

## 1.4. Absorption of external funds by local governments

The accession of Poland to the European Union (EU) in 2004 brought new investment opportunities for the public sector. New EU member states, with a relatively low level of development, can apply for investments that may be partially funded by the EU budget. For local governments, obtaining EU subsidies is an opportunity to accelerate development processes and to eliminate the quantitative and qualitative infrastructure gap in their area. It should be noted that there are strictly defined financial rules related to European funds.

The most important ones are the principle of co-financing and the principle of evaluation. **The principle of co-financing means that funds from the EU budget cannot replace national funds, but only supplement them.** Moreover, the Commission verifies the financing principle at three stages, specifically, ex ante evaluations carried out before and during and an ex post evaluation is conducted upon completion of the operational programme<sup>23</sup>.

An essential element of shaping the processes of local and regional development is the implementation of municipal infrastructure investments, which in many cases are a lever for these processes. Their level and value can also be treated as an indicator of economic efficiency and a condition for the development of entrepreneurship at the local level. **In the years 2006–2016, municipalities (*gminy*) received a total of PLN 70.4**

**billion of EU subsidies, i.e. almost three-quarters of aid funds derived from European structural funds and the Cohesion Fund assigned to Polish self-governments.** The vast majority of them were investment subsidies<sup>24</sup>. Such a large share of municipalities in the distribution of EU funds should be explained by the much greater scope of their responsibility for public services than in counties (*poviats*) and regions (*voivodeships*).

23. Operational programmes are detailed plans in which the member states set out how money from the European Structural and Investment Funds (ESIF) will be spent during the programming period. They can be drawn up for a specific region or a country-wide thematic goal (e.g. environment). For the European Territorial Cooperation goal, cross-border or interregional operational programmes are drawn up. (Source: European Commission, [https://ec.europa.eu/regional\\_policy/en/policy/what/glossary/o/operational-programme](https://ec.europa.eu/regional_policy/en/policy/what/glossary/o/operational-programme))

24. Sierak, J. (2018) 'Alokacja funduszy unijnych a wydatki inwestycyjne gmin', *Optimum. Economic Studies*, No 3(93), pp. 195–208, available at [https://repozytorium.uwb.edu.pl/jspui/bitstream/11320/7372/1/Optimum\\_3\\_2018\\_J\\_Sierak\\_Alokacja\\_funduszy\\_unijnych.pdf](https://repozytorium.uwb.edu.pl/jspui/bitstream/11320/7372/1/Optimum_3_2018_J_Sierak_Alokacja_funduszy_unijnych.pdf)



