

PART III

STATE IN ECONOMY

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DECISIONS MADE BY LOCAL GOVERNMENTS IN THE SCOPE OF IMPLEMENTING THE EU FUNDS

Abstract

One of the responsibilities of local government is to raise financial means for performing tasks. When Poland joined the EU, subsequently local governments became eligible for support from the EU funds. Therefore, this article describes:

- concept of local government in Poland,
- demand of local governments for the EU financial resources (in the period 2004 to 2006), their implementation (number and value of apportioned resources, average value of projects, value of projects *per capita*, spatial distribution and ratio of project value to income *per capita* in local governments were analyzed),
- difficulties in implementing funds, chances they give to local authorities and activities that condition efficient use of funds by local governments.

Key words: local government, structural funds.

Introduction

In Poland, similarly to other democratic countries, the system of local authority is based on the principle of duality, it means that only part of local tasks is performed by the state administration that is directly (hierarchically) subordinated to the Council of Ministers, the Prime Minister or ministers. Remaining tasks are performed by local governments that are subordinated to local community.

Local government is a form of the state administration, where inhabitants create a community and decide on performing tasks that meet the needs of area under the statutory supervision of the state administration. Local governments use financial means received from

different sources to perform tasks. Poland, as other Member States, is eligible for support from the EU funds. Therefore, this article synthetically describes:

- concept of local government in Poland,
- demand of local governments for the EU financial resources (in the period 2004 to 2006), their implementation (number and value of apportioned resources, average value of projects, value of projects *per capita*, spatial distribution and ratio of project value to income *per capita* in local governments were analyzed),
- difficulties in implementing funds, chances they give to local authorities and activities that condition efficient use of funds by local governments.

Local government in Poland

Local government has a long tradition in Poland. Its development started after gaining independence in 1918 but until 1933 its activity wasn't regulated. After the WW II, local government was functioning for a while as district councils or council and powiat boards. It stopped the activity in 1950 and was replaced by the people's council, however, it wasn't a body of local government but the state authority.

The Act of March 8, 1990 on the Local Government reintroduced the idea of local government based on the principle of an assembly, i.e. all inhabitants of a commune create an association by right of law. As an association, a commune possesses legal personality and performs administrative tasks.

The constitution of the Republic of Poland that has been binding since October 17, 1997 states in the Article 15 that the territorial system of the Republic of Poland shall ensure the decentralization of public power. The basic territorial division of the State shall be determined by statute, allowing for the social, economic and cultural ties which ensure to the territorial units the capacity to perform their public duties. Whereas according to the Article 16, the inhabitants of basic units of territorial division shall form a self-governing community in accordance with law. Local government shall participate in exercising public power. The substantial part of public duties which local government is empowered to discharge by statute shall be done in its own name and under its own responsibility.

Local authority is a public-private association that constitutes by right of law all inhabitants of an area. At present, there is the three-level administrative division in Poland, the three levels include: communes, powiats and provinces. Such a division doesn't result in superiority and subordination between communities. On the contrary, because local governments were established, they are relatively independent from the state administration and subsequently they can establish their own internal organization, choose representative bodies also they are assigned to enact local law and possess own financial resources (budget) and own property. Local government exercises rationing and organizational power, therefore it has power but at the same time is supervised by the state administration (Niewiadomski 1989, p. 21).

The fundamental community is a commune, whereas a shape of powiat and a province is based on the solutions set up for a commune.

Although, there are three levels of local government, they have common system and economic features, such as:

- government bodies perform main tasks on behalf of a community that belongs to a local government,
- local government performs own and transferred tasks,
- performance of own tasks is relatively independent,
- units of a local government possess legal personality,
- they have right of ownership,

- local government possesses own sources of income which enable performing tasks,
- the state administration supervises a local government (Denek 2000, p. 12).

