

Investment Climate in the Spa Municipalities. Case Studies

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Abstract

For the governments of individual countries and regions, actions to improve the investment climate are tools that contribute to new production and service investments, and thus to economic development. The investment climate is the result of many components. The aim of this article is to analyze the individual components of the investment climate on the example of three spa and tourist municipalities: Krasnobród, Solec Zdrój and Rymanów. The analysis provides the basis for conclusions on the desired action of local and regional authorities to improve the situation. The analysis presented in this article is the result of CATI and FGI research.

Keywords: investment climate, investment potential, regional development, spa region, entrepreneurship

JEL: L26, O12, R11, R58

Introduction

One of the most important conditions for attracting investments in production and services and further economic growth in a region is creation of a favorable investment climate. The readiness of investors to invest capital into the economy of a region depends on the state of the investment climate (Dao 2008; Glebova, Kotenkova, and Khamidulina 2016). The investment climate is the result of many components. Typically, the investment climate is assessed nationally and compared to other countries (e.g., Poland 2003). Regional investment climate analyses are relatively rare. Examples may be a few studies of such regions as: subregion Chełmsko-Zamojski (Zalewa et al. 2010), municipalities in Lubelskie and Podkarpackie (Pater 2008), and Lubelskie Voivodship (Kowerski 2008). The aim of the article is to analyze the individual components of the investment climate on the example of three spa and tourist communities: Krasnobród (Lubelskie Voivodship), Solec Zdrój (Świętokrzyskie Voivodship) and Rymanów (Podkarpackie Voivodship). The analysis is the basis for conclusions on the desired action of local and regional authorities to improve the situation. The basis for empirical analysis are various sources: a focus group with entrepreneurs and tourism and spa sector experts.

1 Literature review

Investment climate is a term that in the literature is used in very different contexts and definitions. The most common definition is that it is all conditions conducive to investing in a particular area.¹ Improving the investment climate can be defined as reducing costs, risks and barriers to running a business.² This definition is adopted by the World Bank in its analyses, emphasizing that actions

1. See: Review of the Implementation of OSCE Commitments in the Economic and Environmental Dimension. Investment Climate: A UNECE Report. Twelfth OSCE Economic Forum, Prague, May 31 – June 4 2004, Prague, Czech Republic, 2004, [a:] http://www.unece.org/fileadmin/DAM/press/pr2004/04gen_none_n01e.pdf.

2. See: A Better Investment Climate for Everyone. World Development Report 2005. The World Bank and Oxford University Press, 2004, [a:] <https://openknowledge.worldbank.org/handle/10986/5987>.

that promote improvement are a long-term process rather than a single event. Usually three major groups of investment climate components are listed:³

- macroeconomic conditions, including macroeconomic stability and security, the legal system, the judiciary, the tax system, the functioning of state institutions, including the level of corruption
- local economic environment and infrastructure
- institutional support

In most analyses, macroeconomic elements and institutional support are essential in assessing the investment climate (Dollar, Hallward-Driemeier, and Mengistae 2003; Kaufmann, Kraay, and Zoido-Lobaton 1999).⁴ For the governments of individual countries and regions, actions to improve the investment climate are tools that contribute to new productive and service investments, and thus to economic development (Frankel and Romer 1999).

Considering the differentiation of the investment climate within a single region, for example by voivodship or municipalities, it is assumed that macroeconomic conditions are everywhere similar. The investment climate in the different regions of Poland differs between the two main groups of components: local economic environment and infrastructure, and institutional support, understood primarily as the activity of regional and local authorities in attracting investors. Based on literature analysis (Kaufmann, Kraay, and Zoido-Lobaton 1999; Kowerski 2008; Swianiewicz and Dziemianowicz 1999),⁵ as well as interviews with entrepreneurs from the tourism sector (including entrepreneurship leaders), experts and representatives of local authorities, the authors considered that the investment climate in the analyzed municipalities consisted of the following elements:

- local economic environment:
 - investment offers (infrastructure condition — technical equipment, location, etc., availability of land and infrastructure)
 - human capital/labor market (availability of qualified staff)
 - the absorption capacity of the internal market (potential sales opportunities)
 - absorption of the Polish market (potential sales potential)
- institutional support:
 - the policy of the Municipal Office in creating a favorable investment climate, including the preparation of investment offers, the marketing activity of municipalities,
 - ease of starting a business (tax breaks, other incentives)
 - possibility of cooperation with suppliers (availability of materials, raw materials, components)
 - protection of investor rights
 - the process of obtaining licenses and/or concessions

Although macro-economic conditions are similar in all regions, entrepreneurs were asked to assess legal conditions including clarity and consistency of legislation.

