments and faculties impedes entrepreneurial initiatives among students and hampers their creativity.

Barriers related to cultural background and awareness involve insufficient dissemination of knowledge about processes and unsatisfactory levels of their acceptance and understanding. Both entrepreneurs and higher education institutions are characterised by stereotypical images about their respective work and attitudes. On the one hand, entrepreneurs perceive the world of science as a self-contained one, interested exclusively in conducting fundamental research. They accuse higher education institutions of bureaucratisation and the lack of organisational preparation for cooperation with businesses. On the other hand, some academics criticise cooperation with the business sector as incompatible with the ethos of the scientist. Overcoming this barrier is difficult in consideration of the low level of social trust and the lack of public acceptance for innovative attitudes in Poland. The lack of mutual trust is compounded by the lack of awareness of cooperation opportunities and insufficient dissemination of positive models and good practices in this area. Activities of regional authorities aimed at overcoming these barriers must be judged as unsatisfactory.

Barriers related to competencies include poor skills and unsatisfactory performance of participants in the system of innovation in the area of implementation and management of innovative processes. Authors of the report summarise the sources of identified barriers in this area in the following way: "Local government units, university authorities and administration, start-up entrepreneurs (and not only) are incompetent. A lot of examples of incompetence can also be found amongst the staff and management of supporting institutions. The issues of public assistance, problems of intellectual property rights and new streams of financial support often exceed the competencies of Innovation Centres."

#### 4. The main barriers to cooperation between universities and public authorities in Poland

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The cooperation of universities with public authorities is a seldom analysed area, especially if we compare it with the widely discussed cooperation of universities and the business sector, or, to be more accurate, the factors that constrain such cooperation (cf. subsection 4.2). Without doubt, universities constitute a natural reservoir of know-how, which can be crucial for the efficient formulation and implementation of policies or the broadly conceived functioning of public administration, especially in the context of increasing significance of evidence-based public policies [PPA 2002; Yanow 2007]. However, public authorities do not seem to be able to fully tap the potential of Polish universities. To a certain extent, it may be due to the lack of suitable competencies at universities in the area of certain issues crucial for public authorities.

Barriers to cooperation between universities and public authorities appear on both sides and tend to be complex in nature. Technical, procedural and organisational issues overlap with cultural and even outright psychological aspects such as limited trust between partners.

A standard explanation for the lack of openness of researches to cooperation with their external environment is the primacy of theoretical, purely scientific pursuits over applied solutions. It seems that regardless of circumstances, this factor will always have a certain impact on the issue at hand. This does not have to be a decidedly negative phenomenon – not every scientist has to be able to work with business or public authorities. From the perspective of the public interest, it is important to ensure productive cooperation amongst those entities that want or must cooperate. In this instance, one may list a number of obstacles that make it difficult for universities to work together with public authorities. On the part of the university, the elementary obstacle seems to involve complex, long-lasting procedures. They result both from ineffective organisational structures, insufficient management skills and, simply, shortage of staff and competencies (caused by the fact that working in university administration structures is not financially attractive) as well as legal regulations beyond the control of the university (e.g. Public Procurement Law, laws and lower-order regulations governing the operation of public higher education institutions etc.).

These difficulties cause that university staff are often hired by public authorities as freelance experts, without involving university structures. Such cooperation consists, first of all, in fairly straightforward activities (expert opinions, evaluations, participation in advisory bodies). For example, a single expert is not in a position to perform a large research project that requires greater outlays in terms of labour and an appropriate technical powerbase. Such projects, especially applied ones (e.g. evaluations of policies, programmes and projects) are executed primarily by consultancy firms, which often hire university staff as experts working on individual projects. From the point of view of public administration, this can be viewed as a positive development. Unfortunately, this happens to the prejudice of universities as institutions. Although researchers gain new expertise and new competencies, which contributes to increasing the intellectual capital of their universities, higher education institutions lose numerous opportunities to supplement their income, often in a meaningful way.

It also appears that a serious obstacle to the cooperation of public authorities with universities is the superficiality of demand for expert knowledge on the part of public administration. Clerical staff need the backing of a scientific authority for decisions that they make, but they treat this support in an instrumental way, as a formal confirmation of having done the right thing irrespective of the opinion of scientists. The practice of commissioning research by public administration (except for strictly scientific competitions and contests financed by the state budget) often reveals the lack of concern on the part of the commissioning parties for the quality of results and recommendations. Common problems include:

- competitions and design contests concerning complicated matters that require in-depth research contain deadlines that preclude a serious treatment of the task (e.g. 60 days),
- the lowest price as the main criterion for the choice of offers, when the submitted proposals differ considerably with respect to the suggested research method and quality of research teams,
- automatic application of solutions used in tenders for standard, regularly ordered deliveries (e.g. office supplies) to contests in the area of scientific research,
- preference of one-off projects, lack of long-term cooperation with selected entities.

The above and other similar negative aspects of cooperation between universities and public administration cause the experts who occasionally work for the latter to treat such undertakings as marginal activities, which are profitable, but not demanding in terms of methodology. Such a formula of cooperation prevents public administration from making the best use of research findings, so it does not get quality products. This results in a state of equilibrium that is deeply demoralising to both sides, in which considerable public resources are spent on simulated cooperation between public authorities and the science sector without long-lasting benefits to either side.

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## 5. Closing remarks

### 5.1. Potential of the science sector (education, research, the third role)

Poland's higher education sector is of crucial importance for the domestic research potential and constitutes an important addition to research institutes (Polish Academy of Sciences) and research-and-development centres (especially in the context of a weak business sector, which seldom gets involved in research activities). However, especially as compared with better-developed countries, the research potential of Polish universities, on the whole, is absolutely unsatisfactory. At present, only a handful of best Polish universities may try to compete worldwide in the area of research and development, but probably not in the first division.

The greatest problem is posed by the so-called third role in that universities still cannot sufficiently commercialise the knowledge that they have produced. Cooperation with firms is insufficient, as are the soft forms of university commitment to social and economic development of their regions. The potential of Polish universities in this respect remains largely untapped.

### 5.2. Barriers (education, research, the third role)

The main obstacle to the intensification of research activities at Polish universities is posed first of all by limited funding. Many years of insufficient outlays have also led to the emergence or strengthened other barriers that affect primarily the human capital of universities. After 1989, the total number of students increased fivefold, while the number of academic staff increased only by about 60%. Furthermore, academic teachers are mainly preoccupied with education, not with research. It also appears that the barrier of underfunding research has not been removed by available EU interventions. The main reason is that they first address their educational function, and to a more limited extent, the research function. Low salaries of academic staff in conjunction with the pathological phenomenon of multiple job holding, practically make it impossible to either teach effectively or conduct scientific research on a par with international leaders in this field.

The barriers that affect the system of knowledge transfer and commercialisation in Poland, which result in blocking cooperation between scientific institutions and businesses as well



as broadly conceived innovative entrepreneurship, are structural, systemic, related to culture and awareness and competencies. The most important ones include those arising from legal regulations, directives and policies in the area of supporting innovation and entrepreneurship. Equally important are the barriers that result from insufficient dissemination of knowledge concerning the relationships between universities and businesses or their unsatisfactory interpretation. It is hard to overcome this barrier due to the lack of relevant knowledge concerning ways to develop and promote the third role of universities in the higher education institutions themselves, local governments and institutions that support innovation.

### 5.3. Costs (education, research, the third role)

At present, financial problems constitute a characteristic feature of almost the entire education system. In Poland, not only the resources available for financing research are scarce, but also at least some of them are spent inefficiently. This observation pertains first of all to the bloated administrative procedures enforced by regulations and directives as well as the internal organisation of individual universities and their subdivisions (departments, faculties, institutes). Streamlining of organisational structures and management processes will doubtless contribute to a more effective use of limited resources.

European funds available within the framework of national programmes must be considered a wasted opportunity in this respect. Projects financed from this source are extremely bureaucratised and generate costs that cannot be warranted by the anticipated and actual project outcomes. Possible changes should involve simplification of project execution procedures in the area of organisation, administration and supervision, moreover, they should stimulate the achievement of valuable outcomes, not ensuring that funds have been spent correctly, as is the case now.

