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The Role of the Structural Funds and Cohesion Fund in the Stimulation of Sustained Economic Growth in Poland

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Summary

Having joint the European Union, Poland, as one of the poorest member state, hopes for a significant financial support. Indeed the policy of catching up of less developed regions of the UE seems to be important element of the integration process. In addition to the cohesion fund, Poland can benefit from the four structural funds. It is estimated that in the years 2007-2011 Poland might be able to receive as much as 63 billion euro, out of which 54 billion may account to the cohesion policy.

1. The Importance of Cohesion in the European Union

The European Union attaches great importance to cohesion within the national and regional frameworks. Excessive disparities in the level of socio-economic development between countries and regions hit not only poorer areas, but also richer ones (which are unable to take full advantage of the large, single market) and may even affect the durability of the organization itself. Therefore, cohesion was recognized as one of the foundations of European integration already by the Treaty of Rome and then by all subsequent treaties. In the European Constitution, now in preparation, cohesion will likewise be seen as a pillar of European integration.

The European Union strives to attain cohesion in three dimensions:

- economic, as measured by per capita GDP (adjusted for purchasing power parity);
- social, as measured by the unemployment rate;
- territorial, as measured by the number of consumers who can be simultaneously reached.

All these dimensions of cohesion have been written into the future European Constitution.

The cohesion policy model currently followed by the European Union was shaped by the reform known as the Delors package, implemented in the late 1980s, which resulted in the introduction of long-term programming of the budget and policies of the European Communities. These programs covered the periods: 1989–93, 1994–99 and 2000–2006. The next programming period will embrace the seven-year interval from 2007 to 2013. Furthermore, the main instruments of cohesion policy took shape, in the form of the four structural funds:

- European Regional Development Fund;
- European Social Fund;
- European Fund for Agricultural Orientation and Guarantee;
- Orientation Section and the Financial Instrument for Fisheries Guidance.

In 1993, a new instrument made its appearance: the Cohesion Fund. The Funds provide non-returnable subsidies which must be supplemented by own funds of the beneficiary countries. The role of an important partner implementing the European cohesion policy has been assumed by the European Investment Bank, which extends soft loans to finance various measures taken under this policy.

Since 1989, the cohesion policy budget has been accounting for about a third of the European Union’s expenditure. The greater part (ca. 70 percent) of the resources allocated to this policy is spent on measures which target the poorest areas, known as Objective 1 regions. The criterion of their selection is per capita GDP of not more than 75 percent of the EU average. The average annual non-returnable transfers to beneficiary countries must not exceed the ceiling of 4 percent of their GDP.

A situation when European taxpayers' money is collected and spent in various part of the European Union requires exceptional diligence in the implementation of the related programs. Therefore, the structural funds and the Cohesion Fund involve precise rules for their programming, financing, monitoring and assessment (evaluation). If an entire country (all its regions) qualifies as a Objective 1 area, a more complex programming model applies, with an entire sequence of documents, to be prepared in an appropriate format. These include: the National Development Plan (NDP), the Community Support Framework, operational programs and, since 2000, also supplements to the operational programs. In this way the European Union finances projects which, taken together, make up a development strategy, and not a haphazard set of undertakings. The funds are appropriated in accordance with the n+2 rule. This means that two financial categories are recognized: commitments and payments. The resources corresponding to commitments in a given year must be utilized in a given year or in the two subsequent years. This rule facilitates effective appropriation of European resources.

The problems of cohesion in the European Union are being analyzed on a regular basis. This is done by means of so-called cohesion reports, compiled – in accordance with the European law – at intervals not greater than every three years. The latest three reports were presented, respectively, in 1999, 2001 and 2004 (19 February). In addition, progress reports are prepared in the remaining years. In the three reports mentioned above, the cohesion problems discussed concern 27 states: the 15 member states, 10 states acceding to the EU in 2004, and 2 candidate states – Poland is thus also included. These reports document gradually diminishing economic disparities and an increasing territorial cohesion, which shows especially clearly in the national framework.

Short- and long-term effects of the use of the structural funds and Cohesion Fund can be distinguished. The short-term ones include:

- investment;
- increased volume of orders, better economic climate, higher employment;
- increased earnings of employees and consumer demand.

The long-term effects of structural aid are as follows:

- human capital improvement;
- better infrastructure;
- increased efficiency of economic units, especially small and medium-size enterprises.

An important aspect of the evaluation of the structural funds is the assessment of their macroeconomic effect. The instrument considered in the European Union to have the best diagnostic capacity is the HERMIN model, constructed by scientists from the Economic and Social Research Institute in Ireland. The analyses cover, among other things, the influence of the structural funds and Cohesion Fund on GDP and the labor market (unemployment). Pursuant to the legal regulations in force in the EU, these analyses are seen as elements of assessment (evaluation) done both on an ex ante basis, that is, before the commencement of a given program, and an ex post basis, that is, upon the completion of a program financed from European funds.

Regular assessment of the effects of the structural funds and Cohesion Fund within the HERMIN model has been carried out in the case of the four poorest EU countries: Greece, Spain, Ireland and Portugal, as well as East Germany.