The investment climate was analyzed at the level of particular spa municipalities: Krasnobród, Solec Zdrój and Rymanów. The analysis focused mainly on endogenous economic development based on local entrepreneurship and the possibilities of its animation by the local government. The authors considered that the current administrative and competence distribution as well as financial capacity make the municipalities themselves the main “actors” in the activities aimed at attracting investors.

2 Methods and research sample

The Investment Climate Study is part of the project „Współpraca gminy Krasnobród, Rymanów i Solec-Zdrój w zakresie rozwoju kompetencji uzdrowiskowych i turystycznych.”⁶ The analysis presented in this article is the result of quantity research — CATI with 61 entrepreneurs (20 from

3. See: Review of the Implementation..., op. cit.

4. See also: Review of the Implementation..., op. cit.

5. See also: Improving City Competitiveness through the Investment Climate: Ranking 23 Chinese Cities. Report 30247, by D. Dollar et al., The World Bank Working Paper, December 2003, [[:] <http://documents.worldbank.org/curated/en/214451468743748015/Improving-city-competitiveness-through-the-investment-climate-ranking-23-Chinese-cities>.

6. [Co-operation of the commune of Krasnobród, Rymanów and Solec-Zdrój in terms of development of spa and tourist competencies].

Krasnobród, 26 from Rymanów and 15 from Solec Zdrój) and quality research—FGI with experts, tourism entrepreneurs and local government representatives. Questionnaires were constructed on the basis of theoretical division into economic and institutional support. CATI research targeted the local business leaders in the tourism sector. The choice of this type of tool was due to the relative simplicity of survey organization and relatively low cost. The first part of the questionnaire was devoted to identification of the investment climate components. Next, the entrepreneurs assessed the investment climate components in the municipalities where they conduct their business.

Qualitative research is a complementary complement to quantitative research and has helped to solve problems that cannot be solved by simply surveying. Interviews focused on the exploration of content revealing the real attitudes and views of respondents, and were also meant to deepen the interpretation of the quantitative research. Unlike surveys that were supposed to answer to the question *How much?*, qualitative research focused on answering the questions *How?* and *Why?*. The targeted selection of interviewees allows you to reach people who have relevant and important information. In the FGI study, the respondents were selected among people with different roles in the municipality:

- person who is responsible for co-operation with entrepreneurs (local government representatives),
- investor in tourism (tourism entrepreneurs), and
- a person who has a comprehensive and authoritative knowledge of skills in an investment climate in tourism (experts).

2.1 Characteristics of the surveyed enterprises

In the CATI survey were companies from the tourism sector: agritourist, commerce, services, transport and accommodation (hotels/guesthouses). These were mostly small businesses. Fifty of them (82%) employed less than 10 employees. The surveyed companies differed in market timing and economic condition (18 defined the dynamics of growth as a downward trend, 27 as stable, and 15 as seeing growth).

2.2 Characteristics of the municipalities

The municipalities that took part in the research had a spa-touristic nature. However, preliminary analyses of the collected empirical evidence show the differences between them.

Krasnobród is mainly a tourist resort. There is a Rehabilitation Sanatorium for Children (a relatively small and new center). The main attraction of Krasnobród are tourist attractions and its microclimate, and the main investment is the lagoon. Investments focus only on the attractions of Krasnobród, bypassing the other villages. Most companies indicated moderate growth, while one in four indicated a downward trend.

Solec-Zdrój is primarily a spa resort and has been for almost 180 years. At the moment it is a private company. The main attraction of Solec-Zdrój is sulphide water, considered to be the best in the world. The spa offer is supplemented by Malinowy Zdrój (a Medical Spa complex, 4-star hotel, sports facilities). An additional advantage is the Spa Park with a pump room and indoor swimming pool. Nearly half of the surveyed companies were in stable economic condition, the others pointed to an upward trend.