In the area of teaching, the present mode of financing universities raises doubts as regards its efficiency and equity. The costs of maintaining the system are borne to a disproportionate extent by people with a low socio-economic status. Despite the political sensitivity of the issue, it seems that in the future it will be necessary to introduce universal tuition fees for students in combination with an effective system of scholarships and student loans (to offer better support for low-income groups of students).

### 5.4. Opportunities (education, research, the third role)

The most important opportunity in the area of research activities conducted by higher education institutions in Poland appears to be the younger generation of research staff, who enjoy much greater opportunities of international cooperation, research internships abroad and participation in international projects than previous generations. In this way, they may find out not only about cutting edge research in a given field of study, but also with how research work is organised, how to obtain funding or how to successfully cooperate with the business sector. It seems necessary both to institute competition for funds and employment of university staff as well as increase outlays. The present reforms follow the above-mentioned



suggestions, but do not ensure sufficient increases of funding. Yet it is certain that stimulating competition without allocating extra funds to the sector will not bring about the expected outcomes regarding the improvement in the quality of research in Poland.

Next, it is necessary to stimulate the demand of firms for university products, which will provide funding for economically useful research. It requires not only disseminating knowledge about the educational offer of universities and changing the attitudes of scientists regarding cooperation with the business sector, but also (or first of all) a reorientation of business strategies towards competing by innovation, which seems to be more of a long-term mission. New institutional solutions in higher education and research system, changes in the area of organisation and management of universities and, indirectly, new ways to evaluate research institutions are likely to strengthen the third role of universities. The impact of the proposed reforms is likely to be stronger when aided by comprehensive activities promoting the creativity of society as a whole, including education.

The present system of financing higher education, which consists in the existence of parallel programmes financed exclusively from taxes and those paid for by the tuition fees, appears to be ineffective. It is advisable to opt for a more uniform system of financing, which would be more equitable as regards the division of financial burdens and more stimulating both for students and universities. International experience suggests that the best solution would be to introduce a universal tuition fee for higher education as well as effective scholarships and student loans systems to offer equal opportunities of access to higher education to individuals from different backgrounds.

### 5.5. Proposed areas of change

Autonomy, ingenuity and receptiveness to new ideas, entrepreneurship and practice, ethics and transparency and a policy of fostering aspirations constitute especially desirable features of Poland's higher education system, which are supposed to be disseminated thanks to the reforms implemented by the Ministry of Science and Higher Education. The most important objectives are to improve the quality of research and teaching, to ensure an effective system of financing and openness to the world [Kronika MNiSW 2010]. The reform process is also intended "to build an effective channel of communication between science and the economy" and it contains several specific provisions to that effect [MNiSW 2011, p. 10].

First, the third role of universities will be strengthened by the institutional solutions related, among other things, to the acquisition of new competencies and availability of new funding to the National Centre for Research and Development 2007 (Narodowe Centrum Badań i Rozwoju – NCBiR) established in. In accordance with the new regulations, the NCBiR will allocate resources for applied research while simultaneously supporting commercialisation of knowledge and various forms of knowledge transfer to the economy (National Centre for Research and Development Act, Journal of Laws of the Republic of Poland no 96, item 616). Responsibilities of the Centre include first of all encouraging entrepreneurs to finance

research-and-development activities since their financing from the state budget will depend on co-financing obtained from private sources. The NCBiR is supposed to promote research programmes that guarantee rapid implementation of results. In order to ensure greater flexibility of financing, a division into targeted and developmental projects was introduced. At the same time, research-and-development institutions are undergoing restructuring with a view to improving their efficiency of operation. The transformation of units deemed ineffective on the basis of external evaluation (by way of liquidation, commercialisation or merger) is supposed to lead to a new system of institutions oriented towards a speedy and effective practical application of research results, technology transfer and improved overall level of innovation in the economy [MNiSW 2011].

Second, the influence of universities on their environment will be strengthened by organisational and management changes. Recognising that scientific institutions should serve their local and regional environments, new legal regulations permit employers to have a say in the syllabi, their implementation and evaluation. The participation of representatives of business circles in university councils is meant to ensure easier and quicker adaptation of faculties and departments to the needs of the changing economic reality, including the needs of the labour market. New solutions were also introduced in the area of managing university intellectual property rights and commercialisation of their resources. To that end, university senates must prepare and adopt regulations governing the protection of intellectual property and principles of commercialisation of research, including model contracts that define the rules and degrees of disclosure, distribution of costs and profits complete with executory provisions. These regulations shall apply to university staff, postgraduates and students in equal measures. In order to commercialise research through spin-off firms, commercial law companies and partnerships will be established in order to manage the shares of spin-off firms and their entire industrial property (including patents, industrial designs and licences). Higher education institutions are also supposed to develop more open-minded attitudes in their graduates. To that end, the new National Qualifications Framework (Krajowe Ramy Kwalifikacji) are being developed to describe the level of knowledge and skills of graduates more adequately, including the so-called soft skills – social skills connected with teamwork and entrepreneurship [MNiSW 2011].

Third, the research and scientific potential of universities that determines their power of impact on their socio-economic environment, will be strengthened by a number of solutions in the area of evaluation of scientific institutions (in order to determine the level of funding available to them). The reform process financially favours centres that pursue applied research and carry out projects that translate directly into economic development of Poland. It is assumed that if cooperation between the science and the business sectors is expressly rewarded, the institutions themselves will be interested in contracting with enterprises, in generating income from patents and commercialisation, the sale of licences etc. A crucial element of the reform process are the National Centres of Scientific Excellence (Krajowe Naukowe Ośrodki Wiodące – KNOW), which will be chosen based on the opinion of independent experts. KNOWs will be selected by competition open to those departments, faculties, institutes or consortia and research centres that not only rank highest in research, are authorised to award degrees, offer

doctoral courses, but also excel in cooperation with the business sector. Evaluations will be based on institutional achievements, research plans and professional development opportunities for junior staff members. The best scientific centres will receive the highest level of funding (a quality-stimulating grant of 230 million zloty in 2012). An important part in this respect will be played by the Committee for the Evaluation of Scientific Units (Komitet Ewaluacji Jednostek Naukowych) composed of thirty members, including ten proposed by social and economic circles with a proven track record in the area of innovation. The comprehensive quality rating of scientific and research-and-development activities of scientific units will also include the impact of a given unit on nationwide innovation (Funding Science Act, Journal of Laws of the Republic of Poland no 96, item 615).

The reforms are bound to change the existing system of higher education into a more desirable structure, more open to contacts with the outside world, which is confirmed, among other things, by a positive opinion of the European Commission about the direction of reforms implemented in Poland [Rybicka 2011]. However, this does not alter the fact that the proposed changes have already provoked numerous controversies in academic circles. In particular, these controversies concern the ways of evaluating and financing universities. There are also critical opinions concerning the planned intensification of cooperation between science and the economy, commercialisation of knowledge and a greater opening of science to the environment, although these are relatively rare. The main charge appears to be too much emphasis on commercialisation of science. Sceptical commentators claim that the main thrust of the reform may lead to researchers focusing exclusively on economic results at the expense of fundamental research, which may have catastrophic civilisational consequences [cf. e.g. Nalaskowski 2011]. Negative consequences are also mentioned in the context of multiple job holding and the commercialisation of knowledge. The obligation to obtain university rector's consent to engage in extra work means that the originator of a novel solution may not be permitted to manage a company established for the purpose of implementing his invention or be its full-time employee. Critics complain that such a solution is especially off-putting for junior research staff [Matusiak, Guliński 2010]. Moreover, systemic changes in the area of higher education and science should be accompanied by similar actions in other sectors, particularly those aimed at supporting the creativity of society as a whole [Bendyk 2010], including entrepreneurship, at lower levels of education [Gulda 2010, Zienkowski 2004].