Subject of a local government is a community that inhabits an area outlined by law as a basic administrative unit, in some cases it also includes people with temporary residence. Self-government subjectivity is independent from the people's will and can be exercised in active or passive way. Subjective rights of community members can be exercised directly by participation in elections or referendums at the level of commune, powiat and province. However, in practice, local governmental law is exercised indirectly by bodies elected by a local community (Gardjan-Kawa 2004, p. 27).

Since January 1, 1999, the state administration has been working according to new principles regulating organization, a range of responsibilities at all levels of administration. They were introduced by the Act on Three-level Administration Division (of July 24, 1998 as published in Dziennik Ustaw (the Journal of Law) of 1998 no 96, item 603), the Act on some amendments in responsibilities of the public administration bodies, (Dz. U. of 1998, no 106, item 668) and supplementary in the Act of June 5, 1998 on Province Self-government (Dz. U. 2001, no 142, item 1590), the Act of June 5, 1998 on Powiat Self-government (Dz. U. 2001, no 142, item. 1592), the amended Act of March 8, 1990 on Commune Self-government (Dz. U. 2001, no 142, item 1591).

Implemented decentralization of the public authority means more independence for local governments in shaping administration policy and responsibility for performed tasks. Local government is obliged to perform tasks meeting the needs of a community in the following scope:

- a) technical infrastructure,
- b) social infrastructure,
- c) local public security,
- d) spatial and ecological order.

Local government performs its tasks on its own behalf and responsibility, it's based on the principles regulated by the act, exercising independence protected by court. Legislator protects performing its tasks by introducing them as obligatory at particular levels of government, hence they ensures inhabitants of a commune to meet their needs.

Local governments also have to perform tasks transferred by the state administration.

Activity of local government can be divided into two groups:

- exercising power (e.g. administrative actions: enacting law, issuing bans and orders, issuing decisions and permissions);
- economic activity (based on providing goods and services that meet the needs of community).

Running economic activity and performing tasks are undoubtedly connected with decision-making and having access to financial resources. One of the sources financing self-governmental activities are be the structural funds.

Demand for the EU structural funds in Poland

The full membership of Poland in the United Europe created an opportunity to use the EU funds by the state entities. The system of EU funds consists of:

1. The European Regional Development Fund, its objective is to reduce discrepancies in regional development of the Member States, tackle interregional disparities and support promotion of sustainable development;
2. The European Social Fund, its objective is to support trainings and life-long learning of employees, reduction of unemployment;
3. The Guidance Section of the European Agriculture Guidance and Guarantee Fund, its

objective is to support modernization and transformation in agriculture;

4. The Financial Instrument for Fisheries Guidance, its objective is to achieve balance between natural resources and their exploitation, improvement of supply and increasing value of products and fishery.

The analysis was based on the data from managing, implementing and intermediate bodies that had signed the grant agreement within the framework of the following operational programmes:

1. The Integrated Regional Operational Programme,
2. Sectoral Operational Programmes:
 - Improvement of the Competitiveness of Enterprises,
 - Human Resource Development,
 - Transport,
 - Fishery and Processing Fishery Products,
 - Restructuring and Modernisation of the Food Sector and Rural Development.

Both the SOP *Technical assistance* and technical assistance being a part of every programme were omitted in the analysis because in-depth analysis of them (e.g. spatial) was impossible.

Within the support from the EU was apportioned to Poland for the period 2004 to 2006 less than 8,3 billion euro, it constitutes some 33,5 billion zloty (cf. tabela1). Collecting application forms started at the beginning of 2004 and after few months, it became obvious that demand of potential beneficiaries (local government units, enterprises, NGOs, education units, R+D units) will exceed the EU support. The applications submitted until end-June 2005 for above-mentioned operational programmes and community initiatives *Equal* and *Interreg IIIA* exceeded 44 385 425 544 PLN, it constituted over 543% of allocation for 2004 and 127% of allocation community financial resources for the period 2004 to 2006.

Table 1. Value of signed contracts/decisions to grant assistance compared with the EU fund allocation, as to 31.07.2005.