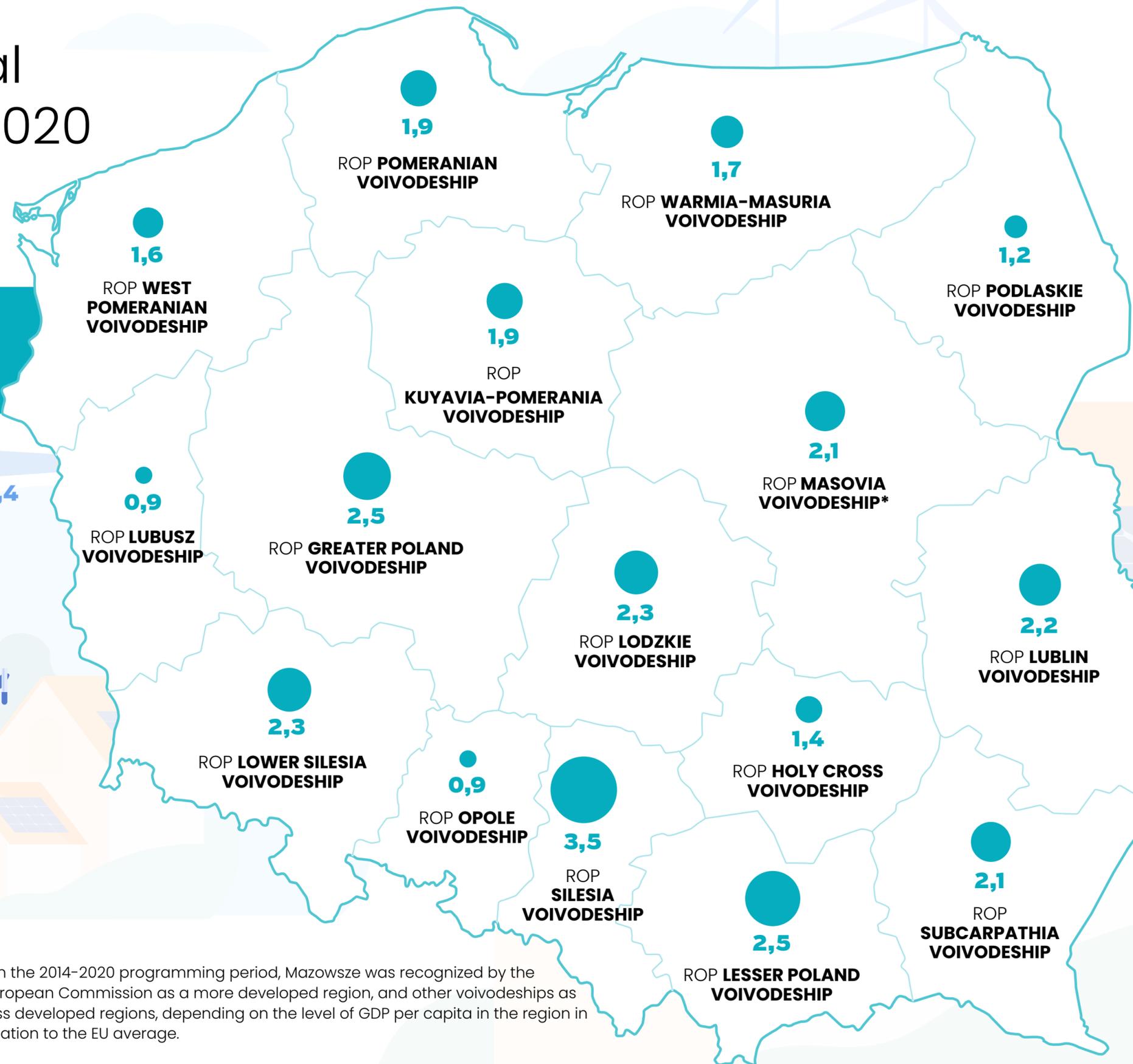
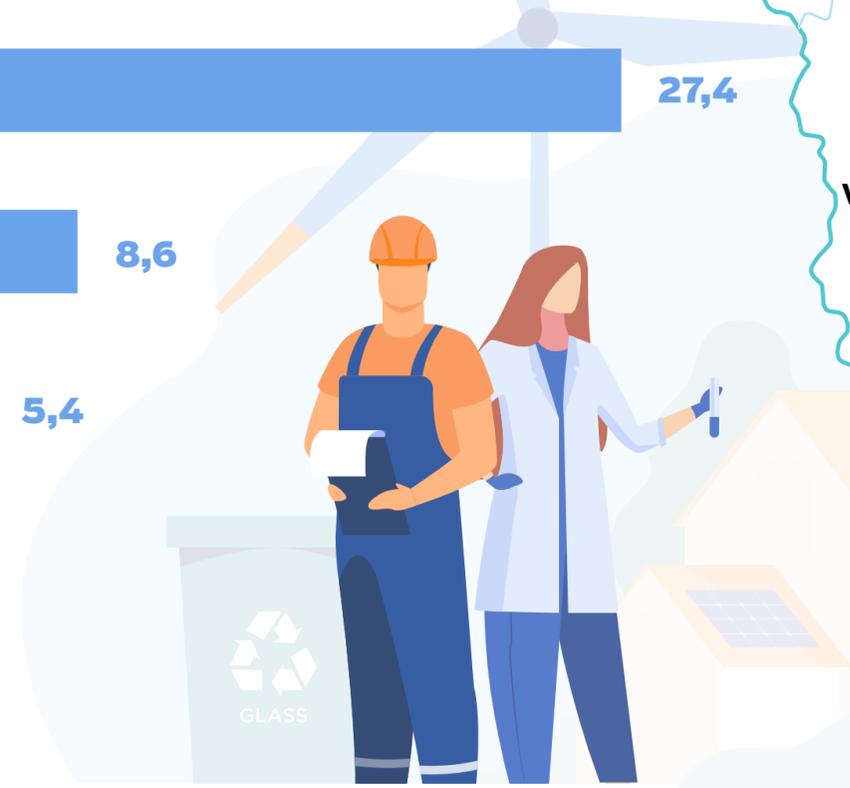