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## Part III



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# Model Solutions in the Area of Cooperation of Regional and Local Authorities with their Civic Partners

## Introduction

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Effectiveness of public administration and its image depend to an increasing extent on its capacity to cooperate with other stakeholders in public life. The level of complexity of contemporary economic and social processes demands not only occasional access to experience and knowledge of other participants in public life (classic examples include commissioning thematic analyses or conducting public consultations as provided by relevant regulations), but also the capacity for continuous, institutional cooperation often based on partnerships (or at least rejecting patronising attitudes in mutual contacts). In the area of social economy, the group of potential entities, organisations and individuals who can play an active role in such cooperation is quite extensive. Such entities, at least those ready to cooperate with regional and local administration include: academic centres, non-governmental organisations and relevant representatives of the social economy sector.

In this chapter, we present three selected examples of such cooperation in the form of case studies identifying good solutions in the area of cooperation of regional and local authorities with:

1. Non-Governmental organisations:

The selected example involves an approach and organisation of cooperation between local authorities and non-governmental organisations and more broadly, with the civic sector in Dąbrowa Górnicza. The main focus of the analysis is Partnerstwo Wspólnie dla Miasta (Together for the City Partnership), where some of the solutions were introduced ahead of nationwide legal regulations.

**2. Social economy entities:**

In this group of cooperating entities, in the authors' opinion special attention should be paid to the Malopolska Fund for Social Economy – a foundation offering financial guarantees to entities and individuals operating in the social economy sector, which solves the problem of collaterals for subsidies granted by public administration.

**3. Universities:**

The case study presented here concerns the cooperation of Cracow University of Economics with public administration (central government and municipal government agencies) whose essential and measurable determinants, apart from traditional academic activity, also include specific implementation and practical actions.

When selecting examples of good practices for inclusion in this publication, the authors used such criteria as actual impact of these solutions on policy formulation and execution of public mandates, the presence of social innovation and sustainability of cooperation.

## **1. Cooperation of regional and local authorities with non-governmental organisations**

### **Background**

This case study focuses on an intersectoral partnership among the Dąbrowa Górnicza District, non-governmental organisations and residents in the area. This partnership, founded under the name of Wspólnie dla Miasta (Together for the City), constitutes a response to the growing needs for consolidation, integration of entities operating in different sectors, as well as joint efforts for the socio-economic development of Dąbrowa Górnicza. A detailed description of the solution follows below.

### **Case identification**

#### **Category of cooperating institution**

The public-civic partnership Wspólnie dla Miasta was founded by the association of non-governmental organisations (Dąbrowskie Forum Organizacji Pozarządowych – the Dąbrowa Forum of Non-Governmental Organisations) composed of 48 organisations, and the local government unit, the Municipal Office of Dąbrowa Górnicza.

#### **Entity initiating cooperation**

Cooperation was initiated by the Dąbrowa Górnicza Municipal Office.

#### **Geographical area of operation**

The partnership was founded by entities and organisations operating in the city of Dąbrowa Górnicza and includes the entire locality.

**Practice specification**

The activities are geared towards developing an effective formula for cooperation among public, private and non-governmental organisations in the interest of development of Dąbrowa Górnicza. In other words, the public-civic partnership undertakes joint activities for the benefit of the city.

The general objective of the undertaking is to support the social economy sector in Dąbrowa Górnicza through joint intersectoral action. Indirect aims include improving access to employment of individuals threatened with social exclusion and the development of the social economy sector. Detailed goals consist in supporting the mainstream of social policy in the Silesian subregion by the inclusion of previously devised and described models in support of social development such as e.g.: the coach of supported employment, development of tools for social employment etc. One of the goals also focuses on the dissemination of products of the undertaking among institutions helping persons threatened with social exclusion. The first stage of the undertaking is financed from the ESF. The experiences will serve to develop a model with a view to improving the quality of management and providing support to initiatives in the area of social economy in the subregion.

The overriding objective appears thus to commit the residents of Dąbrowa Górnicza to the development of their own local community by creating an attractive environment for civic activity and the development of the third sector.

In order to ensure that these initiatives operate in a favourable environment, it is necessary to execute a number of tasks in the area of consultancy, inspiration, education and integration of representatives of the third sector, local government, businesses and other local entities to stimulate them to act effectively for the sake of the local social economy system.

**Identification of the social innovation**

The social innovation consists in the inclusion of the third sector in activities for which a single unit of the public finance sector has been responsible so far. Non-Governmental organisations were included as a link in the decision-making process in matters of social development by jointly working out solutions in the area of pro-social initiatives. The possibility to contract for the execution of public mandates with the third-sector organisations, which will be an active agent of social public policy responsible for the interests of the community at large appears to be the right direction, which should gain more prominence. Another innovative element consists in the fact that the innovative solutions described above had been introduced before nationwide legal regulations in this area were adopted.

**Basis for cooperation**

The initiative is pursued on the strength of an agreement to the programme of intersectoral cooperation in the interest of development of Dąbrowa Górnicza. Accession to the programme was voluntary. The partnership statute defines the rights and responsibilities of each partner mentioned by name in the partnership document. The partnership programme together

with its statute was adopted as a resolution of the Dąbrowa Górnicza Municipal Council and constitutes the basis for the operation and the achievement of specific outcomes. The first legal act, on which the partnership is based is Resolution no. XXI/341/07 of the Dąbrowa Górnicza Municipal Council of 19 December, 2007 regarding the adoption of the Civic Society Development Programme in Dąbrowa Górnicza for 2008–2013, PARTNERSTWO WSPÓLNIE DLA MIASTA.

### **Mechanism of cooperation**

The programme for intersectoral cooperation for the development of Dąbrowa Górnicza works towards its objectives through three collegial bodies appointed with a view to implementing specific pro-social undertakings:

- Dąbrowskie Forum Organizacji Pozarządowych (the Dąbrowa Forum of Non-Governmental organisations),
- Rada Pożytku Publicznego Miasta Dąbrowa Górnicza (the Public Benefit Council of the City of Dąbrowa Górnicza),
- Biuro Organizacji Pozarządowych (the Office of Non-Governmental Organisations) and Inkubator Społecznej Przedsiębiorczości (Social Entrepreneurship Incubator).

The basic unit that constitutes the driving force in the area of social economy is the Office of Non-Governmental Organisations within the Dąbrowa Górnicza Municipal Office. The principal idea motivating its activities is the channelling of energy and ideas latent in non-governmental organisations, to increase the momentum of their initiatives and encourage joint actions. To that end, the Office acts especially through two designated cells. The first one is the Thematic Consultancy Centre, which models its operation on standards of non-governmental organisation incubators. In practice, it means that non-governmental organisations from Dąbrowa Górnicza can take advantage of specialist consultations. After an interview and a needs analysis, the organisation seeking assistance is referred to an appropriate cycle of training. The next component of social economy infrastructure of Dąbrowa Górnicza is the Local Partnership Centre (Ośrodek Partnerstwa Lokalnego – OPAL). It stimulates cooperation among non-governmental organisations, public administration and the business sector for the purpose of joint undertakings.

### **Case description**

Dąbrowa Górnicza is a city whose architecture and functions resemble those of other mining towns of Upper Silesia. Since 1989, it has been undergoing a multidimensional, functional transformation. The city divides into two major parts respectively called by municipal authorities the 'green neighbourhood' with a lot of recreational areas, parks, hunting grounds and pro-ecological areas, and the 'urban part' characterised by compact, high-density housing stock, residential space, services and office space. This division is reflected in the profiles of non-governmental organisations. In the green districts they include voluntary fire brigades, hunting clubs, a beekeepers' association, football clubs, circles of country housewives, angling circles as well as yachting and windsurfing clubs. In urban areas, they mainly involve asso-

ciations and foundations working in the area of art and culture, ecology and the protection of wildlife, recreation and sport, social security, prevention activities for addictions, health promotion, protection of population and crisis management, education, support of people with disabilities etc.