Table 1: Effects of the Community Support Framework (CSF) synthetic multiplier on GDP growth in 1989–2010

Years	Greece	Ireland	Portugal	Spain
1989–93	1.4	0.9	1.5	1.5
1989–99	1.7	1.1	1.9	1.9
1989–2006	1.9	1.5	2.1	2.2
1989–2010	2.0	1.8	2.3	2.5

Notes: Data for 2006 and 2010 are based on projections. CSF multiplier = GDP growth / share of CSF in GDP.

Source: J. Bradley, *The Impact of Community Support Framework on Objective 1 countries: Greece, Ireland, Portugal and Spain 1989-2006*, Economic and Social Research Institute, Dublin 2000.

2. Hitherto Role of Pre-Accession Funds in Poland

Since 1990, Poland has benefited from a steadily increasing influx of European funds. In the 1990s, these were transferred through the PHARE program, with an average annual allocation of ca. ECU 200m. The character of this fund was variable. Initially, it was mostly used to build the foundations of a market economy. Therefore, it was not possible to undertake investment projects. After 1997, as PHARE became re-oriented towards the accession, part of these funds was used to finance development investments, undertaken mostly within the regional policy framework. As of 2000, the indicative allocation in Poland increased, on the average, to ca. €900m a year (in 1999 prices), and two new pre-accession programs alongside PHARE were launched: ISPA and SAPARD. Their mission was:

- to help bring Poland up to the standards of a modern market economy and a member state of the European Union;
- to help develop a capacity to utilize the structural funds and Cohesion Fund.

Payment appropriation from the European funds was based on the program document presented by the Polish government: *The Preliminary National Development Plan for Poland, 2000–2003*. The absorption potential in various areas was being developed under the respective pre-accession programs: PHARE, in respect of the European Regional Development Fund and European Social Fund; ISPA, in respect of the Cohesion Fund; and SAPARD, in respect of the European Fund for Agricultural Orientation and Guarantee – the Orientation Section and the Financial Instrument for Fisheries Guidance. In order to appropriate these funds, the European Union required an expansion of the financing, monitoring and assessment (evaluation) systems. In view of the limited scale of the funds and the non-investment character of a significant part thereof, no serious attempt has been made thus far to quantify their macroeconomic impact.

3. Funds for Poland in 2004–2006

After the accession to the European Union, Poland will receive in 2004–2006 the amount of €11.4bn (in 1999 prices) within the four structural funds and the Cohesion Fund. These EU commitments will turn into payments in 2004–2008. The sum in question represents ca. 54 percent of the amount allocated in the 10 new member states. The average annual commitments of the EU in 2004–2006 correspond to ca. 2 percent of Poland's GDP.

In accordance with the principles of co-financing, these monies have to be supplemented with Polish public funds, at a level of a little less than €4bn, and private funds – whenever the private sector is the beneficiary – amounting to an additional €2 or 3bn.

Since per capita GDP in all the provinces of Poland, which are NUTS II regions, is below 75 percent of the EU average, Poland becomes a recipient of structural funds in its entire territory. The Community funds will be utilized on the basis of the program document: the Community Support Framework for Poland, 2004–2006. Funds are being allocated through:

- Integrated Regional Operational Program;
- Sectoral Operational Program Improvement of the Competitiveness of Enterprises;
- Sectoral Operational Program Human Resources Development;
- Sectoral Operational Program Restructuring and Modernization of the Food Sector and Rural Development;
- Sectoral Operational Program Fisheries and Fish Processing;
- Sectoral Operational Program Transport;
- Technical Assistance Operational Program;
- Cohesion Fund Strategy;
- INTERREG Community Initiative;
- EQUAL Community Initiative.

In the course of the preparation of the NDP for Poland for 2004–2006, setting out the strategy of utilization of Community resources and the supplementary Polish resources, it was necessary to make a number of strategic choices and decisions.[1] The most important of these concerned the distribution of expenditure among the Cohesion Fund, the Integrated Regional Operational Program (IROP) and the sectoral operational programs. The largest proportion of the funds (ca. 40 percent) will be utilized in 2004–2006 through the sectoral operational programs, another 33 percent through the Cohesion Fund, and less than 25 percent through the IROP (the remaining part of expenditure covers the two Community Initiatives and the Technical Assistance Program).

Equally important was the distribution of expenditure among the main fields of utilization of the European funds. These have been allocated as follows:

- infrastructure – nearly 70 percent;
- human capital – ca. 20 percent;

[1] J. Szlachta, "Narodowy Plan Rozwoju Polski na lata 2004–2006 – wybory strategiczne" [Poland's National Development Plan 2004–2006 – Strategic Choices], *Gospodarka Narodowa* 2003, No. 7/8.

- support for private enterprise – a little more than 10 percent.

Such a high proportion of infrastructure outlays reflects the conviction of the European Commission that the main barrier to economic growth in Poland is the deplorable state of the infrastructure.

The macroeconomic impact assessment is an integral element of the Polish NDP.[2] It indicates the potential effects of the EU funds utilized in Poland in 2004–2008 in accordance with the strategy proposed in the NDP. The assessment was carried out by a team of Polish and Irish experts, on the basis of the HERMIN methodology.[3]

Table 2: The impact of the 2004–2006 NDP on GDP and unemployment rate (UR)

Year	GDP	UR
2003	0.00	0.00
2004	0.22	–0.14
2005	1.13	–0.71
2006	2.51	–1.48
2007	3.33	–1.77
2008	2.83	–1.15
2009	1.56	–0.27
2010	1.22	–0.05

GDP – percentage change relative to no-NDP baseline year. UR – change relative to no-NDP baseline year. The analysis reflects the joint effect of the Community funds and the supplementary Polish funds.

