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EU REGIONAL POLICIES AND THEIR CONSEQUENCES FOR POLAND FROM A FINANCIAL PERSPECTIVE 2007–2013

Abstract. In the aforementioned case study, an endeavour has been made to analyse and assess the regional policies of the European Union and its consequences for the Polish economy, from a financial perspective, for the years 2007–2013.

A fundamental problem Poland is faced with after nearly three years of EU membership, is the capability of regions to utilise the increasing assistance from the European Union budget. The basic conditions to being able to utilise such a considerable sum, is a change in the public finance system and of the regulations governing the functionality of the administration. A better and more efficient utilisation of the budgeted funds would be to achieved upon subjecting a large portion of public expenses to Union principles and control.

Key word: regional policy, public finance.

1. THE SIGNIFICANCE AND GOALS OF THE EU REGIONAL POLICIES

The main priorities of the policies of the EU, are the equalization of levels of development between specific regions of member countries, a guarantee of cohesion within the Community, and of a Common Economy. The regions in the Community are distinguished by criteria in relation to administrative, historic and cultural, and economic factors (Borowski 2001).

Assistance from the EU to individual, subsidized countries, is financed by a number of Structural Funds, and a Cohesion Fund. These make up over one third of the Community's budget.

The planning, programming and monitoring of financial projects of the Structural Funds and the Cohesion Fund is based on a united structure in each of the individual regions, namely: "Nomenclature of Territorial Units for Statistics" (NUTS). There are five NUTS levels, and from the viewpoint of regional policies, the two levels, NUTS 2 and NUTS 3, are essential.

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Table 1

Nomenclature of Territorial Units in the EU

Level/Name	Example
NUTS 1	German Lands The whole of Poland
NUTS 2	French Regions In Poland, Voivodeships (16)
NUTS 3	French Departments In Poland, Sub-regions (45) made up of Groups of Districts
NUTS 4*	British Counties In Poland, Districts and Cities with District Laws (380)
NUTS 5*	Municipalities In Poland municipalities, incl. urban municipalities, which are cities through district laws (2,498)

* In April, this classification system was modified and the names for the former territorial classification NUTS 4 and NUTS 5 was modified to the classification LAU (Local Administrative Unit), where LAU 4 is defined in Finland, Greece, Ireland, Luxembourg, Portugal and Great Britain, whereas LAU 5 is defined for all countries. K. Gawlikowska-Hueckel, A. Zielińska-Głębocka, *Integracja europejska*, Warszawa 2004, p. 200.

Source: own calculations based on Management of the Cabinet of 13 July 2000 with the goal of introducing Nomenclature of Territorial Units for Statistical Purposes (NUTS), Dz.U. 2000, No. 58, entry 685.

European regional policies are, first of all, policies of solidarity, the main goals of which, is regional cohesion. This allows the European Union to participate in restructuring processes of industrialized regions that are in a state of regression, counteracting unemployment, and enlivening run-down areas in crisis, on the outskirts of cities.

Development of EU regions are Structural Funds (European Regional Development Fund, European Social Fund, European Agricultural Guidance and Guarantee Fund – Orientation Division, Financial Instrument for Fisheries Guidance) and the Cohesion Fund.

As a result of further reforms, with the aim of improving the regional policies, funds allocated for the Structural Fund have been systematically increased. From 1988, they have been increased three-fold, from approx. 10 000 million EUR in 1988 to over 30 000 million EUR in 2006. The legal basis on which the regional policies operate was encompassed in Title XVIII of the Roman Treaty of 1957. Particular attention was paid to this during the second half of the 70s. During the last quarter of the century, its importance has been increasing.

The EU is made up of 245 regions. In 64 of these regions, the income per capita is less than 75% of the Union average – a level of eligibility for funding (Słojewska 2005).

A considerable six out of ten of the poorest regions in the Union are found in Poland. 140 million people live in regions that are eligible for Union funding. In countries new to the Union, 90% of citizens live in poorer regions; wealthy exceptions being Prague, Bratislava, Budapest, Cyprus and Slovenia. Structural assistance allocated is mainly for regions in which income per capita is not greater than 75% per capita than the EU average, or for those with an obsolete economic structure and high unemployment rate.