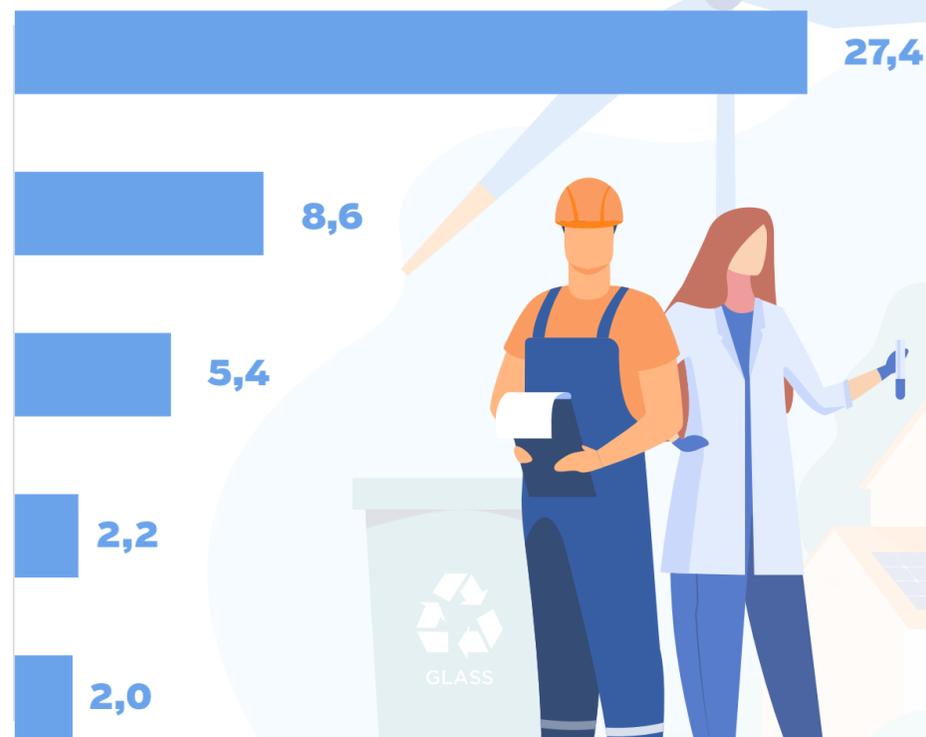
# EU funds in national and regional operational programs for 2014-2020