Source: Bradley and Zaleski (2003).

These analyses take into account the aggregate effect of the Community funds and the supplementary Polish public funds plus private sector outlays. In accordance with the analysis, based on the HERMIN model, the utilization of structural funds and Cohesion Fund should result, by the end of 2006, in a GDP increase by ca. 2.5 percent and a drop of the

[2] *Polska. Narodowy Plan Rozwoju 2004–2006* [Poland. National Development Plan 2004–2006], MGPiPS, Warszawa, 2003, p. 42–7.

[3] J. Bradley, J. Zaleski, "Ocena Wpływu Narodowego Planu Rozwoju Polski na lata 2004–2006 na gospodarkę przy zastosowaniu modelu HERMIN" [Assessment of the Impact of the National Development Plan 2004–2006 on the Economy by Means of the HERMIN Model], *Gospodarka Narodowa* 2003, No. 7/8.

unemployment rate by ca. 1.5 percentage point. As the structure of outlays envisaged by the CSF is somewhat different than initially proposed by the NDP, in accordance with the opinions of experts and the European Commission, the macroeconomic impact of the structural funds and the Cohesion Fund as estimated ex ante using the HERMIN model, does not fully correspond to the effect attainable through the implementation of the NDP. The structure of the measures proposed for 2004–2006 within the CSF is far more socially oriented and far less development oriented than the proposals contained in the NDP and, therefore, the probable impact of the European funds on GDP growth during the period in question will probably be slightly weaker than assumed by the NDP. This claim, however, would call for a formal proof.

The situation after 2006 will be affected by transfers resulting from the new cohesion policy of the European Union. The hitherto experience of the cohesion states indicates that the macroeconomic impact of the European funds was greatest upon completion of the first programming period.

4. The European Union Cohesion Policy in 2007–2013

The European Union formulates its cohesion policy in a multi-year time horizon. The debate thereon was initiated by the ten questions formulated in the Second Cohesion Report of January 2001. In February 2004, the European Commission presented its Third Cohesion Report, containing the main proposals concerning a future cohesion policy.[4] The proposed solutions will have a significant effect on economic growth in Poland in the coming years and, therefore, the most important of them will be presented in this section of the paper.

4.1 A Seven-Year Time Horizon of the Subsequent Programming Period

The European Commission proposed that the hitherto practice of programming Community budget and policies, including its cohesion policy, in seven-year periods be retained. In the debate, some states suggested shortening the programming period to five years (2007–2011). The main argument in favor of the latter arrangement was the possibility to link the Community policies with the five-year operating cycle of the principal European

[4] Third *Report on Economic and Social Cohesion*, European Commission, Brussels, 2004.

institutions (European Parliament, European Commission etc.). However, the Third Cohesion Report states that the subsequent programming periods should be of five years' duration.

All in all, the longer time horizon of cohesion policy is beneficial for Poland, as this is the last budget that will have to be unanimously accepted by all the member states, including Poland. In view of the complex character of the programming, financing, monitoring and assessment (evaluation) procedures, the stabilization of the support rules for seven, rather than five years, is advantageous for every beneficiary country. At the same time, the cohesion policy proposed by the European Commission for the period in question is favorable for Poland and thus a longer programming horizon means that greater resources will be earmarked for Poland for 2007–2013, whereas the distribution of support in the next programming period will be subject to negotiation and it is by no means certain that assistance for Poland will remain at a level comparable to the 2007–2013 period.

4.2 The Fundamental Role of Cohesion Policy in the European Communities

The report confirms that cohesion policy is one of the pillars of European integration, because it is the only instrument that addresses the problems of social and economic inequalities. Importantly, the European Commission took the stand that the enlargement of the European Union called for increasing, rather than restricting, the scope of cohesion policy.

In the course of the discussion on the future cohesion policy, opinions and proposals were voiced which questioned the sense and/or economic effectiveness of the cohesion policy, leading to the suggestions that its relative importance and the corresponding budget allocations should be reduced. An important issue in the discussion concerned the question of whether this policy should be oriented solely towards the new member states or remain unequivocally Community-oriented. The vision of cohesion policy proposed by the European Commission in the Third Cohesion Report is oriented towards all member states.

The standpoint of the European Commission is favorable for Poland, as cohesion policy appears to be the most important Community policy from the point of view of our country, offering Poland and its regions an opportunity to close the distance behind the richer countries and regions of the European Union. A change in the character of this policy, proposed by some countries, would signify a fundamental change of the philosophy of the European Community.

4.3 The Increasing Role of Cohesion at National Level

The hitherto policy has addressed the problem of cohesion at both regional and national levels, undisputed priority being given to the former dimension. Such an approach to cohesion policy was continued in the Third Cohesion Report. However, the proposals included therein and pertaining to the territorial scope of various measures indicate the possibility of certain reassessments. This is probably a consequence of the fact that, in the course of discussion on the future cohesion policy, some countries pointed out the need to concentrate the attention and means on national-level cohesion. All told, the proposals included in the Cohesion Report are again favorable for Poland, as regional cohesion in our country is no less important than cohesion at national level. Given the size of Poland and the scale of its regional differentiation (in terms of development levels and structural characteristics), effective handling of cohesion problems at regional level will be of fundamental importance in the next ten to twenty years.