The partnership, comprising legal persons who belong to different sectors, operates on the basis of a Programme for Intersectoral Cooperation. The programme was developed as part of a project executed by the Stowarzyszenie Zielone Zagłębie (the Green Basin Association) called Together for the City. The programme supplements one of the five priorities of the Dąbrowa Górnicza Development Strategy 2020 – Integration of Local Communities. The programme was adopted in December 2007 by the City Council. The programme determines the relationship between the third sector and Municipal Office in Dąbrowa Górnicza for six years.

As was mentioned above, the Dąbrowa Model of Cooperation is based on:

- Dąbrowskie Forum Organizacji Pozarządowych (the Dąbrowa Forum of Non-Governmental organisations),
  - Rada Pożytku Publicznego Miasta Dąbrowa Górnicza (the Public Benefit Council of the City of Dąbrowa Górnicza),
  - Biuro Organizacji Pozarządowych (the Office of Non-Governmental Organisations) and Inkubator Społecznej Przedsiębiorczości (Social Entrepreneurship Incubator).
1. The Dąbrowa Forum of Non-Governmental Organisations (DFOP) is a voluntary and apolitical agreement of 48 autonomous non-governmental organisations with equal status. The DFOP operates on the basis of its regulations. The main objective of the DFOP is to develop a joint position of the entire non-governmental organisation and to democratically elect five representatives, the so-called DFOP Presidium.
  2. The Public Benefit Council of the City of Dąbrowa Górnicza is a consultative and supporting body for the President of the City of Dąbrowa Górnicza in the area of public benefit activities and cooperation of public administration with non-governmental organisations. In the cooperation system, it plays the role of a forum for reaching agreements between public administration and non-governmental organisations – members of DFOP.
  3. The Office of Non-Governmental Organisations (BOP) operates as an independent division of Municipal Office directly subordinated to its Secretary. The BOP is a key element of the system that stimulates cooperation and acts as a link between the non-governmental organisations and public administration. The BOP also cooperates with regional and nationwide infrastructure organisations and with other local governments, which implement active support policies for the third sector.

The Social Entrepreneurship Incubator operates as a specialised unit of the Office of Non-Governmental Organisations. It is financed with European Union funds under the framework of a partnership project of Municipal Offices in Dąbrowa Górnicza, Gliwice, Tychy, Jastrzębie Zdrój, Katowice and Żory. It was established on the basis of the Incubator of the Third Sector run by the Association of the Green Basin as part of the 18 in the Network Project.



The main tasks of the Social Entrepreneurship Incubator are:

- to deliver consultancy services in the area of social entrepreneurship and third sector activities (including raising funds from the Operational Programme – Human Capital and other grant-awarding programmes),
- to disseminate information concerning new guidelines, regulations and legal provisions in the area of managing social economy entities,
- to deliver consultancy services in the area of setting up social enterprises (including associations, foundations and social cooperatives),
- to deliver specialist consultancy services in the area of accounting, law and marketing,
- to provide training workshops,
- to provide infrastructural support (office resources, training rooms, access to computers, scanner, fax machine and the internet, multimedia projector),
- to mobilise the local community.

Apart from the Dąbrowa Górnicza District (or more precisely, representatives of offices and divisions dealing with the issues of social development and non-governmental organisations), the Partnership includes non-governmental organisations such as the Dąbrowa Forum of Non-Governmental Organisations, the Regional Cultural Association, the Foundation for Education, Prevention and Therapy of Addictions DROGA (THE WAY), the European Organisation for Social Groups Requiring Support 'Integrative Meetings of Friends – Poland,' and the Association of Friends of Dąbrowa Górnicza.

The objectives of the Partnership have been specified in its regulations. Below follows a list of selected activities pursued under the Partnership:

- a) cooperation in the area of formulating development strategies, normative acts and other programmes concerning the local community targeted at joint activities and the operation of social economy entities, in particular, consulting them with the Public Benefit Council of Dąbrowa Górnicza,
- b) consulting local regulations in the area of statutory activities of non-governmental organisation entities and entities listed in Article 3, item 3 of the Public Benefit and Volunteer Work Act in accordance with the procedure determined by a separate resolution of the Municipal Council,
- c) exchange of information about the planned activities among all parties,
- d) promotion of third-sector activities, voluntary work and social economy,
- e) setting up joint consultancy and initiative groups,
- f) supporting the activity of the Dąbrowa Forum of Non-Governmental Organisations by providing office backup services and premises for its activity,
- g) operation of the Dąbrowa Górnicza Public Benefit Council,
- h) making available the necessary urban infrastructure for the statutory activities of the Partnership, including exemption from rent of district premises on the basis of a separate resolution of the Dąbrowa Górnicza Municipal Council.

The achievements of the Partnership after three years of operation include a number of completed initiatives at various levels, such as organisation of a cooperation system (DFOP, RADA,

Office, Incubator), an independent division within the Municipal Office, an active institution providing thematic and structural support to the non-governmental sector (the Incubator), annual organisation of the Festival of Active People, promotion of the third sector by the Municipality, the Portal of Dąbrowa Górnicza Non-Governmental Organisations [www.ngo.dabrowa-gornicza.pl](http://www.ngo.dabrowa-gornicza.pl), establishment of a broad network of cooperation with other local government units and the so-called non-governmental infrastructure. Dąbrowa Górnicza is a founding member of the Committee of Plenipotentiaries for NGOs affiliated with the Silesian Association of Cities and Counties (Śląski Związek Miast i Powiatów), rent exemptions of properties administered by the municipal authorities (MZBM). On the BOP initiative, non-governmental organisations are guaranteed participation in committees evaluating competitions and have a genuine influence on the Forum and the Council in the field of competition procedures and trade consultations. In cooperation with civic partners, municipal authorities award funds to the best initiatives of non-governmental organisations based on competitions. The local non-governmental can also count on active cooperation of the Municipal Office on different kinds of projects and membership in partnerships, active participation of Dąbrowa authorities in civic movements and initiatives pursued by non-governmental organisations.

The above-mentioned activities result in an increased awareness of decision-makers and residents of the issues dealt with by non-governmental organisations and pro-social attitudes, but first of all they contribute to the development of the third sector and intersectoral cooperation in Dąbrowa Górnicza.

## Evaluation of solution

The solution described above deserves great credit largely thanks to the enthusiasm of the Partnership members. The enthusiasm translates into effective activities, some of which have anticipated the legislative solutions introduced nationwide. When analysing the model, it should be emphasised that the local government undertook to sustain the developed solutions after the cessation of funding from the European Structural Funds. The Dąbrowa Górnicza District plans to maintain the divisions that enable continuity of the undertaking using its own funds. This also shows that the initiative will thrive and that municipal authorities have high hopes for its development in the future.

Previous efforts have led to the integration of entities from different sectors around common objectives. Such integration is important, because it permits these circles to jointly develop an initiative, implement it and take responsibility for its outcomes.

## Replication opportunities

The approach presented above can be adopted by all local governments in Poland. There are no geophysical, economic, social or legal factors that could potentially limit replication opportunities. The model can be replicated in full outside Poland as long as these activities do not contravene local legal regulations.

## 2. Cooperation of regional and local authorities with social economy entities

### Background

The Malopolska Fund for Social Economy is an organisation established on the initiative of Cracow University of Economics. The main area of its activity consists in issuing financial guarantees to social economy entities. The fund cooperates with local government units at different levels, especially with Malopolska Voivodship Local Government of which, first of all, it is one of the Fund's shareholders, and secondly, through the Regional Centre for Social Policy (an organisational unit in voivodship structures), conducts joint operations with the Fund to promote the development of the social economy sector in the region. The Malopolska Fund for Social Economy also cooperates actively with the lowest level of local government. Annually, the Fund guarantees several dozen subsidies to individuals who start their own businesses via the Cracow Municipal Employment Office (a subsidiary unit of the Cracow Municipal Office).

### Case identification

#### **Category of cooperating institution (university/NGO/social economy entity)**

Entity supporting the social economy sector.

#### **Entity initiating cooperation (local/regional authority)**

The Malopolska Fund for Social Economy was founded by a group of individuals associated with Cracow University of Economics.