Rymanów is a municipality where tourist and spa services are provided. The spa in Rymanów has a 140-year tradition. It consists of a complex of sanatorium buildings, a Spa Park, and several pump rooms. It is also a tourist base where hotels, vacation homes and guest houses are located. Although Rymanów is an investment center of the municipality, investments also include all villages with numerous tourist attractions. In spite of the wide range of health resorts, half of the entrepreneurs indicate that the growth dynamics of their companies is stable and every third one pointed to a downward trend.

3 Investment climate assessments

The determinants of local economic environment are most important in assessing the investment attractiveness of the region. According to those surveyed, the state of infrastructure and land availability are the most important. It is not important to have qualified staff available to every

tenth of the 61 surveyed entrepreneurs. Entrepreneurs relatively often (every sixth survey) indicated that the absorption of the market was not significant in creating an investment climate. This is due to the nature of services in spa and tourist destinations, and artificially maintained (by referrals from the National Health Fund) demand. Among the institutional support determinants, the municipality's policy is most important in creating a conducive investment climate. Important investment incentives are the laws and decisions facilitating the start of business activity. Collaboration with suppliers and business partners, the protection of investor rights, the process of acquiring licenses and concessions is significantly less important.

Tab. 1. Determinants of investment climate in the opinion of 61 surveyed entrepreneurs—answer: *It doesn't matter*

Components		n	%
Local economic environment	state of infrastructure (overall)	1	1,7
	road (and car parks)	1	1,7
	telecommunication	0	0,0
	media (gas, electricity, sewage, etc.)	0	0,0
	availability of land and infrastructure	3	4,9
	availability of qualified staff	6	9,8
	absorption of the internal market (potential sales opportunities) . .	10	16,9
	absorption of the Polish market (potential sales opportunities) . . .	10	16,9
Institutional support	municipality's policy in creating a conducive investment climate. .	1	1,7
	possibility of cooperation with suppliers and suppliers (availability of materials, raw materials, components)	11	18,0
	ease of starting a business (tax breaks, other incentives)	4	7,0
	protection of investor rights	11	18,6
	the process of obtaining licenses and/or concessions	14	24,6
	clarity and consistency of legislation	3	5,3

[In the journal European practice of number notation is followed—for example, 36 333,33 (European style) = 36 333.33 (Canadian style) = 36,333.33 (US and British style).—Ed.]

Entrepreneurs in the focus studies initially note the components of the external investment climate, which affect everyone (e.g., legal regulations) and the internal climate, which depends on local governments. However, an additional dimension was identified during the study—a regional component. In Krasnobród, the region includes neighboring municipalities from Zamojski, Tomaszowski and Biłgorajski counties, which have similar tourist attractions. The brand of the municipality is built on the basis of the attractiveness of Roztocze, but concrete actions have two dimensions. On the one hand, between centers like Tomaszów, Zwierzyniec, Krasnystaw and Krasnobród there is a competition that mainly concerns the promotion of the village. On the other hand, there is the idea of creating a common functional area for potential investors together with the municipality of Susiec, Józefów, Jarcia, and Zwierzyniec. According to entrepreneurs, the “pearl” of Solec-Zdrój is the sulfur water, unique in Poland and in the world. However, their regional point of reference is Busko-Zdrój—a larger, more recognized resort with a more diverse tourist offer. Entrepreneurs from Solec-Zdrój believe that they are in a situation of unequal competition. However, according to them, the privatization of the spa, the development of modern health services, and promotion of the village will lead to the fact that in a few years, “Busko will learn a lot from us.” In Rymanów the region is Niski Beskid and its tourist attractions, but specific actions are focused on the internal values and resources of the community. The key component of investment climate is the creation of an infrastructure that covers all villages, as the municipality is primarily a home to active visitors and tourists.