4.4 Modified Cohesion Policy Objectives in the European Union

The European Commission proposed that Objective 1 should, generally, be left unchanged and maintain its orientation towards areas lagging behind in terms of socio-economic development. Growth and job creation remained top priorities. The criterion for the selection of beneficiary regions was left without modification (per capita GDP of at most 75 percent of the EU average). The new Objective 2 comprises measures oriented towards regional competitiveness and employment. Eligible for assistance within the scope of this Objective are regions not covered by Objective 1. This means that the focus of Objective 2 has shifted from regional restructuring to regional competitiveness. The new Objective 3 concerns transborder cooperation. It has been decided that since this area of intervention generates a very high value added, it should be included in the mainstream of the financing.

Retaining the hitherto format of Objective 1 is advantageous for Poland. This Objective also covers the financing of measures addressed at regions which have been beneficiaries of the European cohesion policy as Objective 1 areas in 2000–2006, but due to increased living standards, or the so-called statistical effect, have reached a per capita GDP level that no longer qualifies them for support as Objective 1 regions. Objective 2 has to do with the development aspect of cohesion policy, but Poland is practically a non-participant therein, since allocations for the new member states are of symbolic proportions only. However, the shift of funds from restructuring measures to development measures is beneficial. It is also a highly advantageous arrangement that richer regions of the member states are also eligible beneficiaries covered by this Objective, as it conserves their status as stakeholders in cohesion policy. What may prove dangerous is the tendency to shift measures from regional to national level. On the other hand, in view of Poland's geographic situation, the higher rank of transborder cooperation within Objective 3 is likewise good for our country.

4.5 Changed Scope of Financing within Objective 1 Areas

The accession of ten poor countries to the European Union as of 1 May 2004 signifies a rapid increase in the number of poor and very poor regions. At the same time the average per capita GDP in the enlarged Community goes down by 12.5 percent. This creates two other types of problem areas alongside regions with per capita GDP of less than 75 percent of the EU average. The first comprises regions which, thanks to their economic success in 2000–2006 have exceeded the threshold value of per capita GDP. The second includes those areas which have been pushed above the level of 75 percent of the EU average by the so-called "statistical effect" connected with the enlargement. Regions of the former type were eligible for support during the previous programming period in the form of phasing out support. The European Commission has proposed to apply the phasing out support mechanisms to both types of regions during the 2007–2013 period. Poland should adopt a mixed approach to this problem.

On the one hand, the perpetuation of the phasing out support model is advantageous for Polish regions, as the subsequent stages of EU enlargement, involving Bulgaria and Romania, then Croatia and – perhaps – Turkey and the states of the Western Balkans, combined with Poland's economic success, may push the GDP of the richest regions of Poland above the 75 percent eligibility threshold already in the next programming period, after 2013. Therefore, it is important that the same civilized form of exit from the EU support system should continue to apply after that date.

On the other hand, the regions in question absorb considerable funds, with significant per capita allocation levels in euro terms (2 percent at a GDP level close to 80 percent of the EU average translates into a far greater amount than 4 percent at a GDP level around 30 percent of the EU average). Therefore, the European Union should apply possibly uniform phasing out support mechanisms to both types of regions, avoiding excessive generosity.

Likewise, per capita allocation levels should be controlled so as to prevent a situation when regions eligible for phasing out support receive a far greater per capita allocation, in euro terms, then the poorest Objective 1 regions. From this point of view, the wording of the Cohesion Report, which suggests that the support for "statistical effect" regions under the phasing out mechanism should be higher than it was decided at the Berlin Summit of 1999, requires attention, as it spells the risk of being too generous vis-à-vis such areas. Significantly, the European Commission is ready to distribute funds among Objective 1 areas using the formula adopted at the Berlin Summit. It is favorable for Poland, as it also takes into account the average level of socio-economic development of a given state.

4.6 Incorporation of the Lisbon Strategy in the Cohesion Policy

The Lisbon Strategy, adopted in March 2000 and supplemented at the Goeteborg Summit of 2001, envisages the transformation of the European Union into the most competitive economy of the world in just ten years. The principal way to achieve this goal is through measures fostering the emergence of a knowledge-based society and economy. In the debate on the financial prospects of the EU in the future, two proposals of equivalent status have been put forward: to supplement the hitherto cohesion policy with arrangements making it possible to implement the Lisbon Strategy, or to create special instruments in this field, within the framework of the internal policy of the European Union. Ultimately, the first of these proposals was chosen, which signifies a qualitative change in the EU cohesion policy. Therefore, the handling of regional policy in the European Union will change dramatically as of 2007. This policy will concentrate far less than today on passive redistribution of resources from rich to poor regions, and far more than today on their competitiveness. Accordingly, the economic dimension of this policy will by far exceed in importance its social dimension. Thus the new member states may expect the policy in question to have a similar impact on the creation of national income as in the cohesion states, but a much less pronounced influence on the labor market and unemployment levels.

On balance, however, this is a favorable arrangement for Poland as it means that the cohesion policy will continue to be addressed to all the EU member states, which, therefore, will have a stake in its continuation. If, on the other hand, these measures were singled out within the internal policies, this would immediately restrict Poland's access to the competitive allocation of funds allotted to building a knowledge-based economy. This also means that regional policy in Poland will be significantly less concerned with its traditional compensatory functions, concentrating instead on creating a competitive edge for regions.