Structural fund	Fund allocation for the period 2004 to 2006 (PLN)	Share of the fund in total support (%)	Value of signed grant contracts (PLN)	Ratio of contracts within the fund to all contracts within the Community Support Framework and Community Initiatives (%)
ERDF	20 150 236 617	60,1	8 224 275 822	65,1
ESF	7 733 443 997	23,1	3 061 802 550	24,2
EAGGF	4 832 896 061	14,4	1 099 695 666	8,7
FIFG	817 843 707	2,4	248 267 355	2,0
TOTAL	33 534 420 382	100,0	12 634 041 393	100,0

Source: (The first period of implementing the structural funds in Poland, 2005)

The data from table 1 shows that the European Regional Development Fund (ERDF) and the European Social Fund (ESF) are the most popular funds. While signing contracts within the European Agriculture Guidance and Guarantee Fund (EAGGF) and the Financial Instrument for Fisheries Guidance (FIFG) is much slower process. Such a situation results from a demand in particular sectors of the economy and society (society and regions are of particular importance), various periods of alignment with the EU norms and standards as well

as areas weren't equally prepared for using the EU funds.

Use of the EU funds by units of local government

Analyzing the use of the structural funds in Poland is hindered because of the following reasons:

1. Lack of the uniform record system of the structural funds that covers submitted applications, signed contracts and implemented projects. Some records were made by the Managing Authority for the Community Support Framework of the Ministry of Economy and Labour.
2. The EU resources are distributed via various channels what makes an observation more difficult.
3. In some cases, beneficiaries aren't able to recognize the source of the EU means which finance their project, last few years the resources were available from the pre-accession assistance, at present the structural funds or the Cohesion Fund are available.

The majority of contracts to grant assistance were signed at the national level (i.e. some 66%), only some 34% were signed at the self-governmental level. The provinces that were particularly active in this scope were: Mazowieckie, Pomorskie, and Zachodniopomorskie (cf. table 2), while the least active were the following provinces: Opolskie, Lubuskie, Łódzkie, and Kujawsko-Pomorskie. The most valuable contracts were signed in the Mazowieckie, Śląskie, Pomorskie and Wielkopolskie Provinces, while the least—Świętokrzyskie, Podlaskie and Opolskie Provinces.

Not only the number and value of signed contracts are taken into account while describing the use of the EU fund but also the value of support *per capita* in the provinces. Analyzing this index it can be stated that the value of the apportioned assistance *per capita* was the highest in the Pomorskie , Zachodniopomorskie Provinces, while the lowest in Dolnośląskie, Łódzkie and Małopolskie Provinces. The ratio of the value of support to the average value for the entire state additionally proves inequitable distribution of the assistance.

Table 2. Number of signed contracts for a grant, total value of the Community support and the value of support *per capita*

Province	Total		Number of inhabitants	Value of support <i>per capita</i> (PLN)	Ratio of support to the average for a state [%]
	Number of contracts	Value (PLN)			
Dolnośląskie	318	462 458 989	2 895 729	231,92	68,72
Kujawsko-Pomorskie	292	603 642 930	2 067 548	364,18	107,91
Lubelskie	403	489 717 498	2 187 918	296,05	87,72
Lubuskie	206	338 331 691	1 009 177	407,47	120,74
Łódzkie	280	419 455 893	2 592 568	234,01	69,34
Małopolskie	461	534 067 904	3 256 171	236,24	70,00
Mazowieckie	708	1 269 706 171	5 139 545	319,20	94,60
Opolskie	205	224 428 208	1 053 723	285,20	84,51
Podkarpackie	372	568 995 171	2 097 325	343,51	101,79
Podlaskie	350	313 019 080	1 204 036	332,19	98,43
Pomorskie	770	1 097 344 483	2 192 404	572,74	169,71
Śląskie	501	1 119 144 088	4 707 825	309,94	91,84
Świętokrzyskie	305	335 063 300	1 290 176	331,92	98,35