#### **Geographical area of operation**

The Fund's head office is located in Cracow, but its area of operation includes the entire area of Malopolska Voivodship. In the immediate future, the Fund plans to deploy its activities nationwide.

#### **Practice specification**

The main statutory objectives of the Fund include:

- to aid and promote economic development, including the development of social entrepreneurship,
- to promote the ideas of a civic society, democratic order and market economy,
- to inspire and support the establishment of social enterprises,
- to expand cooperation with local government agencies, and local branches of central government and to provide the necessary assistance in the area of supporting the development of social entrepreneurship,
- to promote social entrepreneurship, partnership and fair competition.

The above-mentioned objectives are achieved through a number of measures. In particular, the Fund supports the operation and development of social enterprises by offering guarantees in order to facilitate their access to funds necessary for the achievement of their social outcomes.

Additionally, the Malopolska Fund for Social Economy provides consultancy and training services, organises research and promotional activities in the sphere of social entrepreneurship through conferences, seminars and workshops.

## Identification of the social innovation

The Malopolska Fund for Social Economy is one of the few non-public financial institutions working for non-governmental organisations in Poland. The idea for the establishment of the Fund originated in the experiences gained during the execution of the project In Search of a Polish Model of Social Economy financed by the EQUAL programme. One of its objectives was to diagnose the problems faced by representatives of the social economy sector. Surveys showed that both non-governmental organisations and other entities working towards social objectives (e.g. social cooperatives) listed among the most serious difficulties their problems with obtaining funds necessary to start and/or continue their activity. At the same time, it was demonstrated that over 80% of social economy entities were not eligible for commercial financial instruments necessary to pursue their social objectives. Very rarely do they take out loans, mainly due to the lack of their own assets and comparatively low incomes, which usually cannot be used to guarantee potential liabilities. Therefore the academic circles of Cracow University of Economics strongly involved in supporting the development of social economy, undertook to develop first the concept, and then to establish an institution offering financial support instruments. Thus the idea of the Malopolska Fund for Social Economy was born. At the stage of conceptual work, the idea was included in the Malopolska Pact for Social Economy. The uniqueness of the venture also results from the fact that a number of national and regional institutions were successfully persuaded to join the initiative, including Bank Gospodarstwa Krajowego, Krakowski Bank Spółdzielczy, Małopolska Agencja Rozwoju Regionalnego (Malopolska Regional Development Agency) and Towarzystwo Inicjatyw Społeczno-Ekonomicznych (Association for Socio-Economic Initiatives) in Warsaw. Formally, the Malopolska Fund for Social Economy was established on 19 May, 2009. The Fund constitutes a direct response to the perennial problem of the social economy sector, namely access to financial markets and possibilities to obtain subsidies.

## Mechanism of cooperation

Cooperation and contacts amongst the Malopolska Fund for Social Economy, local and regional levels of government take on various forms. First, one of the founders of the institution is the Malopolska Regional Development Agency (MARR) – a company whose majority stakeholder is the Malopolska Voivodship Local Government. MARR is a regional institution working to promote regional development. It specialises in providing comprehensive know-how and

state-of-the-art financial solutions to commercial enterprises. However, owing to the intensive development of the social economy sector in Malopolska, MARR decided to support the initiative of Cracow University of Economics and joined the group of founders. The Fund also cooperates with the Regional Social Policy Centre (ROPS), which is a voivodship organisational unit that executes regional government mandates among others in the area of social welfare, pro-family policy and preventing domestic violence. Both the Fund and ROPS cooperate in supporting newly created social enterprises. At present, the Fund participates in the project titled Social Economy Development Academy, which involves awarding funds to members of start-up social cooperatives. The Fund guarantees the subsidies granted to beneficiaries.

Another important forum for cooperation with other entities is the Fund's membership in the Malopolska Pact for Social Economy. This agreement was formulated and signed in 2008 by representatives of, among others, local governments, the non-governmental sector, academic circles, private entrepreneurs and the media. The Pact is intended to promote the idea of social economy and strengthen the entities connected with this sphere of the economy. The Fund joined the Pact in 2011.

The Malopolska Fund for Social Economy cooperates on an ongoing basis with local government units in Malopolska Voivodship, especially with labour market institutions such as the Municipal Labour Office in Cracow (Gminny Urząd Pracy – GUP) or Powiat Employment Offices in Wieliczka and in Nowy Sącz. The Fund cooperates especially closely with the GUP in Cracow, where over the last two years, it has guaranteed several dozen grants for start-up companies awarded to unemployed people. Recently, institutions signed a cooperation agreement, which additionally strengthened this relationship and cemented previous activities of the Fund. The aim of this agreement is “to help and cooperate closely in the dissemination and execution of vocational development activities for unemployed people, particularly, making use of the opportunities offered by the guarantee fund for people threatened with social and economic exclusion.”

## Case description

The Malopolska Fund for Social Economy constitutes an example of a financially independent organisation, which was born as a result of a grassroots initiative in response to the demand of the social economy sector for specific kinds of services. The niche filled by the Fund has not been explored by commercial organisations or by public sector agencies. The Malopolska Fund of Social Economy, thanks to approaching each case on an individual basis, over two years of its operation has become an institution actively supporting the social economy sector and easily recognisable in the region.

## Identification of partners, their roles and objectives

The main partners of the Fund in the municipal sector include:

### **The Malopolska Regional Development Agency (Małopolska Agencja Rozwoju Regionalnego – MARR)**

MARR is a company owned by Malopolska Voivodship Local Government, which executes mandates targeted at the promotion of socio-economic development in the region. The main objectives of the Agency include initiation and promotion of entrepreneurship, provision of financial and capital assistance for restructuring programmes, initiation and assistance in business and organisational schemes in the area of job creation and reduction of unemployment.

### **The Regional Social Policy Centre in Cracow (Regionalny Ośrodek Polityki Społecznej w Krakowie – ROPS)**

The Centre, established pursuant to a resolution of Malopolska Voivodship Council on 29 March, 1999, executes local government mandates in the areas of social welfare, pro-family policy, prevention of domestic violence and co-ordination of social welfare systems for people migrating within the European Union and the European Economic Area<sup>48</sup>.

Specifically, ROPS' responsibilities include formulation and implementation of programmes to counteract social exclusion, promote equal opportunities to people with disabilities, social insurance activities, diagnosing reasons for poverty and preparation of social welfare programmes to support local governments in combating this phenomenon<sup>49</sup>.

### **The Municipal Labour Office in Cracow (Grodzki Urząd Pracy w Krakowie) and other labour offices**

Municipal and powiat labour offices are responsible for combating unemployment at the local level. The Malopolska Fund for Social Economy cooperates with several institutions of this kind in Malopolska Voivodship, but the most closely with the Municipal Labour Office in Cracow. The primary objectives of the Office in Cracow include aiding unemployed persons and those seeking employment in finding jobs and to aid employers in finding staff by employment exchange and occupational consultancy services and formulation and implementation of programmes in the area of promotion of employment and development of the local labour market policy.

## Practice description

The Malopolska Fund for Social Economy offers financial guarantees to all entities and physical persons irrespective of their adopted legal form, whose activities have social objectives. The Fund may guarantee credits, loans, subsidies for the required input and equipment for social cooperatives, financial obligations resulting from commercial transactions, financings of tender deposits (bid bonds) and bridge financing for EU-funded projects. Usually, the guarantee involves up to 70% of the value of the financial obligation in question, however, in special

48 Information obtained from the Centre's website [www.rops.krakow.pl](http://www.rops.krakow.pl) (accessed on 5 August, 2011).

49 Ibidem.

socially justified cases, it may be increased up to 100%. At present, the amount guaranteed for a single entity does not exceed ca. 50,000 zloty (ca. 12,500 euro), which constitutes 10% of the Fund's capital. Larger guarantees are provided together with other guarantors. The maximum guarantee period is 5 years.

In the first year of the Fund's operation, its main customers were social cooperatives whose formerly unemployed members received grants from labour offices for equipment needed in their business lines. In such cases, labour offices require guarantees for the resources committed, which usually constitutes a serious limitation to access to this type of assistance. Moreover, the Fund also guaranteed several subsidies awarded to people with disabilities.