Source: <https://www.funduszeuropejskie.gov.pl>

## NATIONAL OPERATIONAL PROGRAMS (NOP) (EUR BILLION)

## REGIONAL OPERATIONAL PROGRAMS (ROPS) (EUR BILLION)

- OP INFRASTRUCTURE AND ENVIRONMENT
- OP SMART GROWTH
- OP KNOWLEDGE, EDUCATION, DEVELOPMENT
- OP DIGITAL POLAND
- OP EASTERN POLAND



\* In the 2014-2020 programming period, Mazowsze was recognized by the European Commission as a more developed region, and other voivodeships as less developed regions, depending on the level of GDP per capita in the region in relation to the EU average.

The procedure of obtaining EU funds is regulated by the EU and national acts, more specifically by the Regulation of the Implementation of EU funds<sup>25</sup>, the Act on the Principles of Development Policy<sup>26</sup>, and the Act on Public Finance<sup>27</sup>. Sometimes, local governments' multiple tasks, limited resources, as well as numerous difficulties and bureaucratic procedures create barriers in the process of applying for the EU funds. The absorption capacity of the beneficiaries depends not only on their readiness, but also on a wide range of factors, such as financial and management capabilities, procedures of allocating funds, reporting requirements, competitiveness, and political issues.

### Financial conditions

The inability to ensure co-financing of EU support sometimes is considered as a challenging barrier for local governments in applying for the EU funds. Depending on the source of financing and its purpose, the own contribution may be determined from a wide range of 10% to 70%. An additional obstacle in ensuring sufficient funds is the need to guarantee the financing of 'non-eligible costs'. Not all expenses incurred by the beneficiaries can be considered eligible and therefore recoverable from the EU budget. Analysing the absorption of EU funds by the municipalities of Łódź Voivodeship, it can be stated that

the financial situation does not constitute a significant barrier to the use of EU funds<sup>28</sup>. **The main sources for providing own contributions are: profits of municipal enterprises, pre-financing in the form of loans granted by banks, leasing, loans from the National Fund for Environmental Protection and Water Management or Provincial funds for Environmental Protection and Water Management, and international financial institutions (EIB, EBRD)**<sup>29</sup>. The level of co-financing is often differentiated based on the level of a municipality's well-being and depends on the level of income per capita, which means that even the poorest local units are able to find funds for co-financing. Moreover, the possibility of receiving an advance payment, as provided for in the current operational programmes, gives great chances for the implementation of projects by poor municipalities.

### Personnel qualifications

The level of local governments capabilities to prepare an offer and implement projects has recently improved significantly, which results from the acquisition of project implementation experience, the engagement of external experts, and rising internal staff qualifications. As a rule, cities with county status established departments to search for financial sources, project

preparation, and implementation. The situation in rural municipalities, especially in the smallest ones, is significantly less favourable. In the municipalities, only a few people are responsible for organising the acquisition, implementation, and management of any funds obtained. Moreover, the personnel simultaneously perform other assigned tasks. In order to prepare a competitive offer, some municipalities cooperate with consulting companies specialising in drafting applications and project management.

Sierpak (2018) presented results of questionnaire surveys that show two main directions of allocation of EU funds, namely, water supply and sewage investments (in recent years, including the development of sewage and wastewater treatment infrastructure) and projects for the construction and modernisation of roads and pedestrian ways. Other co-financed targets included culture, education, health, sport and recreation facilities, as well as urban regeneration projects. Funds were also allocated for the preparation of new investment areas intended for business activity or housing construction and the construction of IT networks. A separate support group is the development of human resources, including workshops, vocational trainings, internships, and classes in schools<sup>30</sup>.

25. Regulation (EC) No 1080/2006 of the European Parliament and of the Council of 5 July 2006 on the European Regional Development Fund and repealing Regulation (EC) No 1783/1999

26. Ustawa z dnia 6 grudnia 2006 r. o zasadach prowadzenia polityki rozwoju (Dz. U. 2009 r. Nr 84, poz. 712 z późn. zm.)

27. Ustawa z dnia 27 sierpnia 2009 r. o finansach publicznych. (Dz. U. z 2013 r. poz. 885 z późn. zm.)

28. Sprawozdanie roczne z wdrażania Regionalnego Programu Operacyjnego Województwa Łódzkiego na lata 2014-2020, available at <https://rpo.lodzkie.pl/images/2020/pmv-56-sprawozdanie-roczne-za-2019r/Sprawozdanie-roczne-z-RPO-WL-2014-2020-za-2019r.pdf>

