POLAND STRUGGLING WITH THE STRUCTURAL FUNDS

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Introduction

One of the most important challenges for Poland and the other new EU-members was to join the European Union in May, 2004. The main purpose of this paper is to outline briefly the current situation concerning the implementation process of the structural policy in Poland. In this paper I will try to answer the following questions: How well prepared is the Polish administrative system regarding structural policy of EU? What kind of institutions, rules and policies were created for the structural policy in Poland? Which are the main problems regarding the implementation of EU Funds? To write this paper I compared and analysed some Polish documents, books and articles on regional policy.

Due to successive enlargements, the European Union has become the world’s largest economy, but enlargement has also increased disparities in income among its member states. As the EU has grown, it has incorporated regions which are less developed in an economic sense. One of the EU’s tasks is to equalise the level of development between its regions by regional and structural policy. The Structural Funds are the basic instruments of the EU’s regional and structural policy.

The Structural Funds aim to support the restructuring and modernization process in the EU member states. Financial support is transferred to regions and states which would otherwise not have the opportunity to attain the average income level of the EU. Based upon the Structural Funds Regulations and the preceding agreement reached by the European Council in Berlin in 1999, most of the financial support is provided to regions where the GDP per capita is lower than 75 % of the average GDP per capita in the EU.

There are four different Structural Funds1:

- **The European Regional Development Funds (ERDF)**, whose principal objective is to promote economic and social cohesion within the EU by reduction of imbalances between regions or social groups. It was created in 1975.

- **The European Social Fund (ESF)**, the main financial instrument allowing the Union to realise the strategic objectives of its employment policy.

- **The European Agricultural Guidance and Guarantee Fund (EAGGF – Guidance Section)**, which contributes to the structural reform of the agricultural sector and to the development of rural areas.

- **The Financial Instrument for Fisheries Guidance (FIFG)**, the specific Fund for the structural reform of the fisheries sector.

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1Cp. www.europa.eu.int, Regional Policy, September, 2004
In addition to the *Structural Funds* there is also the *Cohesion Fund*. This Fund primarily focuses on transport and environment projects, is managed at the national level and can be accessed by member states with a GDP per capita of less than 90% of the EU average. The *Cohesion Fund* was set up in 1993 to support the four least prosperous member states: Greece, Portugal, Spain and Ireland.\(^2\) Joining the EU, Poland becomes a participant and beneficiary of the Internal Market, which creates enormous opportunities for Poland and further new member states.

A short analysis of the Polish economic situation is needed.

I. Structural changes in Poland’s economy

The fundamental economic transformation which took place after 1989 had an influence on regional differentiation in Poland. Changes in the sectoral structure of the economy, the emergence and flexibilization of the labour market, unemployment, privatisation and inflows of foreign capital are the primary factors that have started to affect development in the different regions of the country. Often, this has only intensified the existing disparities in social and economic progress.\(^3\)

Joining the Western structures and economic organisations, is being regarded as the most effective way to make up for the delays in development and technology, constituting one of the most important conditions for economic growth.\(^4\) At the time of joining the EU, one of the basic requirements of transformation was to change the existing legislation and to transform it into a framework compatible with a market economy. As a result of appropriate legal changes the rest of the central planning institutions was liquidated and a set of macroeconomic policies to stabilise the economy and to protect private property was set up.

The dynamic development of entrepreneurship was an outcome of the economic transformation. This resulted in the creation of thousands of small private companies. These private companies created new employment by recruiting people who were leaving state-owned enterprises undergoing restructuring. With the transition from a centrally planned economy into a market economy, it was revealed that some economic sectors were not prepared to function under new economic conditions. Specific examples of it are the mining

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\(^2\) Ibid.

\(^3\) Cp. *SOP Improvement of the competitiveness of enterprises*, Unit I: Analyse of the actual situation of the Polish Economy, Ministry of Economy, Labour and Social Policy, Warsaw, 2003

\(^4\) Ibid.
and metallurgical industries. Although the following governments have tried to adapt these sectors to the market economy, restructuring processes have not yet been finished.\textsuperscript{5}

Since the beginning of 1990, economic restructuring in Poland has been financially and technically supported by the EU, mainly from the PHARE\textsuperscript{6} programme. Initially the main purpose of PHARE was to support restructuring activities of the economies and create normal market economy conditions. In those countries which were the most advanced in the process of economic and structural transformation, namely countries which applied for EU accession, the main purpose of PHARE was to support them in the process of economic integration into the European Union.