This, of course, also pertains to regions at a low or very low level of socio-economic development.

4.7 Large Cohesion Policy Budget

In its report, the European Commission proposed that the cohesion policy budget should remain large, at a level of ca. 0.41 percent of the Community GDP. Taking into account the transfers and measures connected with rural and agricultural development and fisheries conducted outside the cohesion policy framework, these outlays would increase to ca. 0.46 percent of the Community GDP. In the opinion of the European Commission, this level of financing is necessary to maintain the high rank of cohesion policy, while allowing the challenges of the enlargement of the Union to be handled effectively. Besides, with a budget of this size, cohesion policy measures would also be directed at the incumbent member states. The countries which are net payers to the Community budget criticize this arrangement and propose restricting cohesion policy to the new member states, intending to reduce in this way the amount of member states' contributions. In their view, the necessary cohesion policy outlays should not exceed 0.3 percent of the Community GDP.

Poland's stand should take into account the many-sided consequences of a large cohesion policy budget. On the one hand, all budget scenarios envisage allocations for Poland during the period in question at the same average annual level of around 4 percent of Polish GDP, regardless of the overall size of the cohesion budget. From this point of view, Poland should push for a low cohesion policy budget, as its reduction will decrease the amount of its contribution to the European Communities, without significantly affecting the flow of financial transfers to our country in 2007–2013. However, such a position in the negotiations would entail an open conflict with the European Commission and with the old member states from Southern Europe.

On the other hand, a small cohesion policy budget might erode in the more distant future the political support of the majority for maintaining the status of this policy as a main area of EU intervention. This would endanger larger allocations for Poland in subsequent programming periods, that is, after 2013. Moreover, even in the preceding programming period, the lack of commitment of the old member states to cohesion policy might lead to the introduction of utilization mechanisms that would prevent a large proportion of the structural funds and Cohesion Fund from being allocated at all.

4.8 Modified Structure of the Cohesion Policy Budget

The European Commission proposed that 78 percent of the funds should be assigned to Objective 1 measures, 18 percent to Objective 2 measures, and the remaining 4 percent to Objective 3 measures. Such proportions mean that only half the funds will go to the new member states. In time, however, the balance will change in their favor: in 2007, they will consume a little less than half the overall assistance volume, whereas in 2013, their share will exceed by a couple of percentage points that of the old member states.

Poland will be able to benefit from allocations within Objectives 1 and 3. Although, generally, our country will not be a beneficiary of Objective 2 measures, the European Commission proposals relating to Objective 2 financing should be seen as highly advantageous. The old member states retain a stake in the cohesion policy, while the most innovative segments of this policy will generate know-how that it will be possible to utilize in Poland. The scale of allocations under Objective 1 might be smaller, were it not for the generous phasing out assistance mechanisms for “statistical effect” regions, which probably constitute an area where the largest savings would be possible.

4.9 The New Growth Adjustment Fund

Until now, the general principle has applied of fixed allocations for specific Objectives: no transfers of funds are possible between Objectives. This means that the funds earmarked for the poorest areas, in case of their non-utilization, become budget savings. It has now been proposed that the unutilized cohesion policy funds should be transferred to a newly established Growth Adjustment Fund. Its task would be to supplement growth and cohesion objectives and react to potential crisis situations related to economic and trade development in international contexts. Such an arrangement may be very harmful for Poland, as it may imply a considerable decrease in the scale of financing from the structural funds, even though the ceiling of possible transfers from cohesion policy funds to the new fund has been set at €1 bn annually.

4.10 Reorganization of the Fund System under the Cohesion Policy

The European Commission has proposed to reduce the number of structural funds, leaving in place just two funds instead of four: the European Regional Development Fund and the

European Social Fund. The Cohesion Fund would likewise remain a cohesion policy instrument, invoked, as before, on the basis of GDP figures, at member state level.

It remains the main problem in the 2000–2006 period how to finance development measures related to agriculture and rural areas within the European Fund for Agricultural Orientation and Guarantee, simultaneously within the framework of the Common Agricultural Policy (the Guarantee Section of this Fund, which provides the basis of financing in the second pillar of the CAP) and cohesion policy (the Orientation Section). This gives rise to problems connected with coordinating both financial streams, activated pursuant to two different program documents under two different Community policy systems. Therefore, the European Commission has decided to shift the financing of agricultural and rural development in its entirety to the domain of the Common Agricultural Policy. In order to finance agricultural and rural development, a new instrument is to be created under the CAP, called the Agricultural Development Fund.

As regards the financing of the fisheries sector, which is likewise covered by a Community policy, the decision has been to move all the financing in this sector outside the scope of the new cohesion policy.

All in all, the relocation of these two areas of financing outside the cohesion policy is an unfavorable arrangement, as it breaks up the hitherto uniform system of structural measures pursued within development programs planned in an integrated fashion. The importance of agriculture and rural areas is much greater in Poland than in the old member states. As far as fishing is concerned, although its macroeconomic importance in Poland is marginal, it is of vital importance for the coastal areas. It follows that, after 2007, we will have to develop our own mechanisms for the coordination of development measures, even though they are financed under various policies of the Community.