Warmińsko-Mazurskie	411	592 988 857	1 428 385	487,37	144,41
Wielkopolskie	431	1 003 930 639	3 362 011	370,83	109,88
Zachodniopomorskie	755	755 349 817	1 695 708	517,67	153,39
<i>National level</i>	<i>13 297</i>	<i>2 757 326 430</i>	<i>38 180 249</i>	<i>72,22</i>	<i>-</i>
Total- average	20 065	12 884 971 146	38 180 249	337,48	100,00

Source: based on <http://www.fundusze-strukturalne.gov.pl/NR/>

The supplement of the analysis is also the spatial distribution of implemented projects (cf. table 3). It indicates that the highest number of projects was implemented in the Mazowieckie Province, while the lowest—in the Opolskie Province. Taking the average value of projects into account, the highest index achieved the following provinces: Pomorskie and Wielkopolskie, the lowest one—Podlaskie and Warmińsko-Mazurskie Provinces.

Table 3. Distribution of the number and value of projects implemented by provinces, powiats and communes

Province	Number of projects	Value of implemented projects (PLN)	Total share in the value of projects [%]	Average value of projects
Dolnośląskie	118	459 728 873,3	6,0	3 896 007,4
Kujawsko-Pomorskie	104	351 726 288,0	4,6	3 381 983,5
Lubelskie	91	205 986 984,6	2,7	2 263 593,2
Lubuskie	139	264 661 353,8	3,5	1 904 038,5
Łódzkie	113	231 473 127,6	3,0	2 048 434,8
Małopolskie	87	424 497 596,3	5,6	4 879 282,7
Mazowieckie	316	788 108 490,2	10,3	2 494 014,2
Opolskie	97	197 358 459,5	2,6	2 034 623,3
Podkarpackie	136	470 224 522,3	6,2	3 457 533,3
Podlaskie	145	243 197 047,2	3,2	1 677 221,0
Pomorskie	154	1 315 856 303,0	17,2	8 544 521,4
Śląskie	177	746 568 825,9	9,8	4 217 903,0
Świętokrzyskie	143	310 550 249,3	4,1	2 171 680,1
Warmińsko-Mazurskie	205	377 196 063,2	4,9	1 839 980,8
Wielkopolskie	154	971 021 050,7	12,7	6 305 331,5
Zachodniopomorskie	144	279 491 134,9	3,7	1 940 910,7
total Poland	2 323	7 637 646 369,7	100,0	3 287 837,4
provinces	116	1 077 530 805,1	14,1	9 289 058,7
powiats	1 161	1 596 353 192,3	20,9	1 374 981,2
communes	1 046	4 963 762 372,3	65,0	4 745 470,7

Sources: based on <http://www.fundusze-strukturalne.gov.pl/NR/>

Also the distribution of projects in a province-powiat-commune cross section is worth mentioning. Some 50% of projects were implemented in powiats, 45% in communes, and only 5% of them were implemented in provinces. While taking the total value of implemented

projects into account, the most valuable projects were implemented in communes and the lowest ones in provinces. Although powiats implemented more projects, the ones implemented by communes were more valuable. Their value amounted to 65% of total value of all projects implemented by the units of local government. Therefore, the average value of projects submitted by communes amounted to 4,7 million PLN, whereas it amounted in powiats to 1,3 million PLN, i.e. more than three times lower compared to the average value of projects in communes. One aspect is very interesting at this point, although provinces implemented less projects and they weren't as valuable as the other ones, the average value of projects was the highest, it was three times higher than the average value of projects for Poland.

The analysis shows that communes are more active in raising and using the EU resources. The most projects were implemented in the following provinces: Mazowieckie (152), Śląskie (112), Świętokrzyskie (105) and Wielkopolskie (104) because there were many applicants and communes were quite well-prepared for absorption of the EU funds. Whereas the least active were communes from the Dolnośląskie (14), Małopolskie (26) and Lubelskie (34) Provinces (The first..., 2005).