2. POLAND'S TAKING ADVANTAGE OF STRUCTURAL ASSISTANCE IN 2004–2006

During the 24 months' membership in the EU, Poland received a total of 7.53 billion EUR, an incoming balance of +2.8 billion EUR. Of the funds received during this period, 1.88 billion EUR were from the Structural Funds, and from the Cohesion Fund, it received over 697 million of the 12.8 billion EUR, available during the 2004–2006 program for structural and cohesive purposes (*Bilans dwóch lat członkostwa 2004*, p. 16).

Assessing the degree of the implementation of specific operational programs (according to the value of paid payables versus liabilities incurred) we can come to the conclusion that the best situations exists in the following sectoral operational programs, where the used funds have been thus distributed: Fishing and Fish Processing – 30.6%, Restructuring and Redevelopment of the Food Sector and Development of Rural Areas – 22.9%, Integrated Regional Operational Program – 14.5%, and Transport came in last at 0.04% (*ibidem*, p. 17).

The implementation of the Integrated Regional Operational Programme (IROP) is being achieved in varying degrees in each voivodeship.

As shown in Table 2, the problem for Polish regions is not the preparation of appropriate projects, but the utilisation of the allocated funds. The largest portion of the regional development fund budget has been allocated to the mazowieckie, śląskie and dolnośląskie regions, and the smallest portion to the opolskie, lubuskie and podlaskie regions. The most agreements were signed in the pomorskie and kujawsko-pomorskie, and the least in the łódzkie voivodeships. The greatest proportion of payments made in relation to allocated funds was noted in the małopolskie and lubelskie regions, and the least in łódzkie and mazowieckie. Despite Polish regions having insufficiently utilised EU assistance, benefits from this assistance can be seen by means of a revival in investment within individual self-governed territories. In 2005, local governments allotted 18 billion PLN for investment, and in 2006, 31 billion PLN (24% expenditure), infrastructural investment making up an ever-increasing proportion of this allocation (Ostrowska 2006). Prior to entry into the EU, Polish local governments annually invested a maximum of 13–14 billion PLN.

Table 2

Implementation of the Integrated Regional Operational Programme (IROP) in Poland between 1.05.2004 to 30.04.2006 in Relation to Allocation for the Program Duration 2004–2006