The primary economic problem in Poland was and still is the spatial concentration of poverty, especially in the countryside where in communist times state agriculture dominated. Backwardness and outdated infrastructure have been great barriers to economic progress. Additional problems in Poland in recent years have been very high rates of unemployment and low rates of labour force participation. Despite far-reaching structural reforms in Poland, the public and territorial administration requires further reform. To sustain a successful catch-up process, the Polish economy depends on favourable external factors, internal structural reforms and the stabilisation of the state's financial policy.

II. Administrative structures to manage the EU cohesion policy in Poland

In order to implement the EU cohesion policy, the European Commission requires from the governments of the EU member states specific legal documents and reports concerning the economic situation as well as plans for the development strategy of each country.

A very important step in the process of reconciling the Polish regional policy inline with the EU rules was the regional development law from 12 May, 2000.\textsuperscript{7} This law addressed conditions supporting regional development. This is the first act of this kind; it establishes the state's regional policy. It contains the principles and forms of regional development support. Included are also guidelines for the co-operation of the Council of Ministers and the public administration with the local governments and economic and social partners. The act establishes those institutions which support regional development, it provides a way of

\begin{flushleft}
\textsuperscript{5} Ibid.
\textsuperscript{6} „PHARE” initially denoted Poland and Hungary Assistance for the Reconstruction of the Economy, but the program was successively extended to include all other Central and East European countries.
\textsuperscript{7} Cp. Ustawa z dnia 12 maja 2000 o zasadach wspierania rozwoju regionalnego, (Dz U. z dnia 14 czerwca 2000)
\end{flushleft}
managing activities within the framework of supporting the regional development and outlines as well principles for agreeing and implementing contracts between the central government and the voivodships.

On 26 March, 2002, the Council of Ministers approved the implementation system of the **Structural Funds** and the **Cohesion Fund** in Poland. Prepared by the Ministry of Economy, Labour and Social Policy, the regulation stipulates the basic conditions for the discharging system of the **Structural Funds** and the **Cohesion Fund**. In order to implement community aid and allocate it efficiently, the **National Development Plan** for 2004-2006 was created. This is a complex document defining the social-economic strategy for Poland in its first years being an EU member state. It analyses the socio-economic situation of Poland and its regions around the accession time. Moreover, it contains aims and strategies which should be taken to attain social, economic and spatial cohesion with other countries and regions of the EU. In this document all development aspects of Poland are presented. The document is also a basis to prepare the **Community Support Framework (CSF)** which represents the strategy and priorities for structural actions, their specific objectives, the contribution of the **Structural Funds** and the other financial resources.

The Ministry of Economy, Labour and Social Policy is the main negotiator for the **Community Support Framework** and the operational programmes with the European Commission.

The **Community Support Framework** for Poland in the years 2004-2006 is envisaged through five **sectoral operational programmes (SOP)**:

- **SOP Improvement of the competitiveness of enterprises** (ERDF) which aims to improve the competitive position of Polish enterprises in the Internal Market;
- **SOP Human resources development** (ESF) which aims to build an open-minded community based on knowledge and the development of human resources;
- **SOP Restructuring and modernisation of the food sector and rural development** (EAGGF-Guidance Section) which aims to support rural development and improve the competitiveness of the food industry;
- **SOP Fisheries and fish processing** (FIFG);
- **SOP Transport** (ERDF) which aims to build roads and develop alternative means of transport and improve safety on roads;

and also through:

- the **multi-funded Integrated Regional Operational Programme (IROP)** (ERDF, ESF), which aims to create conditions to increase the competitiveness of regions and counteract

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8Cp. [www.mgpips.gov.pl](http://www.mgpips.gov.pl) and [www.fundusze-strukturne.pl](http://www.fundusze-strukturne.pl)
the marginalisation of some areas in a way that the long-term economic development, its economic social and spatial cohesion and integration with the EU is continued;

- the *Technical assistance operational programme* (ERDF), which supports the institutions implementing the *Structural Funds*.

Furthermore, the structural policy that has been programmed within the context of the *National Development Plan 2004-2006* is to be implemented through:

- the *Cohesion Fund* projects – comprising infrastructure investments of the minimum cost of 10 million Euro in the transport and environment sectors respectively;
- *Community Initiatives* INTERREG (cross border co-operation among regions) and EQUAL (combating discrimination and social inequalities).

For the implementation of the *Community Support Framework* for 2004-2006 in Poland, national funds together with supplementary EU *Structural Funds* are supposed to be utilised, in line with the complementarity principle.\(^9\) Currently the whole territory of Poland is eligible for Objective 1 support, i.e. the support provided to regions with a GDP per capita of less than 75% of the Community average (measured in purchasing power and calculated for the last three years).

