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POLITICAL ECONOMY OF EUROPEAN COHESION POLICY IN POLAND

Abstract: Paper will present: (1) critical evaluation of EU cohesion policy in Poland, (2) debate concerning future of European cohesion policy after 2013 and (3) proposals of European Commission concerning budget and regulations for years 2014-2020. Consequences for regional development policy in Poland will be tackled.
Key words: Cohesion policy, regional development, structural funds.

1. Critical assessment of the current European Cohesion Policy (ECP) model in Poland

As early as in 1990s Poland took steps to build a modern development policy in line with the European Union standards. Pre-accession programmes such as STRUDER, RAPID and CROSSBORDER emerged under PHARE, focused on supporting regional development and unearthing potential in the domain covered by the European Cohesion Policy. A thorough change of the regional policy model in Poland started on 1 January 1999. This was related to the preparatory work before the complex territorial reform in 1998, which restored the traditional three-level territorial organisation under which *poviats* and large voivodeships were established. The latter corresponded with NUTS 2 *(Nomenclature of Units for Territorial Statistics*) under the ECP and provided the foundation of Poland's institutional organisation and a toolkit for the European Cohesion Policy. At this administrative level the government had its representatives in provinces, called *voivods* but other elected bodies (voivodship governments) also emerged at that time, and the voivodeship budgets were introduced as a new financial category. Moreover, a number of competencies were shifted from the central level to the voivodeship level. For all of those reason it is often claimed that regional policy in Poland was not possible before 1999.

Starting from 2000, two other pre-accession programmes were added to PHARE, *i.e.* ISPA and SAPARD. As a precondition for their launch, the country was required to develop a Preliminary National Development Plan. That document was prepared for the years 2000-2002, and then extended onto 2003 as Poland's accession to the European Union was postponed. In parallel, the 2006 *National Strategy of Regional Development* was formulated in parallel in 1999-2001. The strategy comprehensively addressed issues of Poland's development policy under the new territorial organisation and the approaching EU accession.

After Poland's EU accession in 2004, the country's socio-economic growth accelerated considerably. This acceleration is usually attributed to the funds available under the European Cohesion Policy for underdeveloped countries and regions. However, it is worth remembering that there were also other factors which played a significant role: unlimited access to the Community market for Polish goods and services, adoption of broadly defined European standards, as well as gradual opening of labour markets in the 'old' EU member states. Similarly, the significance of the European Cohesion Policy should be viewed in a broader light rather than reduced to financial transfers.

The ECP solutions and measures became available for Poland after the EU accession, *i.e.* since 1 May 2004. The first programming period covered the years 2004-2006, the next one comprised 2007-2013. In 2004-2006 Poland received EUR 12.8 billion (in 2004 prices) from the European Regional Development Fund, European Social Fund, European Agricultural Guidance and Guarantee Fund (EAGGF) – the Guidance Section, Financial Instrument for Fisheries Guidance and the Cohesion Fund. When Poland presented the National Development Plan for 2004-2006, the Community Support Framework for Poland for 2004-2006 was negotiated with the European Commission on that basis. In the next multi-annual programming period, *i.e.* 2007-2013, the ECP allocation from just three funds, *i.e.* European Regional Development Fund, European Social Fund and Cohesion Fund, totalled EUR 59.5 billion in 2004 constant prices. Additionally, under the European Agricultural Fund for Rural Development (EAFRD) and the European Fisheries Fund, which remained outside the cohesion policy at that time, Poland received respectively EUR 11.8 billion (incl. EUR 6.2 billion under the former Guidance Section) and EUR 0.7 billion (also in 2004 constant prices). The 2007-2013 National Strategic Reference Framework became an essential document which defined the priorities of the EU structural interventions in Poland in order to support economic growth and employment.

2007-2013 was the first complete programming period of the ECP in which Poland has participated since the very beginning. All Poland's regions meet the conditions which classified them to the Convergence objective, which means that all Polish voivodeships the broad (in terms of scope) and fairly relatively abundant financing. Various important achievements of the ECP Policy in Poland are widely highlighted in areas such as programming, financing, governance, monitoring, evaluation and project selection. Undoubtedly, the balance of ECP in Poland after accession is positive. Among others, the European Cohesion Policy helped to:

- create the first generation of development policy in Poland, conducted on the basis of multi-annual programming documents;

- develop the capacity to conduct development policy, also at the regional level, which enabled considerable decentralisation of that policy;
- limit, and sometimes even to eliminate, various deficits, including deficits within the administration and civil society, which led to the institutionalisation of development policy;
- make a better use of the country's endogenous development potential and the potentials of specific regions after unearthing them;
- limit various deficits in production factors on the supply side, including ones that concern infrastructure, workforce, the enterprise sector, business environment *etc*.;
- exert positive influence on the economic situation in Poland, which was released thanks to expenditures made within the ECP;
- efficiently disseminate the best global and European practices in various aspects of development policies;
- introduce monitoring, evaluation, audit and certification as commonly used solutions and practices.