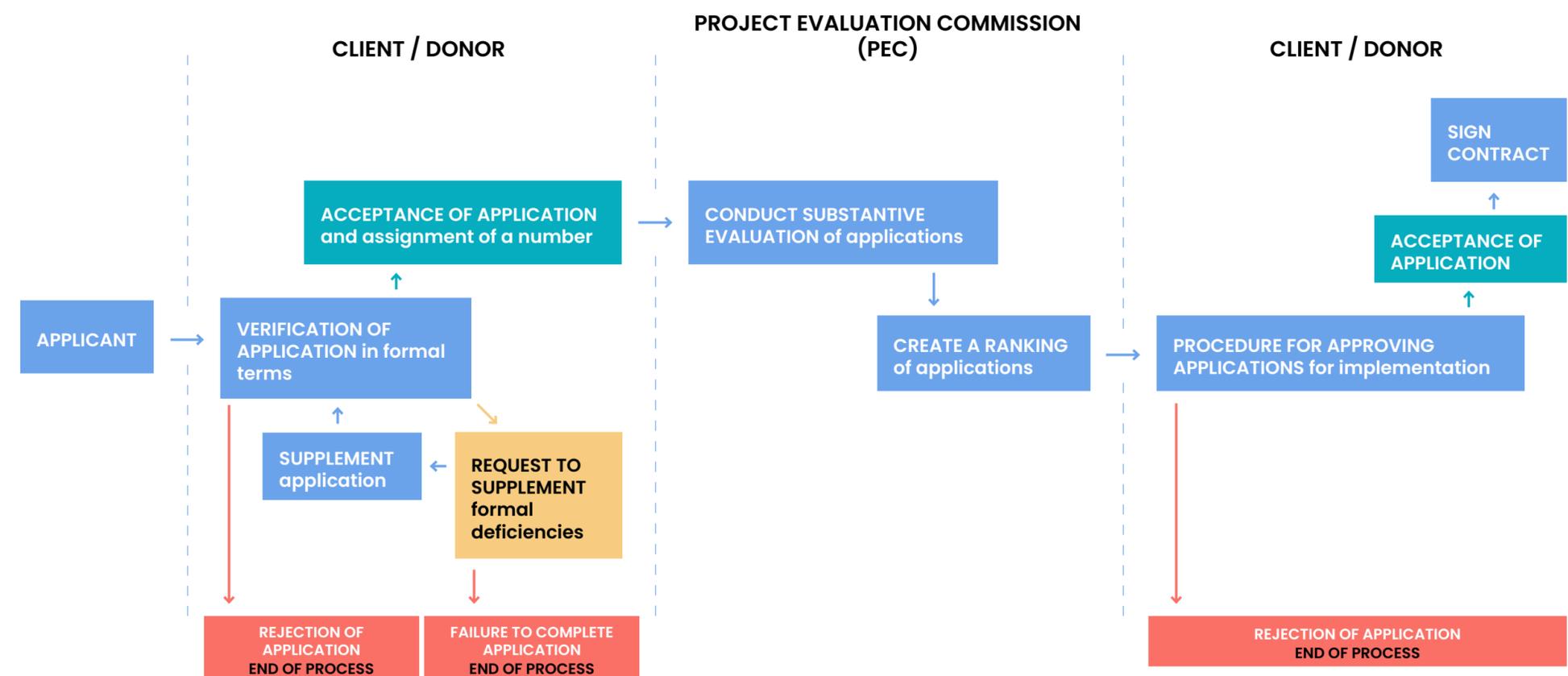
29. Finansowanie. Wojewódzki Fundusz Ochrony Środowiska i Gospodarki Wodnej w Łodzi, available at <http://www.wfosigw.lodz.pl/a-650,49,650.html>

30. Sierak J. (2018) op.cit.

During 2014–2020 in Poland, European Funds projects were implemented at the central and regional levels. At the central level, there are European Territorial Cooperation programmes and eight national programmes financed by the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund (CF), as well as the European Agricultural Fund for Rural Development (EAFRD), the European Agricultural Fund, and the European Maritime and Fisheries Fund (EMFF). At the regional level, there are 16 two-fund regional operational programmes, financed by the ERDF and ESF – one for Mazovia and 15 for other regions<sup>31</sup>.

In 2018, according to data from the Central Statistical Office, projects co-financed from EU funds were implemented in all 2,478 municipalities in Poland (as of 1 January 2019, there are 2,477 due to the abolition of the Ostrowice municipality). The total value of these investments is almost PLN 186.4 billion. Based on the total value of investments co-financed from EU funds, a ranking of Polish cities was prepared: ranked first was Warsaw (PLN 17 billion), followed by Łódź (PLN 7.2 billion), Kraków (PLN 5.1 billion), Poznań (PLN 4.3 billion), Lublin (PLN 4 billion), Gdańsk (PLN 3.3 billion), and Wrocław (PLN 3.3 billion)<sup>32</sup>.