The creators of the Fund tried to make the application procedure as uncomplicated as possible, but at the same time, to ensure the security of the obligations incurred. Applicants always meet the Fund's staff and discuss in detail all matters related to their ongoing and planned activity. Thanks to careful vetting, involving mainly the competencies and motivation of applicants, so far the Fund has not been forced to use its resources to repay the guaranteed liabilities.

The Malopolska Fund for Social Economy is a foundation, which means that it holds certain assets. The most important feature of the foundation is that it works towards social objectives in the interest of an unlimited group of consumers. The statute adopted by the Founders stipulates the following governing bodies:

- the General Meeting of Founders,
- the Foundation Council,
- the management of the Foundation.

The General Meeting of Founders is the highest governing body of the Fund. Its main prerogative is to appoint and dismiss members of the Foundation Council. The Council, composed of 5 members, is an agenda-setting, supervisory and consultative body. Council members do not receive compensation for their work. Their responsibilities include charting the main directions of the Foundation's activity, making changes to the statute and evaluating the work of the Board.

The Board of Directors manages the day-to-day activities of the Foundation and represents it outside. It consists of 3 members who do not receive compensation for their work. The Board's responsibilities include managing day-to-day activities of the Foundation, its assets and adoption of annual and financial plans.

The Malopolska Fund for Social Economy manages its original capital of 510,000 zloty (ca. 127,500 euro) provided by five founders (Bank Gospodarstwa Krajowego, Malopolska Regional Development Agency, Krakowski Bank Spółdzielczy, Association for Socio-Economic Initiatives S.A and the Foundation for the Economy and Public Administration). Income from interest on deposit accounts is enough to cover the small operating expenses of activity, such as renting premises and compensation for the office staff of one. The Fund also has its own training room, which generates additional income. Commission charged on the guarantees issued,

which usually amounts to 2–3% the value of an individual guarantee annually, covers only the costs of formal evaluation procedures and the preparation of appropriate documentation for the beneficiary<sup>50</sup>. Increasing demand for guarantees, both in Malopolska Voivodship and in other regions, constitutes a substantial burden on the Fund's assets, consequently, it has decided to increase its original capital.

## Evaluation of the solution

### Impact on the execution of public mandates/public policy formulation/local development

Since its inception<sup>51</sup>, the Malopolska Fund for Social Economy has issued 39 guarantees for the total sum of around 700,000 zloty (175,000 euro). The average value of an individual guarantee is fairly small and does not exceed 25,000 zloty (6,250 euro). The main beneficiaries include physical persons who start up social enterprises as well as people with disabilities and unemployed persons who become self-employed. Without the help from the Fund, they would have no opportunity to obtain financial backing from subsidising institutions. It is estimated the Fund's activity has so far helped to create about 50 jobs in Malopolska. A large portion of these involved women and persons with disabilities. Additionally, the last several months saw a large increase in the number of guarantees issued, which shows a growing interest in this type of financial instrument.

### Critical success factors

The case study of the Malopolska Fund for Social Economy reveals three critical success factors. These include:

#### The market niche

A number of surveys of the social economy sector repeatedly indicated its poor financial situation. However, so far none made an attempt to break this deadlock. Offering non-returnable financial instruments requires first of all considerable amounts, and second, makes successful applicants dependent on this kind of support. Therefore, they can be offered primarily by public institutions. So far, returnable financial instruments for social economy have gained limited popularity, both in Malopolska and nationwide. The Malopolska Fund for Social Economy was the first one to offer financial guarantees to social economy entities. So far, it is the only institution of its kind in Malopolska.

#### Commitment of large partners

Naturally, the Malopolska Fund for Social Economy would not have been established without the commitment of many large institutions operating regionally and nationwide. Their support allowed the Fund to raise capital, which, when compared with other guarantee funds may not be impressive, yet it permits the Fund to finance its current operation and achieve

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<sup>50</sup> Guarantees issued both to physical and legal persons are certified by notarial deeds, which entail statutory payments.

<sup>51</sup> As at end of June 2011.



its statutory objectives. Obtaining this kind of support is not an easy task for small entities that wish to pursue similar activities. In this case, a key role was played by Cracow University of Economics, which initiated the activities and using its credibility, persuaded other partners to participate in the venture.

### **Voluntary work**

The Fund's capital assets, judging by the standards of classic guarantee funds, is relatively small. Income earned on deposit accounts is enough to cover only its current operating expenses. Owing to the lack of funds for salaries, members of the Board and the Council receive no compensation for their work. Besides, the Fund may count on the assistance and commitment of a number of people taken with its idea. This kind of support is especially vital at the initial stage of operation.

### **Barriers**

Barriers that to a certain extent constrain the Fund's capacity to expand include:

#### **Relatively small capital**

As previously mentioned, the Fund's capital is limited. Given the present demand growth rate, the Fund may shortly be unable to issue any new guarantees. Therefore, at the moment the priority issue is to raise additional funds to top up the original capital. Possible solutions include the broadening of the circle of founders or obtaining auxiliary funding from public resources.

#### **Unfamiliarity and reluctance of social enterprises to use financial instruments**

Over the recent years, a number of social economy entities in Poland have become strongly dependent on non-returnable public funds. In consequence, organisations have become narrowly specialised in the area of applying for this type the support. Business activity as a source of regular income has become less popular, which causes that these entities are not interested in returnable financial instruments.

### **Replication opportunities**

The establishment of a small guarantee fund intended to serve social economy entities is not a daunting task. Certainly, capital is needed to initiate this type of activity, but the amounts committed are not crucial. The Fund's experiences demonstrate that most guarantees issued do not exceed 25,000 zloty (ca. 6,250 euro). Furthermore, the funds designated as collateral for beneficiaries remain at the Fund's disposal and hence can be kept on a deposit account or otherwise invested. These factors ensure that even small amounts permit this type of activity.

An essential factor in the operation of a guarantee fund is the adoption of appropriate operating procedures. On the one hand, in consideration of the uniqueness of the social economy sector, it must be flexible, but on the other hand, limited capital resources force the Fund to closely appraise the risks inherent in issuing guarantees on a case-by-case basis. In order to

meet this condition, the Fund's staff personally meet with persons who need guarantees for a brief interview, in the course of which they identify their needs, but first of all, their motivation behind starting a given activity. Such an approach to risk resulted in the Fund's helping every applicant without being forced to repay any of the guaranteed liabilities.

Another barrier may be posed by the operating expenses such as rental of office space or staff salaries. However, they can be minimised by the choice of smaller premises, not necessarily located in a city centre and by employing individuals for whom the idea supporting social objectives is more important than financial considerations. As long as the work is organised appropriately, the time devoted to the Fund by volunteers need not be long.

### 3. Cooperation of regional and local authorities with universities

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#### Background

For several years, Cracow University of Economics (CUE) through its two subsidiary units – Department of Public Economy and Administration and Malopolska School of Public Administration – has been cooperating with regional and local governments of Malopolska Region and with central government administration in the area of supporting the social economy sector. The major elements of cooperation, apart from traditional academic activities, consist in practical implementation efforts as well as formulating systemic proposals.

#### Case identification

##### Category of cooperating institution

Cracow University of Economics (Uniwersytet Ekonomiczny w Krakowie) is a public higher education institution. In the area of supporting the social economy sector, it cooperates with regional authorities (including Malopolska Voivodship Board and the Regional Social Policy Centre) local authorities (both gminas [districts] and powiats [counties] with their organisational units), central administration (the Ministry of Labour and Social Policy and the Centre for the Development of Human Resources) and non-governmental organisations.

##### Entity initiating cooperation (local/regional authority)

In the case of CUE activities in the area of social economy, which, in the space of several recent years included a dozen or so different ventures, cooperation was initiated by the University, local and regional authorities or central administration.