The enormous civilisation-building significance of the ECP is often underestimated yet it is the ECP which stimulates thinking and actions driven by developmental categories in SMEs, local governments, non-governmental organisations, business institutions *etc.* It also enables the application of community-based planning procedures which take account of various stakeholders. As a result, the quality of public administration involved in the implementation of the ECP improved dramatically, both at the national and on the regional level. A concise reflection of the impact of structural funds and the Cohesion Fund on Poland's growth trajectory and on individual trajectories of its voivodeships can be seen from the results of HERMIN macroeconomic modelling: they show a considerable impact of the European interventions on the country's GDP and unemployment rates after 2004.

However, the possibilities arising from the European Cohesion Policy could be utilised much more effectively, bringing even greater results and generating much faster and more profound structural changes in Poland. The key problems are linked with the following:

1. **Quantitative parameters play a dominant role in the evaluation** of ECP implementation. Introduction of the n+2/n+3 principle, obligatory for all funds, created a strong pressure on utilising all the potentially available Community funds, regardless of purpose but effectively and in line with regulations and procedures. As a result, the more ambitious endeavours and projects were put on the back burner since EU funds could not be utilised quickly in such cases. Moreover, such complex projects would increase the level of risk. Additionally, Poland decided to establish the national performance reserve, and the access to those funds was dependent on the EU resources put to use. This led to a primitive race, especially at the voivodeship level, where beneficiaries focused on quick but not necessarily ef-

fective spending. Such a situation was conducive for simple, consumption-focused spending whereas complex structural endeavours of developmental importance were less frequently undertaken. In brief, quantitative rather than qualitative criteria prevail in the evaluation of European Cohesion Policy in Poland.

2. **Intervention directions under the ECP are highly dispersed.** The list of projects financed from structural funds and the Cohesion Fund is very long since all sectoral lobbies negotiate to make sure that their respective spheres of competence are covered by legal regulations. This opens an opportunity for them to use the ECP funding under operational programmes. Further on, during consultations on draft strategic documents, a typical political mechanism is at work: this means that all potentially approvable financing targets are incorporated in the National Strategic Reference Framework and in operational programmes, regardless of their ability to stimulate development. This causes high transaction costs resulting from the dispersion of intervention directions and from the lack of critical mass in many spheres (and such critical mass is essential if Community funding is to have any significant impact). Moreover, EU allocations destroy relatively well-functioning market segments and supersede the private sector or commercial activities. Overall, from the perspective of development policy, many of the intervention directions mentioned in legislation have a low added value, yet such directions are often preferred by managing authorities. Such excessive dispersion of intervention directions means that there are no synergies which might otherwise arise as a result of application of various instruments.
3. **Political mechanisms distort the philosophy of structural intervention** in the European Community. In Poland, this attitude is reflected in the journalistic phrase about 'squeezing the Brussels sprouts', *i.e.* reducing the significance of Poland's EU membership to financial transfers. Such transfers are seen as something that Poland deserves as are viewed as free, politically motivated resources. At the country level, and, notably, at the regional level, European funds might be, and are, utilised to build political clientelism. As a result, a large number of small projects are preferred, which effectively supersede major structural endeavours. Paradoxically, abundance of structural funds and the Cohesion Fund may slow down the necessary budget reforms which could otherwise generate the country's funds for development policy. At the regional level, this may preserve the culture of dependence where everything depends on external fuel and various stakeholders focus on allocation algorithms rather than on effective utilisation of available funds.
4. **Lack of comprehensive character in structural interventions**, which results from the segmentation of various instruments. The EU legislation for 2007-2013 aims to ensure single-source funding for operational programmes, which means that such programmes may not be funded simultaneously from the European Regional Development Fund and the European Social Fund. Interestingly, this does not apply to the European Regional Development Fund or the Cohesion Fund. The

so-called cross-funding (*i.e.* the possibility to finance activities falling within the scope of one fund from another fund, up to a certain threshold), which was treated as a substitute, generally proved fairly ineffective. This meant that the software and the hardware of development policy were placed within different operational programmes. Additionally, starting from 2007, the rural development instrument was incorporated in the Common Agricultural Policy (CAP). Thus, the European Agricultural Fund for Rural Development became a foundation for the second pillar of the CAP. However, the tasks related to rural areas remained within the ECP even though a dedicated rural development facility was shifted to another policy. In most EU member states, including Poland, this led to decomposition of development programming, both at the country level and the regional level.

5. **Inefficiencies in project selection for ECP financing.** While EU procedures are transparent and focused on preventing fraud and corruption, they are also sluggish, bureaucratised, with a very broad scope of analyses and required documentation. Oftentimes, in order to avoid corruption, member states impose additional conditions and limitations on Community rules. According to Polish public procurement procedures, low price is the main factor by which successful bidders are selected for contracts (projects). This approach often leads to dumping prices and the tenderer receives poor quality product, often with considerable delay. This problem particularly affects areas such as training, advisory services and evaluation studies but also occurs in 'hard' projects (infrastructure). Another problem is that the European Union has a strong preference for a competitive procedure in project selection, which often considerably hampers the achievement of a comprehensive outcome of structural intervention.
6. **Duality of the administrative model of development policy in Poland**. Despite the efforts undertaken to integrate the ECP and development policy in Poland, two separate systems exists. This split is reflected in the existence of two sets of strategy documents (not entirely consistent) which means that each set entails different instruments and procedures regarding domestic funds and EU funding. Moreover, the institutional framework for developmental policy is not quite legible, either, as it crosses the competencies of various ministers, such as those responsible for the economy, regional development and agriculture. Poor administrative culture is an obstacle on the way to the development policy mission due to poor quality of collaboration between ministries. Of special importance is the collaboration between ministers responsible for regional development, administration, finance, agriculture and the economy. This problem of policy integration is addressed informally: the minister responsible for regional development gradually takes over various competencies in this sphere, turning into a minister of development policy.
7. **Weaknesses of financial procedures**. One problem is that beneficiaries must provide financing in advance (prefinancing) in the case of ECP initiatives. This largely prevents economically weaker local governments or public benefit organi-