GRAPH 5. Application process to the EU funds



31. Z jakich Funduszy Europejskich mogą korzystać samorzady w latach 2014–2020?, *Fundusze Europejskie*, available at <https://old.cpe.gov.pl/pliki/2345-fundusze-europejskie-2014-2020-dla-samorzadow-materialy-informacyjne.pdf>

32. Główny Urząd Statystyczny, available at <https://stat.gov.pl/>

### **Racibórz Dolny flood protection reservoir - a success story**

Surprisingly, the town of Racibórz (Silesian Voivodeship) – with 55,000 inhabitants – was ranked 14th due to the construction of the Racibórz Dolny



flood protection reservoir on the Odra River, which is operational as of June 2020. The investment was carried out with funds provided by the World Bank, the EU, the Council of Europe Development Bank, the National Fund for Environmental Protection and Water Management, and the state budget. The Racibórz Dolny reservoir is currently the largest hydrotechnical facility in Poland.

The concept of this reservoir has been under development for over 100 years, after a catastrophic flood in 1880. The first studies, developed prior to the 1960s, assumed the construction of a multi-purpose reservoir. However, the scale of these investments turned out to be too large to be financed in regular implementation cycles. Only after 1997, the assumptions for the construction of the Racibórz reservoir were revised, considering its most important role in flood protection of the Odra Valley from Racibórz to Wrocław. In November 2017, a contract was signed with a new contractor to complete the construction of the reservoir for an amount of nearly PLN 904 million. Thanks to this investment, the reservoir will be able to protect about

the 2.5 million inhabitants of the Śląskie, Opolskie, and Dolnośląskie regions which have previously been affected by flooding in 1997 and 2010.

As of the end of 2019, projects with a total value of PLN 166.1 billion (EU contribution) were implemented or were still being implemented under the National Operational Programmes (NOPs), which constitute over 84% of the NOPs allocation. As for Regional Operational Programmes (ROPs), projects with a total value of PLN 105.9 billion (EU contribution) were implemented or were still being implemented, which constitute over 78% of the ROPs allocation. The total amount of the implemented projects was approximately PLN 272.0 billion<sup>33</sup>.

33. Sprawozdanie z postępów we wdrażaniu Umowy Partnerstwa w 2019 roku, Ministerstwo Funduszy i Polityki Regionalnej Departament Strategii 2020, available at [https://www.funduszeuropejskie.gov.pl/media/93752/Sprawozdanie\\_UP\\_2019\\_.pdf](https://www.funduszeuropejskie.gov.pl/media/93752/Sprawozdanie_UP_2019_.pdf)

The success of Poland in terms of appropriate and effective absorption of EU funds can be proved by a new budget adopted at the summit of the European Council in July 2020. Member states reached an agreement on the EU budget for 2021-2027. Poland will be the largest beneficiary of the cohesion policy in the EU and will receive EUR 66.8 billion. Additional funds from the cohesion policy in response to the crisis are estimated at EUR 3 billion, and funds from the Common Agricultural Policy for Poland amount to EUR 28.5 billion. Poland will also be the largest beneficiary of the Just Transition Fund and will receive EUR 3.5 billion from it. The EU funds that Poland will receive are to help rebuild and strengthen the economy after the coronavirus pandemic, as well as allow the implementation of EU goals in 2021-2027<sup>34</sup>.

EU funds are not a ready-made solution to stimulate the economic development of municipalities. The well-being of local governments is shaped primarily by efficient development policy and, of course, EU funds positively contribute to this process. The appropriate use of external funds, taking into account local government needs, financial conditions, as well as a long-term development plans, may directly contribute to the operational capacity of the unit and municipality prosperity in general.



34. 750 mld zł w latach 2021-2027 – jest sukces na szczycie Rady Europejskiej, Portal Funduszy Europejskich, available at <https://www.funduszeuropejskie.gov.pl/strony/o-funduszach/fe-koronawirus/750-mld-zl-w-latach-2021-2027-jest-sukces-na-szczycie-rady-europejskiej/>