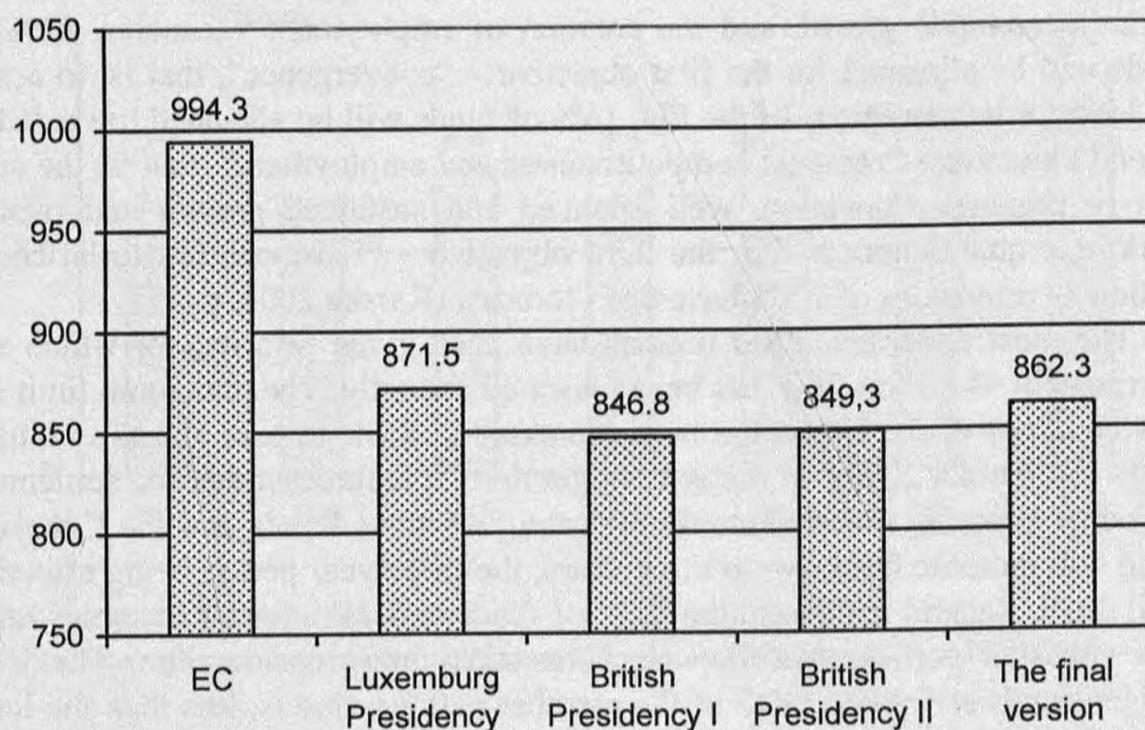
Voivodeship	Allocated Funds for 2004-2006 in EUR	% Implementation of Payables in 2004-2006 Based on Conclusions after Assessment	% Utilisation of Allocated Funds in 2004-2006 Based on Signed Agreements	% Utilisation of Allocated Funds in 2004-2006 Based on Payments Made
Dolnośląskie	223 637 527	200.13	79.87	9.67
Kujawsko-pomorskie	141 913 022	271.35	88.48	21.72
Lubelskie	200 997 680	279.80	65.72	14.23
Lubuskie	82 552 619	285.98	73.49	25.73
Łódzkie	157 098 460	228.67	63.88	8.90
Małopolskie	185 260 223	323.61	68.12	30.10
Mazowieckie	299 839 945	193.34	70.79	9.32
Opolskie	76 754 610	209.60	80.92	17.52
Podkarpackie	192 162 618	204.86	72.39	16.25
Podlaskie	109 886 094	334.64	82.29	22.89
Pomorskie	159 583 322	255.63	89.73	14.90
Śląskie	279 961 053	277.46	80.20	11.31
Świętokrzyskie	133 078 133	237.84	21.77	15.64
Warmińsko-mazurskie	181 947 076	186.36	67.50	12.90
Wielkopolskie	196 027 956	178.87	80.47	18.20
Zachodnio-pomorskie	139 965 770	259.69	73.85	14.75

Source: Statement of Two Years' Membership. Fragments of government information and chamber discussions, "European Union Monitor" 2006, No. 6/7 p. 18.

3. COHESION POLICY FROM A FINANCIAL PERSPECTIVE 2007–2013

In December 2005, agreement was achieved on the standards governing the UE budget and the distribution of funds collected for the years 2007–2013. It was decided that Union expenses will amount to 862 billion EUR. This will be a solution of compromise between the earlier propositions of Luxembourg and Great Britain and decidedly less beneficial than that earlier proposed by the European Commission.

In the Official Journal of the European Union a packet of five orders was published, relating to the cohesion policy for 2007–2013. These were accepted by the Council and European Parliament (4 July 2006) and constitute the basis of the law framework geared towards minimising the disproportion in the development in the European Union regions.



Graph 1. Propositions Regarding Union Budget for 2007-2013 in billion EUR

Source: own studies based on press coverage.

The main changes in policies in regard to regions and cohesion, in relation to the period 2000–2006 are:

- concentration of resources on economic growth strategies and employment, greater involvement in the realisation of targets on the regional and local levels;

- updating of the funds' priorities; the previous targets: regions with delayed economic development; areas of economic and social reconversion; education systems and promotion of recruitment in 2007, were superseded by: convergence, competition and the employment of a European territorial cooperation, a new legal body supporting the cooperation of cross-border and transnational regions;