sations, which are usually weaker, from utilising structural funds as such advance financing is reimbursed after completion of a project. Another important issue is the efficiency in reimbursing the spending from the EU budget, which provides a summary picture of the quality of certification process. In its annual reports, the European Court of Auditors documents a significant range of irregularities in undertakings executed under the ECP. This means that expenses which, after analysis, are considered ineligible cannot be recovered, and this becomes a burden for many beneficiaries. Even though this opportunity is generally very attractive, the requirement of match funding of minimum 15% is problematic for many potential beneficiaries in view of their limited financial potential.

8. **Weaknesses of the monitoring and evaluation system**. The system of material and financial monitoring enables efficient implementation of the ECP. *Ex ante, ongoing* and *ex post* evaluation helps to provide a assessment of the impact of structural funds and the Cohesion Fund. Poland is known in the European Union as a country with a very high quality of monitoring and evaluation. However, Poland also faces a number of problems resulting from factors such as: dominance of simple indicators (expenditure level) in both those spheres, absence of basic statistical data presented in a sufficient territorial breakdown and complied for long time series, low added value of many evaluation reports (sizeable reports contain trivial and obvious conclusions), lack of effective mechanism to transpose evaluation results onto policy modifications, sluggishness in introducing task-oriented budgeting solutions. In Poland, monitoring and evaluation usually lead to very general conclusions which are not very useful for designing a modern development policy.
9. **Uneven timing in the utilisation of structural funds**. This is related to the cycle where subsequent multi-annual budgetary frameworks are launched. In the first years of the new cycle the process is very slow and the foundations for the implementation of ECP instruments are created. Institutional efficiency is by no means enhanced by the profound changes in the ECP model which occur from one multi-annual programming period to another, which means that the learning process is long. Further on, during the middle years of the multi-annual cycle, there is a relative abundance of European funds and they are utilised relatively efficiently. At that stage a broad array of various EU-funded projects compete for contractors, which easily generates excessive costs of the undertakings supported from EU resources. The situation changes dramatically towards the final years of each cycle when the remnants of allocated funds available under various operational programmes are spent, and the scope and scale of funding for development initiatives is limited at that stage. Quite fortunately, during the peak of the global economic crisis Poland enjoyed relative abundance of EU funding and the EU financing cycle did not overlap with the economic cycle.

The majority of issues described here are addressed in public debates, mostly when discussing the idea to limit the scale of ECP financing.

2. Debate on the future of the European Cohesion Policy after 2013

At present, the European Union is witnessing a very intensive dialogue about the ECP solutions in the next seven-year programming period. In keeping with the Lisbon Treaty, a consensus of three institutions (European Council, European Commission and European Parliament) will be required to reach the final agreement. Regretfully, the debate has been conducted under the cloudy skies of the global economic crisis, the EU crisis and the euro zone problems, which means that budgetary factors play a very important role in the debate yet they are often formulated in a very primitive way. Generally, the debate is highly professional but there are also some made-to-order journalistic texts aiming to compromise the European Cohesion Policy, for instance three articles published in the Financial Times in the autumn of 2010. The most important documents which mark the milestones of this debate within the European Union are given below:

A. The Green Paper on Territorial Cohesion of 6 October 2008, which anticipated the Treaty-based nature of this dimension of cohesion, introduced in accordance with the Treaty of Lisbon.
B. The report prepared by Fabrizio Barca at the request of Danuta Hübner, Commissioner for Regional Policy, and presented, with appendices, in April 2009. The Barca report outlines key challenges faced by the European Cohesion Policy in the coming years and shows how they may be addressed effectively, indicating the importance of the so-called place-based development policy.
C. Positions presented by DG REGIO Commissioners Danuta Hübner and Paweł Samecki at informal meetings of ministers responsible for cohesion policy held during subsequent presidencies in April 2009 and December 2009.
D. The Europe 2020 Strategy, replacing the Lisbon Agenda and extending its time frame until 2020. This document, which will become the basis for all Community policies in 2014-2020, was adopted by the Council in June 2010.
E. The EU budget overview presented in October 2010 which contained the assessment and proposed changes to the model of financing EU policies (including the ECP) in the next multi-annual budgetary perspective.
F. The Fifth Cohesion Report of 9 November 2010, containing an analysis of regional development processes in the European Community, and comprising, among others, an analysis of regional differences, an assessment of the contribution to cohesion made by the European Union, national governments and regional governments, the impact of cohesion policy and conclusions for the European Cohesion Policy after 2013.
G. The European Commission's Communication accompanying the report, containing the proposed conceptualisation of the European Cohesion Policy in 2014-2020.