Also the ratio of value to income of local governments *per capita* (cf. table 4) is worth mentioning.

Table 4. Value added of the structural funds in comparison with income of local governments

Provinces	The Community support <i>per capita</i> to income of local governments <i>per capita</i> (PLN)		
	provinces	powiaty	communes
Dolnośląskie	6,2	2,2	3,5
Kujawsko-Pomorskie	8,3	3,3	5,5
Lubelskie	7,8	3,4	2,3
Lubuskie	30,0	5,9	7,0
Łódzkie	3,1	0,8	3,8
Małopolskie	35,5	2,4	2,4
Mazowieckie	0,0	1,5	6,0
Opolskie	30,4	2,0	6,4
Podkarpackie	57,9	4,6	4,2
Podlaskie	11,4	8,2	3,8
Pomorskie	30,9	3,4	23,5
Śląskie	0,3	3,9	4,5
Świętokrzyskie	4,3	4,3	9,4
Warmińsko-Mazurskie	0,2	7,5	8,9
Wielkopolskie	58,7	1,4	9,4
Zachodniopomorskie	5,2	3,7	5,1

Source: (The first..., 2005)

As table 4 shows, the highest value of ratio was noticed in provinces, particularly in the Wielkopolskie (58,7 PLN) and Podkarpackie (57,9 PLN) Provinces, then in communes (communes in the Pomorskie Province - 23,5 PLN). Whereas the lowest ratio was noticed in powiats, the highest ratio was noticed in powiats of the Podlaskie Province (8,2 PLN).

The vast majority of expenditures was earmarked by local governments for investments in basic infrastructure, it constituted some 86% of the total project value. The second category of intervention was investment in development of human resources, it

amounted to 11,6% of total investments made by powiats and communes. Whereas, at the beginning stage of implementing the structural funds, the production sector received the lowest support (159,4 million PLN), it constituted only 2,4%. The fact that so many projects are aimed at improving basic infrastructure is caused by a huge demand for development of local and regional infrastructure as well as the fact that infrastructure projects (particularly building roads) are far more expensive than so-called “soft” projects (advisory, trainings). The average value of infrastructure projects amounted to 5,3 million PLN, whereas projects aimed at development of human resources only amounted to 705 thousand PLN (The first ..., 2005).

Taking the number of projects implemented by powiats and communes into account, the situation was much more stable, 1059 contracts per 2207 (i.e. some 49%) financed development of human resources, there were 1059 infrastructure projects, 856 of them (some 81%) were implemented by communes. It means that 47% of all projects that belong to the third category of intervention generated over 85% of expenses within the projects co-financed by the structural funds. In the analysis of implemented projects by powiats, a particular emphasis will be put on development of human resources while in case of communes, it will focus on infrastructure investments. The common feature of both levels of local government is more intense investment in transport infrastructure, in powiats it amounted to 82% of total project value, in communes —61%.

With reference to communes, the highest value (except for transport infrastructure, mainly roads) was earmarked for environmental infrastructure (mainly plumbing). In case of powiats, a significant percentage of implemented projects constituted building and modernizing social infrastructure and health care. Spatial planning, both for communes and powiats, covered only 5% of signed contracts. Investments in telecommunications were relatively low. There weren't also projects aimed directly at electricity infrastructure, however, some environmental projects will indirectly improve it.