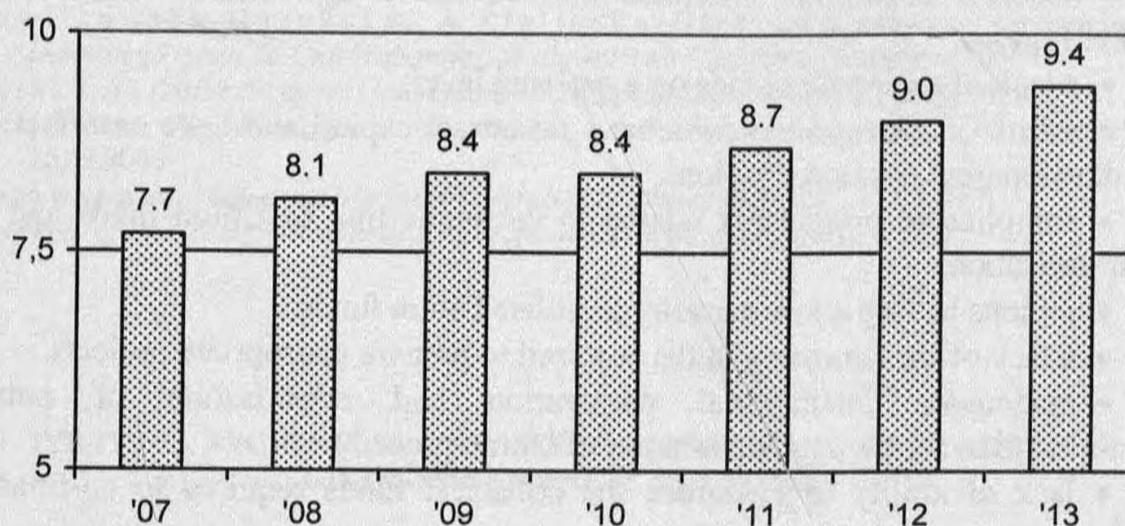
- the simplification and streamlining of the workings of cohesion policies, e.g. through the reduction of the number of entities from six to three; the introduction of new principles of proportionality ensuring the limiting of bureaucracy; reducing program stages from three to two; accepting national standards for costing qualification, and the granting of a wider scope of responsibility to member countries and regions.

In accordance with the decreed orders, 308 billion EUR has been allocated towards economic growth and the creation of employment vacancies. 82% of funds will be allocated for the first objective – “convergence”, that is, to assist the least fortunate regions of the EU. 16% of funds will be allocated towards the second objective – “regional competitiveness and employment”, that is, the support of regional innovation, well-balanced and sustained growth and raising workforce qualifications. For the third objective – “European territorial cooperation” – provisions of 2.5% have been forecast (Karska 2006, p. 35).

The most underdeveloped regions have been given priority, for which approximately 44 billion EUR has been allocated annually. The maximum limit for new countries of the Union has been increased to 85%, to ease access to Union funds (Słojewska 2006). In the last budget draft it is forecast that the settlement period of financial investments through the Structural Funds and the Cohesion Fund will increase from two to three years; the three-year period being effective until 2010. Raising the maximum limit of funds to 3.71% for all countries utilising cohesion policies has likewise been taken into consideration. The joint budget stands at 1.045% GDP of the member nations, that is, less than the limit of 1.27% GDP, in force until now.

Poland will be the greatest beneficiary of the Structural and Cohesion Funds – it is to receive for the years 2007–2013 a sum of 59 656 million EUR, i.e. 19% of all allocated funds for this purpose (Karska 2006, p. 35). Besides this, Polish farmers will receive 26 billion EUR guaranteed as a direct surcharge, and 5 billion EUR will be committed to Poland for other purposes. Besides the standard structural fund contributions, five of the poorest Polish regions and simultaneously poorest regions of the UE received an additional 886 million EUR. In total, on average, Poland will receive 13 billion EUR annually. The Polish contribution to the budget, however, will reach approximately 3 billion EUR (Karska 2006, p. 35).

The Ministry of Regional Development (MRD) would like for 16 Polish regions to decide independently as to how to divide the funds. There have been three apportioning methods proposed. The first method is used by the European Commission, where the sum received depends on the GDP per capita; in the second the criteria depends on the population and the inverse of the GDP per capita (this favours wealthy regions); in the third, which has been in force until now, 80% of the grant is distributed to all regions, and the remaining is distributed only to those regions in which the GDP per capita is lower than 80% of the national average, and where the unemployment rate exceeds the Polish average by half (Słojewska 2006). Local governments, however, could not agree, and so it was decided that the funds will be allocated by means of the currently used method (third method). None of the algorithmic methods mentioned took into account the land area of the voivodeships, a fact which disadvantages rural areas.