4.11 The Role of the Cohesion Fund

Among the arrangements which are highly advantageous for Poland is the proposal to keep in place the Cohesion Fund as the main cohesion policy instrument, with an essentially unchanged mission. In the debate, some states favored the abolition of the Cohesion Fund, claiming that it was a temporary instrument which had fulfilled its task. Of all the instruments of various Community policies, Poland has the greatest share precisely in the Cohesion Fund. Moreover, the level of co-financing by beneficiary states required by this fund has been kept at just 15 percent, which should be seen as advantageous for Poland.

The proposal to allocate about a third of transfers to the new member states through the Cohesion Fund and the remaining two thirds through the structural funds, is likewise favorable for Poland, given its backward environmental and transportation infrastructure, not least because of the fact that the co-financing level required by the EU within the Cohesion Fund framework is lower than in the case of the structural funds.

The extension of the scope of financing through the Cohesion Fund to include projects in the areas of rail, maritime, inland waterway and multimodal transport outside the Trans European Network, sustainable urban transport, and environmentally important investments, improving the efficiency of the power industry and the use of renewable energy sources, should be seen as fully justified and beneficial for Poland, which is true about every rational extension of the area eligible for financing. The adoption of an eligibility threshold based on Gross National Product (GNP) – less than 90 percent of the EU average – is likewise beneficial for Poland (where, like in many poorer countries, GNP is lower than GDP). The European Commission's refusal to adopt the principle of phasing out support in the case of the Cohesion Fund should similarly be viewed as justified.

Strengthening the links between measures and projects financed through the Cohesion Fund and those financed through the structural funds is yet another favorable development, since integrated programming of the funding yields additional socio-economic benefits.

4.12 The Scale of the Financial Commitments in Favor of Poland in 2007–2013

The figures contained in the Third Cohesion Report do not allow the scale of support for Poland under the European cohesion policy to be estimated with precision. On the basis of the ceiling on average annual transfers at 4 percent of the beneficiary country's GDP, the commitments of the European Union in favor of Poland in 2007–2013 can be projected to reach ca. €63 bn (in 2004 prices), that is, about €9 bn a year. However, the ceiling calculation method is vital. The European Commission intends to compute the commitments for the years 2007–2013 taking into account measures related not only to cohesion policy, but also to the new Agricultural Development Fund (agricultural and rural development) and the instrument pertaining to fisheries. Since the projected support for Poland in the framework of the Agricultural Development Fund stands at ca. €9 bn a year in 2007–2013 and an additional several hundred million euro is to be allocated under the common fisheries policy, the cohesion policy budget should be reduced by a corresponding amount. Generally, Poland should not object to the 4 percent ceiling on transfers, since this threshold would be far easier to exceed for the smaller accession states. This is, in particular, a consequence of the proportionality principle.

4.13 Changes in the Programming of European Fund Appropriations

It is expected that during the subsequent programming period, the structural funds and Cohesion Fund will assume a more pronounced, strategic orientation towards the EU priorities. This is to be achieved, in particular, through modifications in the programming system. At the political level, the first step of the programming process will be the adoption of a strategic document by the Council, setting out the general strategy of fund utilization. On its basis, a beneficiary country will draw up a document concerning its own development strategy, to be negotiated with the European Commission and serve as a platform for the preparation of program documents pertaining to sectors (issues) and regions, which, however, in contrast with the Community Support Framework, will not count as governance instruments.

At the operation level, operational programs would come into play, setting out detailed priorities, while taking into account only the most essential measures. The Program Complement document is to be eliminated, as is also the case with management at measure level. Once a year, the European Commission would compile a report analyzing the progress and results attained by specific countries in the pursuit of the strategic goals.

The excessive detail required thus far in the planning of the allocation of outlays has often been a barrier to efficient appropriation of the European funds; therefore, the relaxed requirements as to the level of detail in planning are a welcome change.

Poland should take note of the need to work on its strategic document on development measures co-financed by the EU budget, in parallel with the strategic document being prepared by the European Commission. This is necessary in order to be able to discuss the priorities in the allocation of funds in Poland in 2007–2013 on a more professional level.

A very important innovation under the new programming system consists in the requirement that the Commission should present annual reports on the utilization of funds, and the obligation on the part of the beneficiary state to take into account the recommendations contained therein and introduce suitable amendments. Consequently, Poland will have to maintain a significant programming potential throughout the years 2007–2013, so as to be prepared to respond to the European Commission proposals by introducing necessary modifications.

4.14 Simplified Implementation Procedure for the Structural Funds and Cohesion Fund

The European Commission has long been under pressure from the member states to simplify the implementation system. It has been pointed out repeatedly that the highly complex and time-consuming procedures substantially limit the outcomes of the intervention mediated by the funds. In the opinion of the Commission, changes in the implementation system must not undermine the high profile of this policy. The transfer of public funds from the richer to the poorer parts of Europe calls for exceptionally careful management of these resources.

The proposals of the European Commission for the new programming period involve, in particular, a certain simplification (or, rather, modification) of the programming system. Nobody calls into question today the n+2 financing principle, but the implementation of the programming tasks is to be speeded up, so that n+2 should indeed amount to three years, rather than 18 months, as is usually the case today. It is further envisaged that payments should be shifted from task level to priority level, so as to give the system greater flexibility. As regards financial control, the application of the proportionality principle is to be extended, which means that the adopted measures should be adequate to the magnitude of the appropriated EU funds. However, the Union intends to maintain – in general – the high monitoring and assessment (evaluation) standards, aiming to ensure high-quality resource management. A new instrument has been proposed, in the form of a special reserve created at the European Commission level, to be allocated to states and regions which have achieved greatest progress in the implementation of the adopted goals.