According to entrepreneurs, “the investment climate is the feelings of the residents, investors about whether or not it is possible to invest.” It can be built by:

- “a set of actions that affect someone making one or another decision”
- “Entrepreneurship, business environment . . .”
- “Institutions that would support, advise or assist. And it's not just about guarantees, loans, because they are such institutions, but later also . . . Promotion issue, cooperation issue . . .”⁷

7. Source: Own studies based on FGI with tourism entrepreneurs (SMEs).

The answer to the question What kind of investment place is your municipality? pointed to different evaluations among entrepreneurs in individual municipalities. Most skeptics were in Krasnobród, the best ratings were indicated in Solec-Zdrój.

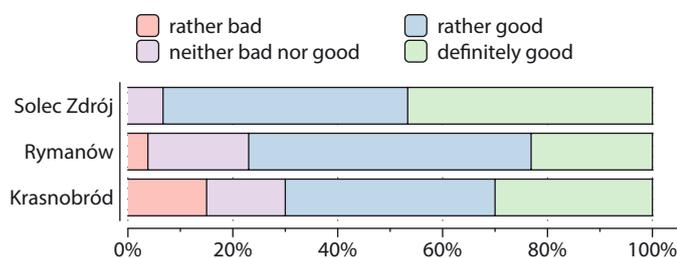


Fig. 1. What kind of investment place is your municipality?

3.1 Local economic environment

The businesses surveyed highly appreciated the “availability of land and infrastructure” and “state of infrastructure” among the elements of the local economic environment. Telecommunications infrastructure and media have been highly evaluated, while road infrastructure has been rated worse. “Availability of qualified staff” was assessed similarly to the infrastructure. The “absorption of the internal and Polish market” was the weakest. In particular, the absorption of the internal market was low. The assessment of the elements of the economic environment are homogeneous in the examined municipalities. The only significant differences are in the road infrastructure and market absorption—the worst were those evaluated in Krasnobród, most preferably rated were those in Solec-Zdrój.

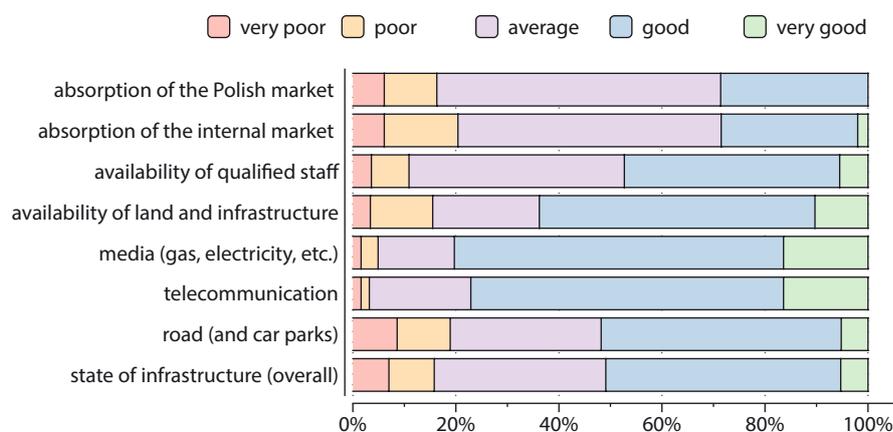


Fig. 2. Assessment of the local economic environment

Infrastructure has significantly improved over the last few years. Municipalities have built water and sewage networks, parking lots and sidewalks. However, despite favorable changes in this area, entrepreneurs pointed to the shortcomings that they believe inhibit the investment process. In Krasnobród it is the quality of roads, in Rymanów car parking and bike paths, in Solec-Zdrój connection of sulfur water and the generation of large quantities of bathing water.

The second component of the local economic environment is “availability of land and infrastructure.” Municipalities have partial plans of development, which may be modified at the request of investors. However, the change of these plans is limited due to the high cost. Representatives of municipalities evaluated “availability of qualified staff” in a similar way. Young people leave the municipalities because they do not see any future in them. There is a “monocultural labor market” in the health resorts. Spas employ specialists, but they are hard to find on the local labor market. The tourism industry is a bit easier because it is based mainly on small family businesses. And the gaps are seasonally filled by students.