##### Geographical area of operation

The main area of CUE activities in the field of social economy is Malopolska Voivodship. However, some of its ventures have a nationwide reach (e.g. cooperation with central administration on

systemic solutions for social economy, postgraduate social economy courses with students recruited from all over Poland, publishing activities). Other cooperation activities are pursued on an international scale (joint research, identification of best solutions, dissemination and exchange of expertise) with partners from a number of European countries.

### **Practice specification**

Activities of Cracow University of Economics are multidimensional. They include both the sphere of scientific research (problem analyses, research on the social economy sector, doctoral theses, scientific conferences), teaching (inclusion of social economy issues in year 1–3 curricula, design and implementation of an original curriculum for postgraduate courses, stimulation of interest in the subject area by way of degree theses, seminars, workshops and thematic training workshops). CUE activities also include dissemination of information via its publications (curricula, coursebooks, scientific publications and a semi-yearly distributed nationwide titled *Ekonomia Społeczna* [Social Economy]), organisation of conferences, workshops, seminars and study visits. A very important practical dimension of University activities consists in direct cooperation with public administration and non-governmental organisations in the area of solving specific problems, staff participation in the workgroup responsible for developing systemic solutions in the area of social economy appointed by the Prime Minister and the search for solutions to develop and improve the organisational side of the sector (e.g. work on social audit indicators).

### **Identification of the social innovation**

Comprehensive and consolidated activities of Cracow University of Economics constitute a novel quality in the approach of academic circles to social economy by combining the broadly understood dimension of research and teaching with the sphere of practice and support for public administration. A unique feature is the integration of academic pursuits with respect to specific problems (also by including its aspects in mainstream economics) and the capacity to devise, initiate and sustain practical solutions (including institutional ones) for the social economy sector. Another important feature of CUE activities is their continuity and concentration in two cooperating organisational units of the University: the Chair of the Economy and Public Administration and the Malopolska School of Public Administration.

### **Mechanism of cooperation**

Cooperation with external partners is conducted in various forms. Some of them involve statutory University activities with the participation of invited external partners. The basic form of cooperation involves partnership contracts or agreements concluded with individual entities. Often the common ground for joint activities is found during the execution of systemic projects or competitions.

### **Case description**

A unique feature of this case is the pursuit of a broad spectrum of activities in the interest of the social economy sector by organisational units of Cracow University of Economics. Other characteristic features of these actions include:

- combination of academic activity (research, teaching, publishing) with practice (expert reviews, implementation projects, stimulating the formation of new social economy entities),
- financial montage (combining funds for the University's statutory activity with the European Structural Funds, the European Regional Development Fund and mandator resources),
- capacity to enter into long-term cooperation with domestic and foreign partners from different sectors,
- guarantee of sustainability of ventures.

The first measurable indication of CUE involvement in social economy issues was the joint preparation of applications, obtaining funding and execution of projects devoted to this issue within the framework of the EQUAL Community Initiative. The leading project (2006–2008) was titled *In Search of the Polish Model of Social Economy* and involved partners from different sectors. Measurable outcomes of these activities included, among other things, curriculum design and provision of resources for a postgraduate course in social economy (over 100 graduates until 2008), initiation in cooperation with Malopolska Voivodship Board and the setting up of the Malopolska Pact for Social Economy, the first of similar agreements in Poland. Other measures initiated as part of the project included the identification of the need to establish an institution providing financial support to social economy entities (as a result, the Malopolska Fund for Social Economy was established, discussed in more detail below), the publication of a scientific periodical (at first, a quarterly, at present a semi-yearly magazine), introduction of social economy issues into teaching curricula of full- and part-time courses.

As a result of these efforts, central and regional public administration perceived in CUE a strong partner with an appropriate resource base for joint execution of activities in the interest of social economy. At present, apart from its statutory activities, the University is a partner in a systemic project implemented by the Centre for the Development of Human Resources (a unit subordinated to the Ministry of Labour and Social Policy) titled *An Integrated System of Support for Social Economy*. Under this project, CUE is responsible, among others, for postgraduate courses (for over 800 students in total), publishing activities (*Ekonomia Społeczna* semi-yearly, books) and expert analyses (e.g. the development and dissemination of a method of estimating social impact). At the regional level, MSAP CUE is a partner in the project *Infrastructure for Social Economy in Malopolska*, which organises seminars and provides consultancy services in the area of intersectoral partnerships. Both undertakings are financed by the European Structural Funds. At the European level, MSAP CUE is involved in the PASE project (Public Policies and Social Enterprises) executed jointly with partners from the public sector (regional and local authorities, schools) from Italy, Germany, Spain, Belgium, France and Romania. The main deliverables of the project PASE include a catalogue of identified and selected good practices in the area of regional public instruments supporting social enterprises and joint guidelines in the area of innovative strategies to promote new models of public-civic partnership and procurement at local and regional levels.

The activities of both the Department of Public Economy and Administration and the Malopolska School of Public Administration do not have a definite timeframe. They are pursued as part of a continuous commitment to a responsible, reliable and professional approach to the development of the social economy sector and cooperation with different entities to that end.

Cooperation with partners from various sectors is pursued on the basis of bilateral contracts and agreements or multilateral partnership agreements. These activities are financed from CUE funds (teaching, research), the ESF and ERDF funds as well as contracts for critical analyses or studies. These activities are at no cost for their recipients (e.g. postgraduate social economy courses are financed with the funds provided by the Operational Programme – Human Capital).

### **Partners**

The main partners of Cracow University of Economics include the following:

- public administration units: Ministry of Labour and Social Policy, the Centre for the Development of Human Resources, Malopolska Voivodship Board, the Regional Centre of Social Policy in Cracow, the City of Forest – the Capital Region of Brussels, the Council of the Region of Provence-Alpes-Côte d'Azur, the local government of Andalusia (the Department of Social Economy and Entrepreneurship), the Hanover Adult Education Centre, the Arges District Council and the Marche Region (the Unit of Education, Training and Labour),
- non-governmental organisations: the Foundation for the Economy and Public Administration, the Malopolska Fund for Social Economy, the Foundation for Social and Economic Initiatives, the Institute of Public Affairs, the Cooperation Fund Foundation, the Audit Association of Workers' Cooperatives.

## **Evaluation of the solution**

### **Impact on the execution of public mandates/public policy formulation/local development**

In consideration of the scientific character of CUE and the unique features of its activities, their impact should be considered from two vantage points:

- the development of cooperation networks (administration, the third sector, social economy entities, businesses),
- direct and indirect impact on public policies (influencing attitudes, dissemination of knowledge, expert evaluations, consultation procedures) and improvement in the efficiency of execution of public mandates (evaluation methods, analyses).

Apart from the above-mentioned impacts, considerable emphasis should be placed on the role of CUE in strengthening the potential of the social economy sector and its entities, especially in the area of disseminating knowledge and expertise, as well as developing new competencies of individuals and institutions.

**Critical success factors**

Without question the critical success factor behind CUE activities in the area of social economy is the strong leadership and commitment of a small group of individuals, which may be called an 'initiative group' to maintaining and developing activities in this area. Combining the sphere of science with economic practice contributes to the uniqueness of resulting activities, as does the demand on the part of public administration and other entities for such activities.

Another factor that enables CUE to succeed is its capacity to combine funds for research and teaching with other sources.

**Barriers**

Potential barriers that may restrict CUE activity or its cooperation with public administration include the lack of specialisation, insufficient academic staff and the lack of awareness on the part of public administration of advantages resulting from long-term cooperation with CUE, its expertise and competencies of academic circles.

**Replication opportunities**

Owing to the uniqueness of this solution, opportunities for cooperation between public administration and universities will be determined by the interest of the latter in specific issues. Undoubtedly, the common denominator for such cooperation should be the recognition of the role and importance of social economy (especially in alleviating certain negative phenomena such as social exclusion) by both parties. Public administration must realise that it needs competent analyses and specialised training, whereas universities need to develop new domains and areas of research while continuously adapting their educational offer to current requirements and needs of the labour market.