H. Results of public consultations on the Fifth Cohesion Report, which took place between 1 December 2010 and 30 January 2011 – they were summarised at the Cohesion Forum held in Brussels from 31 January till 1 February 2011.
I. EU Territorial Agenda 2020 agreed during an informal meeting of EU ministers responsible for cohesion in Godollo (Hungary) on 19 May 2011.
J. Conclusions from subsequent presidencies, notably the Belgian presidency conclusions of 22-23 November 2011 from Liege and the Hungarian presidency conclusions of 20 May 2011 from Godollo.
K. The EU 2014-2020 budget proposal, developed by the European Commission, and presented on 29 June 2011.
L. Proposals for regulations for 2014-2020, including general ones as well as ones concerning individual ECP funds, as presented by the European Commission on 6 October 2011 – this will serve as a starting point for negotiations with member states.

Other stakeholders in this process include the European Parliament, the Committee of the Regions and the European Economic and Social Committee, all which formulate their proposals, as well as individual member states which present their positions in negotiations. Other institutions also take active part in the ongoing debate. They include academic and research circles, regional and local governments, economic agents, business environment institutions, non-governmental organisations as well as networking organisations. Positions are also expressed in letters written by member states to President J. Barroso.

In the public consultations regarding the Fifth Cohesion Report, held in December 2010 and January 2011, opinions were received from all member states except Slovenia as well as Norway and Switzerland, and from many actors representing various ECP stakeholders. The majority emphasised the high added value of the ECP and pointed out that the ECP should be adapted to new challenges currently faced by EU countries and regions.

The economic crisis which affected the European Union and its member states, the crisis of European integration and the problems with the European currency mean that special care must be taken when considering the future of the European Cohesion Policy. When EU member states revise their fiscal policies, it is easy to argue that funds allocated to the ECP must be radically limited in order to reduce excessive budget deficit. This is very simple in a situation where the EU derives its budgetary funds mostly through contributions from its member states in relation to their respective national income values. In many member states which are net contributors to the Community budget witness ever more audible voices from political parties and forces which propose to reduce financial transfers to the European Union in order to save money. Therefore, we might see a negative scenario whereby the scale of interventions under the ECP will be considerably reduced under the pretence of its low efficiency and unavailability of match funding from beneficiary countries.

This danger has been noticed by the DG REGIO of the European Commission, by many experts as well as member states and regions which widely benefit from those financial transfers. Given its structure, the European Parliament generally acts as an ally to the European Cohesion Policy, trying to combat any potential deterioration of the ECP. Attempts at preventing the erosion of the ECP often lead to unco-ordinated activities and such activities sometimes generate additional costs and undermine the internal logic of the ECP. The main directions of such activities include:

1. Expansion of the political base of ECP beneficiaries. Already in 2007 an assumption was adopted that all NUTS 2 Community regions would benefit from financial transfers. In the draft regulations for 2014-2020 it was proposed to introduce a new category of transitional regions with a GDP *per capita* at PPP ranging from 75% to 90% of the EU27 average. Those countries and regions became active defenders of that policy. As a side effect, we see a reduction of financial streams for the poorest EU regions and countries.
2. Fast-paced adjustment of the ECP to the radical change of the context of socio-economic development across Europe and worldwide. This is reflected in the enormous flexibility and efficiency of that policy in taking over and adapting new ideas such as knowledge-based economy, information society, information and communication technologies (ICT), learning regions, innovation *etc.* This leads to the fact that the ECP is subordinated to the *Europe 2020 Strategy* and that traditional directions of ECP intervention in infrastructure are being constrained. Moreover, the structure of ECP expenditures in Community regions and countries is defined at the EU level.
3. Eliminating irregularities in implementation. Since various cases of irregularities are widely covered by the media, the scope of various activities reducing mismanagement and fraud has been systematically expanding. This is reflected, among others, in broader scope of monitoring, whether material or financial, development of evaluation, whether *ex ante*, ongoing or ex post, greater appreciation of audit, a wider scope of control, including direct European Commission's control over major projects. This means, however, that implementation procedures are slowed down, administrative costs are increased and the degree of regulation is generally excessive and very distant from the idea of simplification.
4. Operationalisation of the notion of territorial cohesion, which was laid out in a treaty starting from 1 December 2009. The European Cohesion Policy assumes that the following instruments will be introduced on a much broader scale starting from 2014: urban dimension, local development, and territorial impact projections. The issues of accessibility, connectivity and territorial standards of services are becoming crucial. As a result, the European Cohesion Policy will be increasingly present in local and regional frameworks within the European Union, thus becoming the most important ally of the civil society.

Such flexible adaptation of the European Cohesion Policy to new challenges will probably help to continue it into 2014-2020, in a suitably modified shape. However, this considerably expands the potential for ECP criticism in future since it will become even more eclectic in 2014-2020 than it used to be.