The last element of the local economic environment is “market absorption”—i.e., the demand for services, in particular accommodation. In Solec-Zdrój the number of places is insufficient compared

to the demand. In Rymanów the situation is similar. Only in winter the tourist traffic is smaller and concentrated mainly on weekends. The spa has no offer for wealthy customers and customers from abroad. Only a few dozen people come to the spa in Krasnobród, while the tourist season lasts from May to September. Accommodation is fully used only during the holiday season. Only larger centers rent training rooms, or organize Green Schools for students. During winter, small guesthouses and agritourism farms tend to suspend their activities.

3.2 Institutional support

Entrepreneurs rated the “easiness of starting a business” among the institutional support components. Only one in ten respondents gave this component a very poor rating. Likewise, entrepreneurs have assessed three elements that define legal conditions. The lowest rating was given to “investor protection,” and “licensing and/or concessions.” Although “clarity and consistency of legislation” is an important component in the investment climate, the assessment of entrepreneurs in this area is ambivalent. Laws have been labeled barriers, the limitation that hampers entrepreneurship. These barriers are different. Firstly, the towns located in the examined municipalities have the character of a health resort, which limits the space to investors. Part of the area of the municipality of Krasnobród and Rymanów belong to the landscape parks and/or enter the Natura 2000 area, which influences land development plans and infrastructure development. Secondly, some barriers are created by the institutions (i.e., State Sanitary Inspection) or conservator of monuments. In turn, the representatives of the municipal offices drew attention to the law on public procurement.

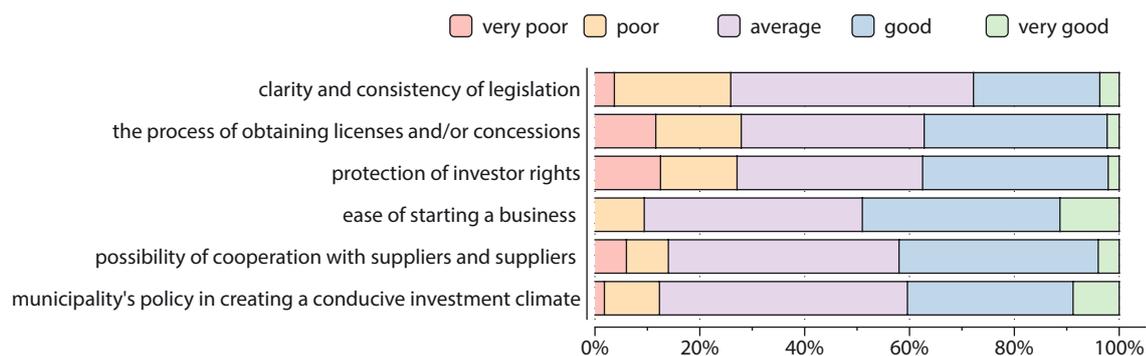


Fig. 3. Assessment of the institutional support

More attention of the entrepreneur was devoted to internal elements of the investment climate, and especially to the “policy of the municipality in creating this climate.” It was best appreciated by entrepreneurs from Solec-Zdrój and the least from Krasnobród. According to entrepreneurs, the municipality is the main institution responsible for creating an investment climate. It is about: responsibility for a space development plan, development of infrastructure, contacts with entrepreneurs (information, advice), integration of activities, and promotion. The municipality office in Solec-Zdrój is working to create the best investment climate. The Solec-Zdrój municipality in the form of public-private partnership implemented the construction of an indoor swimming pool in Solec-Zdrój, which increased the attractiveness of the village itself and extended the offer. The main complaint against municipal authorities is the amount of fees for bathing water. In Rymanów it is good to evaluate tourist information, new infrastructure solutions (modernization of the spa park, construction of waste water treatment plants), information and advice on official matters. The worst rating of the municipality was in Krasnobród. Entrepreneurs point to the need to develop infrastructure (including roads), construction of walking and cycling paths, extension of the offer of information points, extension of the reservoir and its maintenance. According to the municipality’s office, the main activities are aimed at supporting local entrepreneurs, but interviews show that the municipality’s development policy is aimed at external investors.