It is estimated that the EU transfers will be utilised in years 2004-2006 as follows:

a) the *Structural Funds*, in total 67.2 % (7.635,3 million EUR)
   - ERDF - 60,9 %
   - ESF – 22,9 %
   - EAGGF – 13,8 %
   - FIFG – 2,4 %

b) the *Cohesion Fund* 32,8 % (3.733,3 million EUR).\(^10\)

The *Structural Funds* resources for the achievement of the overall and partial objectives of the *CSF* should be concentrated and utilised in the following development areas:

1. **Developing employment and the growth of the enterprise sector:**
   - Improvements to infrastructure, specifically to transport;
   - Financial and advisory support will be offered to start-ups and SMEs as they are the fastest growing part of the economy and the main provider of new jobs;
   - Improvement of the overall skills and qualification levels of the labour force which will help to increase employment and the share of high-value-added sectors. In turn, these

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\(^9\) One of the principles of the European regional policy.

changes will contribute to the creation of a knowledge based economy. Support for the information technology sector will also foster this development.

2. **Improving infrastructure endowments related to economic growth and the quality of life:**
   - Investments to improve competitiveness – mainly through reducing transaction costs for enterprises, increasing their productivity and enhancing their export potential (inclusion of Poland into the TENs\(^\text{11}\) - transport corridors), the improvement of national and interregional links and intercity links;
   - Infrastructure investments to increase road safety and reduce congestion and pollution thereby improving environmental sustainability;
   - Investments upgrading local and regional infrastructure and improving connections with national roads and rail lines.

3. **Human capital development:**
   - Modernisation of the system of employment services which will be geared towards offering a personalised service;
   - Support for the unemployed aimed at improving employability and adaptation of skills and qualifications to meet labour market needs;
   - Improvement of the education level especially in rural areas. This, together with upgrading and developing local and regional infrastructure will enhance the possibility of attracting new enterprises and create employment.

4. **Improving the conditions for regional development including rural development:**
   - Improving basic technical, social and transport infrastructure;
   - Upgrading the low educational level of the rural population by training and education;
   - Supporting entrepreneurship and micro-enterprises;
   - Restructuring of the agricultural sector, including support for farms to meet standards and improve efficiency; complementary measures for diversification of rural activities will be provided.

The Ministry of Economy, Labour and Social Policy has a function to manage and co-ordinate the activity of the *Community Support Framework*.\(^\text{12}\) This Ministry manages and co-ordinates the aid from the *Cohesion Fund* with other instruments of the *Structural Policy*. After confirmation by the *State Monitoring Committee*, the *CSF* makes decisions concerning changes and allocates the finances according to priorities within particular operational programmes within the *CSF*. These decisions are adjusted in consultation with the European Commission. For all operational programmes, there are special committees which govern the selection of the projects. In the case of the *multi-funded Integrated Regional Operational Programme*, there are 16 committees whose purpose is to govern the regional components of the programme. The leaders of these programmes hold particular offices attached to the heads of the voivodship assemblies (*marshal*). The Ministry of Economy, Labour and Social Policy

\(^{11}\) TENs - Trans-European Networks.

is also responsible for the management and co-ordination of the **Cohesion Fund**, as was already mentioned. In this case, this Ministry co-operates with the European Commission and appoints the Monitoring Committee for the **Cohesion Fund**. The Ministry of Economy, Labour and Social Policy delegates the projects within the **Cohesion Fund** to the proper sectoral ministries. These ministries manage projects related to transport, to infrastructure and to the environment.\(^{13}\) The Ministry of Finance as an institution has a payment function for all of the **Structural Funds** and the **Cohesion Fund**.

Based upon financial information, which the Ministry of Finance obtains from the beneficiaries and institutions co-ordinating particular operational programmes, a computer database (CMCS\(^{14}\)) has been created. Its aim is to support the process of the absorption of the **Structural Funds** and the **Cohesion Fund**. The creation of this system was one of the conditions for receiving financial aid from the EU. The tasks of CMCS are:

- monitoring the financial indices and the results of the **Community Support Framework** and the **sectoral operational programmes**,  
- providing required reports concerning the implementation of the funds in Poland for the European Commission,  
- monitoring and managing projects at any stage of their implementation.  

This database is administered by the Ministry of Finance.