# Conclusions





# Introduction

At the beginning of this publication, we asked the question how public authorities use the potential of civic partners to stimulate socio-economic development processes. We focussed on the extent to which public regulations, particularly those concerning public procurement, create institutional frameworks and operating mechanisms that encourage the use of resources controlled by civic partners to develop valuable public policies. Equally important for us was the question how to eliminate the barriers that make the cooperation between public authorities and their civic partners more difficult.

The analyses reviewed above show that the processes of cooperation between public authorities and these entities are gradually gaining in intensity, and their significance for the quality of management of public affairs, solving socio-economic problems and the provision of social services has considerably increased. It appears that more and more suggestions that we laid out when describing the conception of the resource-integrating state have been followed up, which is demonstrated by their expanding practical implementation. This does not mean, however, that institutional rules and operating procedures ensure a full and creative use of resources controlled by civic partners. Certainly, this is not the case! In order to justify this opinion, we quote the results of our research and indicate directions for improving these regulations, including the area of public procurement, normalising cooperation of public authorities with social economy entities, non-governmental organisations and universities (reasons for these choices have been explained in the Introduction).

## Non-governmental organisations

Non-governmental organisations control substantial resources important for the quality of socio-economic development of local and regional communities. These resources may serve the following purposes:

- a) to generate social capital, which constitutes the foundation of trust and cooperation for the sake of the common good,
- b) to provide social services which are not delivered by the state or the market,
- c) to limit unlawful appropriation and abuse of public power,



- d) to ensure the advocacy of interests of social groups neglected by the traditional mechanisms of representation,
- e) to create space for the incubation of new ideas, pluralism in public debate and concern for the public sphere,
- f) to develop and disseminate social innovation, which is often the main trait of their nature and the reason for their existence.

One of the conditions for effective use of these resources consists in providing appropriate legal and financial frameworks for the cooperation of non-governmental organisations with public authorities. The absence of such regulations in the sphere of public procurement leads to:

- a reduction of the role of non-governmental organisations to that of the cheapest service provider (cheapest labour),
- the use of prices as the only criterion influencing the choice of suppliers/providers/contractors in public procurement procedures,
- missed opportunities in the area of practical application of social and environmental clauses,
- mistaken interpretations of the spirit of public procurement (a tender with the lowest price is considered to be the most advantageous).

Weaknesses of the above-mentioned regulations governing grants and projects financed with public funds leads to:

- a) a limited variety of financing instruments available to these organisations,
- b) complicated, lengthy and unclear procedures,
- c) extreme bureaucratisation of the system of contracts and financial settlements,
- d) asymmetry of relationships between public administration and non-governmental organisations,
- e) impossibility to finance institutional development of organisations and planning long-term ventures,
- f) the lack of resources for innovative operations, high-risk ventures and those that go beyond instrumental interests of administration,
- g) the lack of a reliable system for evaluating applications and weak mechanisms for ensuring realistic project outcomes; defective indicators,
- h) paralysing fear of inspection, even at the expense of project rationality.

Below, we present selected ideas connected with the modernisation of a system of financing civic initiatives. Their aim is to diversify and stabilise the sources of financing as well as seek alternatives to development based on a transitory system of access to European Structural Funds. Quite a few ideas mentioned here have been presented in different forms and places over the last dozen years or so, however, in most cases the circles concerned lacked the determination to implement them. It appears that the development of strategic solutions for the coming years constitutes a good opportunity to revisit some of them, including the following:

- strengthening local grant organisations,
- ensuring the continuity of the Civic Initiatives Fund (FIO),
- development of local civic initiatives funds,
- improving regrating mechanisms,
- reforming the rules of access to the Structural Funds,
- changing the rules of civic participation in fund management mechanisms,
- implementation of microgrant mechanisms and start-up grants,
- provision of endowment capital,
- dissemination of solutions involving the state lottery,
- development of participatory budgeting,
- provision of the returnable funds in the form of the so-called patient capital,
- promotion of hybrid forms of funding,
- introduction of mechanisms modelled on market solutions (e.g. social impact bonds, social stock exchanges).

## Social economy entities

The potential of social economy entities rests in the fact that they are capable of executing normative and regulatory mandates as well as provide services essential for socio-economic development. In this capacity they can compensate for market deficits, strengthen social capital and stimulate social and vocational integration processes. Their power also comes from their organisational uniqueness and non-standard principles of activity, such as the employment of hybrid solutions and combining the rules governing the third sector with typical free-market principles, including their considerable organisational and management flexibility.

However, the potential of these entities is not fully tapped. To a certain extent, it results from the flawed public procurement system that favours and promotes:

- a) excessive levels of detail in procurement object specifications,
- b) formalisation and focus on quantitative criteria,
- c) application of tender procedures rather than competitive dialogue procedures,
- d) obligation of tenderers to provide financial security (bid bonds),
- e) rigid formal criteria that make it impossible to ease tender procedures for entities pursuing socially beneficial activities.

These flaws lead to the oligarchisation of the sector (and limit the opportunities of small entities to access public funds), excessive economisation, focus of activities on obtaining funds (and on fundholder expectations) rather than on customers, interest in the satisfaction of fundholders rather than intended beneficiaries. This is accompanied by limited innovativeness of activities undertaken by social economy entities, their concentration on safe operations and the formal side of procurement rather than on the outcome that a given action is supposed to achieve, emergence of lip-service behaviours only formally related to the achievement of a social goal<sup>52</sup>.

<sup>52</sup> E.g. employment of workers from socially excluded groups only for a period of time that is necessary to obtain and keep public money.

Improving the public procurement system by elimination of these defects and, at the same time, opening up the opportunities for a fuller use of the potential and resources of social economy entities to achieve collective goals should ideally involve the following:

- formulation of a closed list/catalogue of social services that can be provided by social economy entities on a preferential basis,
- introduction of threshold amounts below which the contracting authorities are not allowed to require bid bonds, guarantees of proper contract execution or documentation of experience relevant to the procurement object in question,
- increased focus on the factual quality of a tender in public procurement (especially in the case of specialist services),
- greater focus of public procurement on outcomes instead of procedural correctness,
- increased participation of social economy entities in the process of planning public spending (including setting strategic objectives and amounts allocated to specific measures).

## Universities

Higher education institutions play an important role in economic and social life. They are first of all responsible for the formation of human capital and knowledge production, and are originators of social innovations. They also constitute an important element of national and regional innovation systems. Their role has evolved from 'the university as the house of knowledge' to 'the university as a knowledge factory' to 'the university as the centre of knowledge' (these issues are addressed in more detail in Chapter 4).

The basic obstacles to the development of universities in Poland and, in consequence, their capacity to play the above-mentioned roles include:

- a) limited resources spent on their development (after 1989, the total number of students increased fivefold, while the number of academic teachers increased only by about 60%),
- b) ineffective use of these funds by universities (protracted and overly complicated administrative procedures, internal organisation),
- c) focus of university staff on teaching at the expense of research (which results from limited research and development funds),
- d) low salaries of academic staff in conjunction with the pathological phenomenon of multiple job holding, practically make it impossible to either teach effectively or conduct scientific research on a par with international leaders in the field,
- e) ineffective knowledge transfer and commercialisation system,
- f) ineffective projects financed with European funds.

Opportunities to control these disadvantageous phenomena and consequently to strengthen the capacity of universities to pursue their social duties can be sought, among other things, in:

- the implementation of institutional solutions connected with the acquisition of new competencies by universities and with expanding their financial base of operation,

- changing the system of distribution and the manner of execution of teaching and research projects financed with European funds (e.g. outcome-orientedness, reduction of procedural complexity),
- adoption of regulations facilitating collaboration between universities and public authorities (e.g. in the area of contracting for primary and applied research),
- changing the organisational and management structures of universities (e.g. input of entrepreneurs to teaching syllabi, their implementation and evaluation),
- the development of an efficient system of institutions responsible for a speedy and effective practical application of research results, technology transfer and increased innovativeness of the economy,
- the introduction of clear solutions in the sphere of managing university intellectual property rights and those governing the use of their resources for commercial purposes,
- improvements in evaluation systems of research units, whose results should determine the level of funding available for their activities.



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Marche Region –  
European Policies Unit and Managing Authority  
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