Graph 2. Planned Structural Assistance for Poland in 2007–2013 in billion EUR

Source: European Commission, National Development Plan project for 2007–2013

To utilise the increasing funds from the EU efficiently, the Polish Government plans to simplify the obligatory procedures, change the regulations for public orders, accelerate the assessment of applications and of the transfer of funds to beneficiaries. It is also planned to decrease the number of orders related to Structural Fund settlements from the currently 90 to 10. Instead of the presently 13 operational sector programs, there is to be only 3. All proceeds from the European Regional Development Fund will be managed by the Ministry of Regional Development, however, proceeds acquired from the European Social Fund will be distributed by the voivodeships.

Analysing the experiences of the “old Union” as well as the effects of Poland’s utilising the preaccessioned funds, it can be stated that the structural funds have on one hand contributed to the minimalisation of the differences in the level of development between member nations, however, on the other hand, these differences have increased between regions and subregions within a country. For example, in 2003 Lombardy reached 141.8% of the average growth, while Calabria stayed at 67.7%. In Spain, the region of Madrid reached 126.7% of the EU average, while the neighbouring Extremadura stayed at 61.6%.

In the years 1996–2002, the average growth of Masovia increased by 18.2%, from 51.3% to 69.5%, while the poorest Lublin region only increased by 6.4%, from 25.5% to 31.9% of the average EU GDP (Bielecki 2005).

The existing contrasts in the development of Polish regions, is due to:

- low public revenue in poorer regions,

- obsolete economic structures and excessive agricultural influence in poorer regions,
- a lack of regional policies on a national level,
- a lack of metropolises which would attract capital and have an effect on the development of poorer regions,
- complicated procedures related to the requesting of Union funds and of their utilisation,
- regions having a low capacity to utilise Union funds,
- a lack of the necessary skills required to prepare appropriate projects,
- inadequate institutional preparation and organisation of public administration for the implementation of Union procedures,
- lack of ability to guarantee the collateral funds required to co-finance projects,
- algorithmic methods used to apportion funds take into account population of regions, not their land area, which discriminates against rural areas.

It is important to highlight that despite the reservations mentioned, a new financial perspective for 2007–2013 creates a chance for the poorer regions. The most substantial changes benefitting the development of the regions are:

- increasing value of assistance,
- higher levels of adaptation of assistance to the level of development in the region,
- increasing the limit of the financial share of Union funds,
- prolonging the settlement period for financial investments from the Structural Funds,
- simplification of the procedures related to the request of funds and of their utilisation.

A primary problem in which Poland finds itself after two years of EU membership, is the capability of the regions to absorb the increasing assistance from the EU budget (in 2006 the value of the assistance increased four-fold). A condition of the utilisation of such considerable assistance is a change in the public finance system and the regulations of the functioning administration. A more beneficial and efficient utilisation of the budgeted funds would be achieved upon submission of a considerable portion of public expenses to Union principles, control and valuation.

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POLITYKA REGIONALNA UE W PERSPEKTYWIE FINANSOWEJ 2007-2013 I JEJ KONSEKWENCJE DLA POLSKI

W niniejszym opracowaniu dokonano analizy i oceny polityki regionalnej Unii Europejskiej w perspektywie finansowej 2007–2013 i jej konsekwencji dla polskiej gospodarki.

Zasadniczym problemem, przed którym staje Polska po niespełna trzech latach członkostwa w UE jest zdolność absorpcji przez regiony rosnącej pomocy z budżetu Unii Europejskiej. Podstawowym warunkiem wykorzystania tak dużej pomocy jest zmiana finansów publicznych i zasad funkcjonowania administracji. Lepsze i sprawniejsze wykorzystanie środków budżetowych zapewnia dostosowanie dużej części wydatków publicznych do zasad unijnych oraz unijnej kontroli.

Słowa kluczowe: polityka regionalna, finanse publiczne.