Argumentation

Describing the EU funds available for /to local governments, it is necessary to mention the **risks** that hinder implementation. Among the **risks** are the following:

- complicated EU procedures of applying for grants,
- difficulties in filling in the EU documents (e.g. application for payment) because they are very complicated, it results in delays of document submission and consequently delays in payment,
- problems (delays) connected with the flow of EU means (it results from time-consuming process of projects appraisal and very complicated tendering procedures),
- promptness of receiving donations,
- necessity of financial contribution,
- risk of „the debt trap” in case of looking for another sources of financial contribution,
- difficulties in implementing regional objectives as a result of fragmented implementation of the EU sources, it is connected with specificity and opportunities of financing investments (by communes that are the direct or obligatory indirect investor),
- inability to cooperate between entities and local governments
- organizational problems connected with fragmented tasks,
- lack of well-prepared personnel,
- insufficient cooperation with the organizations responsible for promoting knowledge and information on the EU
- delays in enacting new law what threatens to lose opportunity to receive the EU funds,

- increasing unnecessary bureaucracy and amount of required documents,
Although, there are many risks connected with implementing the EU funds, undoubtedly there are some **chances** for the entire economy which will improve its competitiveness. The EU funds (Kryk, 2005):
- enable stimulating investment and economic initiatives of Polish enterprises and self-governments,
- create favourable conditions not only for implementing the most strategic investments for region but also support solving „basic” needs and favour the socio-economic development,
- create favourable conditions for increased employment and more efficient use of human capital resources,
- ease implementing new technologies,
- allow expanding the assortment of goods and services,
- allow to decrease costs as a result of competition,
- speed up transformation of the economy,
- improve condition of social and environmental facilities,
Taking the chances requires appropriate actions at the self-governmental level:
- creating investment strategies that meet the objectives of development in a province or region,
- setting up development objectives and defining expectations and requirements to avoid „competition policy” („submit application, we’ll see which project wins”) and solutions that don’t contribute to the development of a province,
- encourage close and effective organization (cooperation) among local governments that will enable to consolidate as many entities interested in an objective as possible, the more consolidated organization is the better chances for the EU grants are,
- entering into a dialog and contacts with private sector and society in order to achieve active regional policy by common projects,
- development of public and private partnership,
- improving cooperation between local governments and other bodies responsible for providing information on the EU funds and the terms of implementing them,
- educating government officials and councillors on the EU issues,
- appropriate cooperation with authorities at national level.
Efficiency of actions at the self-governmental level is conditioned by:
- clear apportionment of responsibilities among central, regional and governmental authorities,
- appropriate law changes, including expanding civil service.

Conclusion

The scope of responsibilities of the civil service, particularly local governments, proves that there is a clear apportionment of responsibilities between the units of civil service that takes local area into account. Namely (Stec, 1998, p. 9 and the next ones.):

- local tasks are directly addressed to a citizen—inhabitant of a particular community, they are implemented at the levels of communes and powiats;
- regional tasks aiming at: the economy, civilization and economic development, promotion of a region, spatial planning and establishing environment that will be friendly to a man, are implemented at the provincial level.

Responsibilities of local governments were assigned in such a way which won’t breach uniformity of the state policy so that the state administration bodies could verify activities not

meeting the national objectives (Wrzosek, 1999, p. 40).

Poland's full membership in the EU, created new opportunities for state entities to use the structural funds. Beneficiaries are also units of local government. The EU set up four structural funds in order to finance implementation of various projects.

Since the 1st May of 2004, the interest in the structural funds has been significantly exceeding available financial resources. A particular role play two funds, namely: the European Regional Development Fund and the European Social Fund.

During the first year of Poland's membership, significant spatial discrepancies in the scope of signed contracts and implemented projects were observed. Some regions are more active in receiving the EU assistance. However, this situation can be improved on certain conditions. The value of implemented projects was also various, it is obvious not only because of various numbers of implemented projects but also different character of projects.

Significant part of the EU resources was earmarked for infrastructure what influenced significantly the development of local governments and improved living standards of its inhabitants. The second group receiving a significant support, however, lower than the previous one, includes projects aiming at the development of human resources and supporting production of SMEs. However, too low percentage of projects involving rural areas and tourism is worrying.

Summing up, the use of the structural funds by Polish local governments is assessed as very good. Local governments show interest in the EU funds and take actions to receive them. They are better and better prepared for application process, however, they didn't avoid making some mistakes. Above the all, the most important is the opportunity to apply for such funds what motivates local governments to become more active.

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