### III. The importance of successful projects

Project creates the bridge between the programming process and the implementation of EU aid. For a project to be successful, detailed knowledge about it and an understanding of the procedures, documents and frameworks are very important. A project is an activity concentrated on reaching a definite aim, to be completed within a certain time frame, which involves co-operation between partners who will gain benefits from it, with sufficient financial resources and using particular methods. Accurately defined criteria decide the choice for a project. For example, projects within the **SOP improvement of the competitiveness of enterprises** should meet the following criteria:

- integrated character of the project,  
- quality (companies follow a definite implementation system which guaranties quality, confirmed by ISO 9000 certificate),

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\(^{13}\) Ibid, p.149  
\(^{14}\) The Computerized Monitoring and Control System (in Polish SIMIK - System Informatyczny Monitoringu i Kontrolii).
- innovation (preference to companies which will implement process or product innovations),
- own capital (companies which have a certain level of their own capital to implement the project are preferable),
- sustainability (projects which are able to function independently and will continue to develop after the co-financing time, are preferred).

It can be said: in order to prepare an appropriate project it is advisable to spend sufficient time and to carefully monitor any progress made throughout the whole procedure. However, this is not the only challenge in preparing a suitable project. There are many difficulties which appear at each stage of the structural funding implementation.

IV. Problems in implementing the Structural Funds

Since the beginning, the implementation of the structural policy in Poland has brought difficulties in many different areas. Although the Polish government has already had experiences with EU programmes such as SAPARD, PHARE and ISPA, there were still problems appearing. Some of them are presented below.

Insufficient co-ordination

The preparation of the Polish administration and institutions for the structural policy was managed inefficiently. The production of an enormous amount of instructions and regulations concerning structural funding created a situation where nobody really knew how to implement them efficiently or how to determine roles and responsibilities.

The Polish Confederacy of Private Employers (PCPE) and the Gdansk Institute for Market Economics (GIME) have warned that two basic documents on the structural policy (National Development Plan and the SOP Improvement of the competitiveness of enterprises) are not well prepared. One of the reasons for this was, according to their view, the lack of participation of entrepreneurs in the creation of these documents. To be successful, it is essential to have the business community involved in preparing the contents of these documents. The PCPE and the GIME have not been satisfied with the way in which the financial aid is divided. According to the GIME, there is definitely too much of the available financial resources being spent for the business environment on the administration of the

15 Cp."Fundusze dla przedsiębiorców: czekając na terminy", www.gazeta.pl, from 14th of June, 2004
projects and not for the main purpose. Additionally, there is also no guarantee that the best projects will be chosen, because more attention is being paid to the formal requirements than to the analysis of whether or not a particular project really improves the competitiveness of enterprises.\textsuperscript{16}

For those who applied for the EU support the biggest difficulty was to understand the hierarchy of the civil servants who are responsible for the administration of the funds in Poland. At the top of this hierarchy stands the Ministry of Economy, Labour and Social Policy. Then there are four institutions which are responsible for particular programmes: the Polish Agency of Enterprise Development, the Ministry of Education and Information, the National Environmental Protection Fund and the Water Management Fund. At the lowest level there are the Regional Financing Institutions. These are already referred to in relation to the PHARE Programme. The transfers from the \textit{SOP Improvement of the competitiveness of enterprises} are supposed to be approved just at the central level which means at the Polish Agency of Enterprise Development or at the Education Department or at the National Environmental Protection and the Water Management Fund. This differs from the PHARE Programme which operates on a regional level. It is possible to imagine a scenario where civil servants in the institutions mentioned above can receive a large number of applications at one time. It is difficult to understand how these officials will be able to objectively estimate and verify the documents.\textsuperscript{17}

Since the beginning of the applicants, usually contractors, have warned that the government did not create the right system for managing the aid funds.\textsuperscript{18}

\textit{Delays in implementation}

Initially, works on \textit{Sectoral Operational Programmes (SOP)} were supposed to be finished by the end of November 2003, according to the government. However, by spring 2004 there were still new versions of SOPs appearing. This in turn has caused delays in the work on several specific procedures, organisational solutions, training and promotional undertakings.\textsuperscript{19} There were also delays in installing the \textit{CMCS} software system allowing registration, monitoring and control of the implementation of EU projects. This situation discouraged private companies from making an effort to apply for support from the \textit{Structural Funds}.

\begin{flushright}
\textsuperscript{16} Ibid.
\textsuperscript{17} Ibid.
\textsuperscript{18} Ibid.
\end{flushright}
On the other side, according to a Polish expert, there were no delays concerning the *SOP Human Resources Development*. In March 2004 the institution managing the *SOP Human Resources Development* started to work on the first applications, which came from regional job agencies. The applications mainly concerned problems of unemployment and strategies to lower it. Optimistic views have been expressed with regard to the *multi-funded Integrated Regional Operational Programme*, namely the part of the *Structural Funds* that goes to the self-governments. The European Commission has noted with satisfaction that there are many projects in this field.