In Solec-Zdrój and Rymanów half of entrepreneurs, in Krasnobród 20%, do not cooperate with any entity. 77% of entrepreneurs who cooperated indicated that they cooperate primarily with contractors. For example, entrepreneurs from Solec-Zdrój offer cheap accommodation, while the spa

or Malinowy Zdrój outpatient treatment. Thus entrepreneurs “fill the gaps” and “secure a specific area.” As a result, there is an offer tailored to the needs and possibilities of all potential recipients. In Krasnobród the word “cooperation” is understood differently. It is desirable for the representatives of the municipality to cooperate with other health care communities (within the cluster), neighboring municipalities (functional area), universities and research institutes (implementation of EU projects) and finally with entrepreneurs (within companies). Local entrepreneurs have set up an association (19 entities) that is trying to influence local authorities. Its main purpose is to conduct a joint marketing campaign. Every third entrepreneur works with local government and financial institutions. With other entities (competition, consulting companies, technology transfer centers, universities, R&D units), co-operation is incidental. Entrepreneurs usually do not cooperate due to financial difficulties (59%) and lack of willingness to cooperate (37,7%). Four out of ten do not cooperate because of the lack of tangible benefits of collaboration. 77% of entrepreneurs indicated that support for the development of tourism sector cooperation with other sectors would be programs supporting the development of the tourism sector at the regional level.

According to entrepreneurs, the main investment barrier is the lack of financial resources. They see an opportunity for development in EU funds. Entrepreneurs expect information and consulting support from the municipality on the preparation of grant applications and the implementation of projects.

Conclusions

In general, entrepreneurs from the municipalities of Krasnobród, Solec-Zdrój and Rymanów evaluate these regions as a favorable location for doing business. They appreciate the investment so far and would like to invest again. However, the assessment of existing conditions for investment is not good. The division of investment climate components into local business environment and institutional support is not the same as the opinions of entrepreneurs in municipalities. Entrepreneurs mainly point to external and internal components. These first components correspond to macroeconomic conditions. According to entrepreneurs, these components are “completely irrelevant” in assessing the attractiveness of a given region for investment. Macroeconomic conditions do not refer to the region (they affect the whole country) and entrepreneurs do not see the possibility of influencing them. Therefore, in the focus group of entrepreneurs, they point to legal factors, pointing to their limitations. On the other hand, the problem of market absorption is connected with the demand for services. Entrepreneurs’ opinions mainly concern internal conditions, which include local economic environment, infrastructure and institutional support. Entrepreneurs differ in their perception of the local economic environment (tab. 2).

Tab. 2. Local environment in the opinion of entrepreneurs

Local environment	Krasnobród	Rymanów	Solec Zdrój
Development priorities	Local government—construction of functional areas, promotion of the town in the Roztocze region; Entrepreneurs—development of tourist infrastructure in Krasnobród	Varied offer for active tourism throughout the municipality and development of the spa	Spa services in Solec Zdrój (in the context of Busko Zdrój)
Labor market	Monoculture—tourist	Differential	Monoculture - spa
Cooperation	Competition, apparent cooperation	Coexistence, individualization (reported need for co-operation)	Cooperation, partnership, division by area of action
Cooperation barriers (besides financial barriers)	No desire, no tangible benefits, no use in practice	No willingness, low quality cooperation offer, lack of information, legal regulations	Consistency of legislation, no information

Despite the differences in perception of the local economic environment, entrepreneurs from different municipalities agree on the need to:

- identify the problem of young people migrating;
- highlight the importance of infrastructure, including roads (parking, pavements, bike paths); and
- assign high importance to institutional support.

Entrepreneurs are strongly associated with the actions of local authorities in creating a favorable investment climate. Entrepreneurs expect the local government to take care of technical infrastructure and institutional infrastructure in support of entrepreneurship, including information, advice and coordination. A common vision of the needs of the local economic environment by entrepreneurs and local government is a condition for meeting these expectations.

The results of empirical studies show that infrastructure and institutional support are important among the investment climate factors. As a result, the local government is seen as the natural authority responsible for creating this climate. The municipality is responsible for creating the necessary infrastructure and creating spatial development plans. In addition, entrepreneurs expect information, coordination, activation and stimulating activities from the municipality.

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