Changes in the European Cohesion Policy model result from the new theoretical foundations, mostly inspired by the New Economic Geography. International organisations such as the OECD and the World Bank have attempted to translate the theoretical currents of the New Economic Geography into regional policy solutions. The World Bank stressed the need for radical redefinition of development policy foundations, accentuating the importance of the largest urban centres in development policy. The values of GDP per area (square kilometre) reflect the leading role of major cities for generating the national income. In Central Europe, Warsaw has a strong position and it competes against Berlin, Vienna, Prague and Budapest. In Poland, development potential is concentrated in the largest urban centres such as Warsaw as well as Gdańsk, Katowice, Cracow, Łódź, Poznań and Wrocław. The OECD formulates proposals concerning the new regional development paradigm, comprising, among others, objectives, territorial units of intervention, nature of strategy, instruments and actors (Table 1). The catalogue of key notions includes terms such as information society, knowledge-based economy, information and communication technologies (ICT) and learning regions.

Obviously, this is of special importance for Poland, the major ECP beneficiary at present, attracting significantly more than 20% of allocations. At the same time, nearly 50% of costs of public investments in Poland are financed from structural funds and the Cohesion Fund. Structural funds also help to conduct active regional policy at the voivodeship level.

Specific solutions of the European Cohesion Policy for 2014-2020 will be adopted in 2013 as a result of a dialogue between member states, the European Parliament and European Commission, as well as other stakeholders. The financing of the ECP will be a subject of fierce discussions in the coming months.

Poland is a very active participant to this discussion because 2014-2020 is the last multi-annual programming period when it can hope to receive abundant ECP funding for all of its regions. Macroeconomic programming shows that the rate of

Table 1

Old and new regional policy paradigm, according to OECD

Feature	Old	New
Objectives	Periodic compensation in underdeveloped regions	Utilisation of capabilities and enhancement of competitiveness
Intervention unit	Administrative units	Functional areas of the economy
Strategies	Sectoral approach	Integrated development projects
Tools	Subsidies and state aid	Mix of hard and soft capital
Actors	Central government	Multilevel public governance

Source: [*Regional Policy Challenges*… 2009].

Poland's socio-economic development in the coming years will largely depend on the scale of available structural funds and Cohesion Fund resources and on the targets and efficiency of spending.

Efficient utilisation of Community funding is equally important and it means that both demand effects and supply effects will emerge. The experience of Poland and the EU indicates that the requirement to spend 102% of the allocated European funds should not be the sole criterion considered when evaluating the quality of the ECP. The proportions of expenditure in the three core directions of ECP intervention, *i.e.* human capital, enterprises and infrastructure, are important indeed but of even greater importance is to direct the outlays within those directions to actions that boost development. In order to stimulate essential structural changes in 2014-2020, EU funds must serve the priorities of Poland's development policy, with due consideration for the regional dimension.

3. Conclusions from the European Commission's budget proposal and proposed legislation for 2014-2020

Expectations towards the European Cohesion Policy after 2013, as formulated in various EU strategic documents, are very elevated and, overall, incoherent. It is assumed that the European Cohesion Policy will lead, among others, to the following:

A. Implementation of the *Europe 2020 Strategy*.
B. Improved competitiveness of the European Union in the global dimension.
C. Increased degree of economic, social and territorial cohesion at the level of countries and regions.
D. Radically improved quality of public intervention in the European Union.
E. Greater macroeconomic stability of the European Union.
F. A more efficient way to incorporate the regional dimension, enabling the utilisation of Europe's regional framework.
G. An effective way to address new global challenges, primarily those arising from climate change.

On 29 July 2011 the European Commission presented the budget proposal for 2014-2020[1]. It proposed to retain the substantial scale of ECP financing while maintaining the priority of intervention in Convergence regions. The GDP *per capita*, at the PPP not exceeding 75% of the EU average, remains a precondition for regions which want to be being classified into this category. As regards the Cohesion Fund resources which are allocated at member state level, the threshold value will be unchanged, *i.e.* GDP *per capita* not exceeding 90% of the EU average. This means that

[1] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. A budget for Europe 2020 Part I and II, SEC (2011)867-868 final, Brussels 29.6.2011 COM (2011)500 final.

all Polish voivodeships except Mazowieckie will continue to benefit from the most abundant financing available for Convergence regions. Overall, the average annual *per capita* allocations for Poland in 2014-2020 are expected to reach approx. EUR 300, which translates into approx. EUR 80 billion in 2011 constant prices.

The following proposals from the Commission's Communication are important for the development function under the European Cohesion Policy:

- **Return to the multifund financing of operational programmes**, which has been proposed by many member states. This approach will enable comprehensive financing of development initiatives in specific programmes under the European Regional Development Fund and the European Social Fund. Notably, to date there have been no suggestions to integrate the European Cohesion Policy with the European Agricultural Fund for Rural Development, which will means that they EU policy instruments oriented on rural areas will be difficult to integrate with other policy instruments.
- **Establishment of the European Performance Reserve,** corresponding to 5% of the European Cohesion Policy funding. This means that countries which will utilise structural funds and the Cohesion Fund most effectively may expect to receive additional allocations. The status of implementation across countries can be compared only through very simple measures such as the total sums actually utilised. This is likely to lead to huge pressure on fast spending of domestic allocations and is likely to aggravate the scale of existing pathologies.
- **A more rigid structure of allocations under various funds**. In 2007-2013 it was decided that the Cohesion Fund would represent 33% of the value of national envelopes for Convergence countries. A more rigid structure of allocations under various structural funds, as proposed by the European Commission, reflects an attempt to take the European Social Fund outside the ECP and turn it into a social instrument. It was decided that the share of the European Regional Development Fund would represent 42% in member states covered by the Convergence objective, whereas the European Social Fund would constitute 25% regardless of local developmental conditions. The Cohesion Fund will account for the remaining 33%.