At the moment, the effect of the proposed changes on the simplification of the cohesion policy system is difficult to assess rigorously. A more profound analysis will be possible when the Commission presents the new draft regulations. Even so, the proposed shift of responsibility from the level of measures to that of priorities should be seen as an advantage. On the other hand, a reliable appraisal of the impact of the new programming model is very hard to give; the simpler system may turn out to be more complicated in practice. What is important for Poland is the symmetry of timing relations in contacts between the European Commission and the beneficiary country.

4.15 The Relationship between Cohesion Policy and other Community Policies

The European Union attaches great importance to the coordination of specific Community policies, noting that the effects of the cohesion policy significantly depend on its correlation with other policies. Gathering all the development measures pertaining to agriculture and rural areas within the scope of the Common Agricultural Policy, and shifting the measures related to fisheries outside the cohesion policy compass, means that new mechanisms need to be created for the coordination of cohesion policy with policies oriented towards regions at low development level or in the process of restructuring.

The importance of the relationship between the cohesion and competition policies is increasing. In the Third Cohesion Report, the European Commission maintains fairly consistently the need to respect the applicable rules of eligibility for public aid. During the debate on the new cohesion policy, many old member states suggested relaxing these rules. The tough stand of the European Commission is very good for Poland, as the resources available to the stronger EU countries might otherwise allow them to outbid the funds provided under the European cohesion policy with their own funds. Close links should, therefore, be maintained between cohesion policy and competition policy. However, certain elements of the Third Cohesion Report may signify the intention of the European Commission to accommodate these tendencies (among other things, the rules on *de minimis* aid).

5. The Stimulating Impact of the Structural Funds and Cohesion Fund on Poland's Economic Development in 2007–2013

The most important of the numerous conclusions and recommendations that follow from the hitherto experience pertaining to the strategy for the implementation of the structural funds and Cohesion fund, are as follows:[5]

A. It is necessary to initiate and document on a regular basis the process of active public participation and consultation involving the successive phasing documents. Even the slightest shortcomings in this respect may result in the final outcome of works on the NDP being

[5] J. Szlachta, *Narodowy Plan Rozwoju i Podstawy Wsparcia Wspólnoty - analiza zmian. Wnioski dla NPR na lata 2007–2013* [The National Development Plan and Community Support Framework: Analysis of changes.

negatively evaluated by the European Commission, leading to significant changes in the directions of intervention approved within the CSF. Public participation ensures a higher efficiency and effectiveness of development fund utilization.

B. It is necessary to work on a "national urbanization policy" in Poland. The European Commission expects a strategic vision in this area to be presented, whereas in Poland this issue is seen as an element of analytical studies only, and not even the most important one, as it is tacitly acknowledged to fall within the terms of reference of the local governments. This complicates the proper application of structural measures addressed at the largest cities, particularly in the field of improving public transportation facilities in large conurbations. Another problem revealed indirectly by the analysis of the two documents in question is the absence of legal foundations in Poland to plan measures to implement in metropolitan areas, especially polycentric ones. Therefore, work needs to be urgently commenced on legislation to enable such measures.

C. It is necessary to adjust the formats of socio-economic forecasts in Poland to those applied by the European Commission. A situation when each document contains a different set of data is detrimental to the programming of development processes. The adjustment of the analytical formats will facilitate a substantive discussion on the future of the Polish economy as envisioned by various forecasts.

D. In the course of the negotiations on subsequent CSF's, it is necessary to draw on appropriate macroeconomic models that show in real time (online) the economic consequences of shifting funds. The lack of the necessary tools for professional analysis may lead to funds being assigned on a purely discretionary basis, and the development-stimulating capacity of the structural funds and Cohesion Fund being weakened with impunity.

E. Some Polish experiences relating to the use of the pre-accession funds to finance the sectors of the national economy in need of restructuring (including rail transport and the national rail carrier, the PKP) are particularly discouraging. Therefore, one should avoid, if possible, allocating funds to those sectors of the national economy which do not guarantee –

Conclusions pertaining to the NDP for 2007–2013], expert report, Ministerstwo Gospodarki, Pracy i Polityki Społecznej, Warszawa 2003.

prior to effective restructuring – appropriate macroeconomic and social outcomes, as this poses the threat of wasteful use of structural and Cohesion Fund resources.

F. Urgent measures need to be taken to eliminate the deficit of strategic thinking in planning the development of transportation infrastructure, using, whenever possible, the diagnosis presented within the Community Support Framework as a problem matrix.

G. The SWOT analysis within the NDP was substantially narrower in scope than that presented in the CSF. Therefore, it needs to be materially expanded in the next cycle of work on the NDP. The analysis should take into account the four areas discussed in the SWOT report compiled within the CSF framework:

- macroeconomic situation, innovativeness, and other general circumstances;
- human resources, equality of opportunity for men and women on the labor market, and social issues;
- infrastructure, land-use planning, natural environment;
- rural development and agriculture.

The analysis of weaknesses and opportunities within the CSF was applied directly to identify the required development measures. The same procedure should be applied in the NDP.