**Lack of trained EU fund managers**

There is a need for administrative capacity that is able to handle the burden of managing EU fund absorption. The Polish civil service is poorly developed. There is little training of public servants in handling challenges associated with the absorption of the EU funds. An additional problem lies in the low wages paid to civil servants, which encourages experienced specialists to leave the administration. It should be expected that more personnel will leave the Polish civil service for EU institutions within the coming years. Training that is offered is often badly adapted to the real needs. All of these problems apply equally to the situation within the central government and local administration.

**Centralised allocation of financial transfers**

So far the Polish government has played the main role in dividing and allocating the transfers among regions. However, it is not an efficient method. The following example illustrates this argument.

The head of the assembly (*Marshal*) of the Podlaski region in Eastern Poland, Mr. Krzyzewski, complained that his region has been discriminated. The government chose population as the main criterion for allocating financial transfers among regions. If a specific region is sparsely populated, it will be worse off in terms of funding than a more populated region. Mr. Krzyzewski considered that the best solution would be to take GDP per capita in the particular region as the key criterion for allocation. If this criterion was to be applied, then

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21 Ministry of Economy, Labour and Social Policy is responsible for this operational programme
24 Cp."Jak wykorzystac fundusze strukturalne do cna", [www.gazeta.pl](http://www.gazeta.pl), from 3rd of August, 2004
the support would be more focussed on reducing disparities between more and less developed regions. Krzyzewski’s opinion was shared by the Marshals of Podkarpacki and Zachodniopomorski regions. Less than 5% of the whole transfers were envisaged for these regions. However, the Mazowiecki region, which included Warsaw, was targeted to receive 10% of the EU transfers. This indicates that the system of fund allocation among regions does not prioritize the catch-up of Poland’s least developed regions. According to Danuta Hübner, the EU Commissioner responsible for the regional policy, the Commission wants the multi-funded Integrated Regional Operational Programme to be replaced by 16 voivodship-level programmes of regional development for the next period of the National Development Plan 2007-2013. The European Commission plans to enable the regions to directly negotiate the amount of financial aid from the EU. However, according to Hübner, there is a risk that the strategies of two neighbouring regions will be completely different. A situation where one of these regions concentrates on industry while a neighbouring region concentrates on ecological tourism should be avoided. The European Commission has not yet found the right solution.

Despite these implementation problems, there is some evidence that Poland will be able to fully use the European funds. The absorption of the pre-accession funds has substantially improved. According to Tadeusz Kozak from the Office of the Committee for European Integration, Poland used 97% of the available financial transfers from Phare 2001 (around 396 million Euro).

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26 Ibid.
27 Ibid.
Conclusion

On the grounds of accumulated information regarding the subject of structural policy it can be maintained that Poland, at the present stage, meets the basic requirements necessary to implement the Structural Funds effectively. On the one hand there are many problems to be faced, but on the other hand we can draw a conclusion that the implementation system functions rather successfully, in spite of some criticism. At the right time a decision was made to implement only a small number of operational programmes. As a result of this decision the transparency and effectiveness of the implementation process was preserved (for example, there was only one integrated regional operational programme prepared which was valid for all voivodships). An additional advantage of this solution is an easier management of the Community Support Framework and assurance that the funding sources are allocated correctly. Also, the institutional structure which co-ordinated and allocated the funding aid was maximally simplified. As an example, there is only one financial institution in the Ministry of Finance for all of the Funds.

The experiences of EU member state do not give an easy or clear answer on how to build an efficient institutional system, because the Structural Funds regulations leave it to the member states to work out their systems of coordination. Thus, the resulting differences between the national systems are considerable. The following points are important for creating such a system:

- countries are obliged to assure efficient co-ordination among the departments. Institutions responsible for co-ordination have to act effectively. They should be created efficiently and function in a clear way;
- the new system should respect the tradition, administrative culture and its effectiveness as a whole for each particular institution;
- the previous experiences with PHARE, ISPA and SAPARD should be used;
- it is necessary to select professional civil servants.

Experiences of the member states show that most people employed in institutions responsible for the implementation of the structural policy are lawyers, economists or specialists in management and public administration field.

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29 According to T. G. Grosse, Preparing for the absorption of the Structural Funds in Poland, The Institute of Public Affairs, Analyses and Opinions Nr 7, Warszawa, 2003
It is hard to predict at the moment the macroeconomic effects of the utilisation of the *Structural Funds* and the *Cohesion Fund*. Hopefully, the regional policy in Poland will develop in the right direction and the implementation of the EU Funds will bring positive effects for both Poland and the European Community.
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