All those proposals were repeated in draft regulations presented by the European Commission on 6 October 2011[2]. They will constitute the development policy framework for Poland in 2014-2020. The most important legislative proposals of the European Commission, contained in the draft regulations, which are relevant for the regional development policy in Poland are as follows:

[2] Regulation of the European Parliament and of the Council on laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund covered by the Common Strategic Framework and laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No. 1083/2006, SEC(2011)1141, SEC(2011)1142, European Commission, Brussels, 6.10.2011 COM(2011)615 final plus seven other regulations.

- **The scale of funding available under the European Cohesion Policy.** The allocations earmarked in 2014-2020 for the European Cohesion Policy are slightly lower than the funds available in 2007-2013 and amount to EUR 376 billion in 2011 constant prices. The core allocation, *i.e.* EUR 162.6 billion, will be earmarked for less developed regions, whereas the second item of expenditure, EUR 68.7 billion, will be associated with the Cohesion Fund. That allocation will comprise funds from the 'Connecting Europe Facility' (EUR 40 billion) and, additionally, EUR 10 billion from the Cohesion Fund untapped within the Facility. This calculation of the ECP budget was not reliable since the 'Connecting Europe Facility' is, in fact, part of sectoral policy in infrastructure. Therefore, the actual funds available under the European Cohesion Policy are significantly lower than those in 2007-2013. When making conversions to current prices, the 2% average annual inflation rate will continue to be applied.

Of significant importance for the poorest countries and regions within the Community are the maximum thresholds of reallocations from funds that support cohesion. In 2007-2013 reallocation concerned four funds and the contribution from the EAGGF Guidance Section to the EAFRD, whereas in the years 2014-2020 reallocation is expected to cover only three European Cohesion Policy funds. However, in the current period, this threshold was defined pro rata to the Gross National Income (GNI). For Poland the figure was close to 3.5% of GNI on the average annual basis whereas it will be confined to 2.5% of GDP in the subsequent period. Reallocations are reduced under the pretence that absorption of structural funds in many member states is problematic and that domestic match funding is difficult to obtain in conditions of the global economic crisis. It has been proposed to reduce the share of the poorest areas significantly versus 2007-2013. If the allocation under the first goal is set as 100, then 50.13% will be earmarked for the poorest regions of the Community whereas 21.19% will be intended for member states which are Cohesion Fund beneficiaries. In 2007-2013 those two items represent over 80%.

If the currently used Berlin algorithm is applied consistently, the share of allocations for Poland under the ECP should go up from approx. 20-21% to approx. 27%. However, the introduction of the category of intermediate regions (with *per capita* GDP of 75-90% of the EU-27 average), which attract EUR 38.9 billion, slightly increases Poland's share in the overall allocation for 2014-2020. Additionally, 50 billion under the 'Connecting Europe Facility', treated as part of ECP funds (which is an obvious contradiction!), are to remain outside the national envelopes. However, despite those provisions, the funds earmarked for Poland in 2014-2020 (expressed in real prices) will be higher than in 2007-2013. Given that the projected annual average inflation rate in Poland during that period will exceed 2%, the actual allocations in subsequent years, measured in current prices, will be slightly lower than the figure obtained from a simple adoption of a hypothetical inflation rate of 2%. The chances of maintaining the current reallocation thresholds seem rather slim, which is by no means beneficial for Poland. Arguments invoked to support the reduction of that threshold to 2.5% are misleading and, in the case of Poland, not true. As a result, the fiscal policy needs to be reformed urgently to generate higher own funds which will enable Poland to implement its development policy, also in view of the situation expected after 2020.

- **Macroeconomic conditionality.** The problems of co-ordinating the monetary policy and fiscal policy (policy mix) in the euro zone countries have led to a crisis in the zone. Therefore, it was proposed to punish those euro zone countries which fail to observe the budgetary discipline by taking away a portion of the ECP allocation. The draft legislation proposed that those solutions should be extended onto all EU member states, even though Poland and other countries with local currencies have little impact on the stability of the euro zone. This means that countries with the budget deficit exceeding 3% of the GDP and public debt exceeding 60% of GDP will lose a portion of previously allocated structural funds and resources from the Cohesion Fund. Naturally, this solution is criticised as unjust since it means that regions and major ECP beneficiaries *i.e.* territorial government units, will be punished for the faults and negligence of finance ministers. Undoubtedly, budget balancing is a top priority for the European Union and its member states, yet the instruments proposed by the European Commission are entirely irrelevant and this is why they arouse doubts. Meanwhile, some voiced within the European Commission postulate incentives for euro zone countries which implement reparatory programmes, as this will enable complete utilisation of ECP funding. This certainly contradicts macroeconomic conditionality and may lead to double standards within the ECP. Of course, the so-called internal conditionality, connected with the implementation of the European Cohesion Policy, has been already in place in 2007-2013 without arousing the slightest doubt. As a result, Poland as the major ECP beneficiary during the years 2014-2020 potentially runs the risk of being subjected to the most stringent sanctions, exceeding EUR 1 billion within one year. This poses a great challenge since the fiscal policy in Poland would need to be streamlined (before 2014) as the opportunities to finance socio-economic development from public debt are about to be exhausted.
- **Thematic concentration.** One of the problems within the European Cohesion Policy, occurring since the Delors reform, has been the very long menu of intervention directions listed in regulations. The menu included measures with a very limited developmental impact. When negotiating the legislative package with the European Commission, member states usually effectively fought for maximum extension of that list. Then, in countries which benefited from structural funds and the Cohesion Fund, all sectoral frameworks, mentioned as potential beneficiaries in regulations, demanded that their needs should be taken into consideration in allocations under operational programmes. This led to a dispersion of funds among a great number of minor directions, with many measures bringing no outcome due to insufficient intensity of interventions. Therefore, thematic concentration