H. The European Commission attaches great importance to a high-quality analysis of the macroeconomic effects of the structural funds and Cohesion Fund, on an ex ante basis. The first round of analyses within the HERMIN model was based on very short statistical time series. Therefore, it is necessary to start working promptly on a new generation (or version) of the HERMIN model pertaining to the predicted consequences of utilizing resources from the structural funds and Cohesion Funds in Poland in the next programming period. As far as possible, this model should allow the disaggregation of the analysis among the 16 provinces of Poland. This requires collaboration with the Central Statistical Office (GUS) and provincial statistical offices to be established promptly in order to gather the necessary data.

I. Further analysis is needed to address the issue of selecting measurements and indicators adequate to the processes and phenomena under study, so as to keep a reliable record of the socio-economic progress due to the CSF. The system of recording various socio-economic phenomena may have to be reorganized in order to ensure high-quality monitoring and CSF assessment.

J. The NDP should address more fully the problem of horizontal strategies, that is, areas financed using various instruments (funds or operational programs). In the first stage, areas should be correctly identified in which such strategies need to be drawn up. It is then necessary to prepare a coherent system to finance the measures planned within such a strategy. The point is to select the optimum source of financing and to avoid so-called cross-financing, that is, financing the same projects from different sources. This is a very important aspect of the strategic planning of socio-economic development.

K. The general structure of priorities and development measures proposed in the NDP has been approved by the European Commission and incorporated into the CSF. All told, a broad formulation of priorities is beneficial, as it facilitates, if necessary, the reallocation of funds within a given operational program. Therefore, it is recommended that the next NDP should maintain the model of large, sectoral operational programs and broadly delineated priorities.

L. The reallocation of funds between operating programs is highly detrimental. Therefore, the NDP should provide a precise substantiation of the proposed allocation of outlays among operational programs, resorting, in particular, to macroeconomic modeling information, so as to avoid problems involved in changing the structure of expenditure adopted within the CSF.

M. Bearing in mind the importance attached by the EU to compliance with the rules of public aid eligibility in the Communities, all measures involving European funds that benefit the private sector must be carefully scrutinized. Such analysis should be included not only in the operational programs concerned, but also in the NDP.

N. Various Polish proposals to supplement and modify the allocation of European Funds in Poland that cropped up during the negotiations on the CSF had the net result of impairing the structure of outlays. This indicates that the managing institution – the function assigned in the Polish model to the Ministry of Economy, Labor and Social Policy – needs to be in a position of authority to coordinate the steps taken by the specific actors in the process of utilizing the structural funds and Cohesion Fund.

O. The experience of negotiations on the regional segment of the structural funds indicates that if Poland is to push for a decentralized model of structural fund utilization in the next programming period, within the framework of 16 regional operation plans, significant changes will be necessary in the territorial administration system. The absence of such changes would entail an acceptance of the duplication – also after 2006 – of the model of a single Integrated Regional Operational Program.

P. Some financing areas introduced within the CSF but not included in the NDP concern the funding of various projects as public endeavors. These might possibly be implemented on a commercial basis. This concerns especially projects supporting the development of sports, recreation, tourism and culture. As a result, market-based projects are threatened to be crowded out by public investments of doubtful effectiveness.

In the next programming period, the average annual transfer to Poland under the cohesion policy, combined with the development measures in agriculture and the policy on fisheries, may reach 4 percent of the GDP. This corresponds to commitments on the part of the European Union in the amount of ca. €63 bn in 2007–2013, of which cohesion policy alone accounts for ca. €54 bn. Taking into account the principles of co-financing, the total sum will reach about €100 bn, appropriated within a uniform system of development measures. Therefore, efforts must be urgently stepped up to prepare a new series of programmatic documents to indicate the directions and structure of development measures in Poland after 2007.

It is hard to predict at the moment the macroeconomic effects of the utilization of the structural funds and Cohesion Fund, as these will depend on the structure and effectiveness of the priorities and measures adopted in Poland using Community funds supplemented by Poland's own resources, and on the effective implementation of the recommendations presented in this paper. Some indication is provided by the simulation included in the "National Development Plan: 2004–2006", based on the conservative assumption of average annual transfers of EU funds to Poland in 2007–2013 at the level of 3 percent of Poland's GDP.

Table 3: Impact of the NDP on GDP and unemployment rate (UR), assuming an annual level of outlays under the NDP at 3% in 2007–2013

Years	GDP	UR
2003	0.00	0.00
2004	0.22	–0.14
2005	1.13	–0.71
2006	2.51	–1.48
2007	5.31	–2.98
2008	6.70	–3.28
2009	7.46	–3.37
2010	8.15	–3.42
2011	8.86	–3.49
2012	9.61	–3.58
2013	10.38	–3.67
2014	10.78	–3.52
2015	11.02	–3.29

GDP, UR – percentage change over baseline year. Simulation takes into account Community funds supplemented by Poland's own funds.

Source: *Polska. Narodowy Plan Rozwoju 2004–2006* [Poland: National Development Plan 2004–2006], MGPiPS, Warszawa 2003.

The resources from the structural funds and Cohesion Fund allocated in Poland in 2004–2006 and 2007–2013 should contribute to an additional GDP growth exceeding, on average, one percentage point a year, even under conservative assumptions as to the scale of the transfers. As regards the labor market, the long-term aggregate drop in unemployment rate attributable to the European funds can be expected to reach about 3 percentage points.