was postulated very frequently in the discussions regarding the solutions planned for 2014-2020. At the same time, it was rightly pointed out that the ECP must take account of highly varied developmental backgrounds in countries and regions of Europe, resulting from reasons such as diverse levels of socio-economic development, diversity of socio-economic and territorial structures, specific developmental capacities and barriers, as well as past developmental trajectories. For this reason, the European Commission proposed a list of thematic objectives incorporating 11 areas of intervention: (1) Strengthening research, technological development and innovation, (2) Enhancing access to and, use and quality of information and communication technologies, (3) Enhancing the competitiveness of SMEs, the agricultural sector (for the EAFRD) and the fisheries and aquaculture sector (for the EMFF), (4) Supporting the shift towards a low-carbon economy in all sectors, (5) Promoting climate change adaptation and risk prevention and management, (6) Protecting the environment and promoting resource efficiency, (7) Promoting sustainable transport and removing bottlenecks in key network infrastructures, (8) Promoting employment and supporting labour mobility, (9) Promoting social inclusion and combating poverty, (10) Investing in education, skills and lifelong learning, and (11) Enhancing institutional capacity and ensuring an efficient public administration. Naturally, all those thematic areas have a deep sense, and this will lead to a situation where Community funds will be concentrated, in accordance with reasonable premises, on those eleven thematic areas of intervention within the Convergence objective. Regretfully, this list is still very long and it is hard to imagine that Community interventions can be effectively limited, whether in Poland or in other Convergence countries. There will be attempts to add intervention areas number 12, 13 and so on. At the same time, it will be easy to prove that 90% of the ECP activity in each member state, including Poland, falls within those intervention areas and helps to implement the Europe 2020 strategy. This is why Poland's problem will be to achieve the right proportions of expenditures going to those thematic areas and, above all, to achieve a structure of expenditure which does enhance development. This high number of priority thematic areas may, regretfully, lead to a situation where individual thematic areas do not achieve a sufficient critical mass.

- **Strategic programming.** The European Commission proposed a significant modification to the existing programming model. The following are to be prepared for 2014-2020: the Common Strategic Framework (three months after approval of the regulations), Partnership Contracts between individual member states and the European Commission as well as operational programmes of various nature: regional, sectoral, cross-border, technical aid and perhaps macroregional programmes (they should be sent to the European Commission within the subsequent three months). Such profound changes to the programming model are not entirely understandable since they generate costs associated with the launch of a new system. In fact, the system existing in 2007-2013 seemed quite reasonable, and this was pointed out by a number of member states in the process of public consultations. An introduction of a new negotiation instrument means that the necessary potential will need to be developed, not only when preparing the right operational programmes but also in the negotiation of new contracts. The time sequence of those documents will be crucial: the odds are that negotiations of the Partnership Contracts will proceed in parallel with work on operational programmes. A very important change is that there is no programming document at the national level, such as the National Development Plan or National Strategic Reference Framework. This means that it will be essential to prepare a national framework document in a country such as Poland, and this role could probably be fulfilled, after some adjustments, by the Mid-term National Development Strategy 2020. Otherwise Poland will experience a duality of mid-term strategic programming. It will become necessary to undertake profound modification of the act on development policy so that the proposals related to the new ECP programming methodology are incorporated in the strategic programming of socio-economic and spatial development. As the greatest ECP beneficiary, Poland needs to achieve efficient completion of negotiations on the legislative package by the end of 2012 in order to prepare essential programming documents by 2014. Otherwise this process will be conducted under enormous time pressure and many enlightened guidelines postulated in this text and elsewhere will have to be abandoned.

- **Comprehensive nature of structural intervention.** The changes proposed in ECP solutions designed for 2014-2020 are quite varied. In 2007-2013 the European Agricultural Fund for Rural Development (EAFRD) and the European Fisheries Fund (EFF) were shifted from the European Cohesion Policy to respective sectoral policies. EAFRD was defined as the foundation of the second pillar of the Common Agricultural Policy. As for EAFRD, this theme and this fund were very soon separated in development policies in many countries, including Poland, and this led to certain duality in Poland's development policy. At present, this policy consists of two segments: a general development policy and a rural development policy. After the shift, the European Fisheries Fund became a classic sectoral facility. However, the intended co-ordination mechanisms between those funds and the three ECP funds turned out to be completely ineffective. Hence, it was proposed that the two crucial documents of the new programming model, *i.e.* the Common Strategic Framework and the Partnership Contracts, would cover five funds in the years 2014-2020 (*i.e.* three ECP funds and the two aforementioned funds). Additionally, it was suggested that the European Fisheries Fund should be renamed into the European Maritime and Fisheries Fund (EMFF). The new name reflects the intention to make this facility more structural. Regretfully, a new fund, called 'Connecting Europe Facility', was introduced in parallel. It is very difficult to predict any specific solutions under this new facility because the draft regulation for the Connecting Europe Facility will be processed outside the ECP legislative package. This legal act has not been presented yet, which, again, illustrates some weaknesses within the European Commission. However, it is already known that the Facility:

a) will enjoy an enormous allocation reaching EUR 50 billion, including EUR 10 billion taken over from the Cohesion Fund;
b) will be implemented outside the European Cohesion Policy,
c) will be governed directly at the EU level,
d) will focus on three intervention targets: trans-European transport networks, European energy networks and information society networks.

The creation of this Facility is completely incomprehensible. The fact that it is located within sectoral policies seems to undermine the EU policy in the field of technical infrastructure (a policy which has been uniform to date). At the same time, the allocation of the EUR 50 billion is treated as an element of European policy, which demonstrates absence of rudimentary consistency or logic.

Summing up, the closer connection between the EAFRD and the EMFF with ECP funds can certainly be seen as a step in the right direction. However, in operational terms, this will be a very difficult task, since specific solutions concerning structural funds and the Cohesion Fund became significantly split in 2007-2013, and the two latter funds diverged in terms of governance, monitoring, evaluation, financing, project selection *etc.* For this reason, considerable effort is required to 'reintegrate' those funds. At the same time, no measures are proposed to link the ECP in member states, including Poland, with the Connecting Europe Facility. Meanwhile, a fairly commonly criticised solution is preserved, *i.e.* the fact that the European Neighbourhood and Partnership Instrument (ENPI) with Mediterranean and Eastern European neighbours remains outside the scope of intervention of the ECP.

- **More rigid allocation structure.** After the aforementioned shares of the three ECP funds were defined, subsequent limitations were proposed. For the European Regional Development Fund it was decided that at least 50% of the national allocation should be earmarked for the thematic objectives no. 1, 3 and 4, whereas at least 6% of the national allocation should go to thematic objective no. 4 (Supporting the shift towards a low-carbon economy in all sectors). Another fact that limits member states' freedom in utilising the ERDF funds is that 5% is the minimum allocation threshold from this Fund towards the Integrated Development Strategies for urban policy. And, finally, 0.2% of the ERDF funds are to be earmarked for innovative measures initiated by the European Commission associated with sustainable urban development.

As regards the European Social Fund, min. 20% of its resources in each member state would be allocated to the thematic objective defined as 'Promoting social inclusion and combating poverty'. In regions with low level of development, a minimum of 60% of the allocation should be focused on four investment priorities: (i) promoting employment and labour mobility; (ii) investing in education, skills and lifelong learning; (iii) promoting social inclusion and combating poverty; (iv) enhancing institutional capacity and an efficient public administration. Within the European Social Fund additional limitations of the freedom of allocation are anticipated, *e.g.* the freezing of EUR 2.5 billion earmarked for food for victims of various events, which will be distributed between individual member states.

Of course, each of those minimal allocations can be rationally justified. However, any constraints on member states' freedom to shape their financial structures undermine the efficiency of the EU structural interventions since a predefined structure of the intervention is adopted within soft and hard instruments. Such a predefined structure often does not match the specific national and regional developmental context. For Poland, it seems, the most harm for the efficiency of ECP would come from predefining a distribution of funding under the two structural funds. This will mean that funding available under the European Social Fund would be relatively abundant while there will be a relative deficit of funding under the European Regional Development Fund. Summing up, there is an opportunity to make the Community intervention more comprehensive in member states through organised programming of the five funds. However, new inconsistencies have also emerged.

- **Simplification.** The very profound changes which ensue in subsequent programming periods mean that partners, participants and beneficiaries begin their learning process once every seven years and they start from a very low level, if not from scratch. It seems that the fundamental changes proposed for the ECP from 2014 onwards will entail more complications instead of the postulated simplification. This claim is best illustrated through a comparison of regulations for 2007-2013 with the draft documents regarding the years 2014-2020. The general regulation which is currently in force consists of 64 pages whereas the proposed one has 186 pages. The entire ECP legislative package consists of approx. 110 pages currently whereas the one proposed for the subsequent period has approx. 320 pages. All this occurs with a budget which is lower in 2014-2020 than the one for 2007-2013. To ensure complete comparability, one should also take account of the Connecting Europe Facility as well as various supplementary regulations. In Poland, as the major ECP beneficiary, this situation will mean that procedural premises will strongly prevail over the subject matter of projects and initiatives to be funded.

The discussion above indicates that some of the proposed changes in the European Cohesion Policy are conducive for a modern regional policy in Poland after 2013, yet most changes proposed for 2014-2020 will make it difficult for Poland to leverage the potential offered under EU funds. Consequently, Polish public authorities and key social and economic stakeholders must become leaders of the development policy reform since the sheer use of ECP solutions and funding will not automatically entail positive changes for the country.

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