

Barbara Kryk
Department of Microeconomics
University of Szczecin

COMPETITIVENESS OF THE ECONOMY IN TERMS OF THE EU FUNDS AND SUSTAINABLE DEVELOPMENT

Abstract

Competitiveness of the economy (and its entities at the same time) is determined also by condition of the environment. Hence, all attempts at environmental protection have more or less direct impact on competitiveness.

If Poland wants to improve the level of competitiveness and fulfil the commitments made to the EU at the same time, it is obliged to take care of the environment and ensure its proper condition. The actions taken in this field are financed from the structural funds.

Therefore this article focuses on:

- the term of competitiveness of the economy,
- relation between competitiveness of the economy and sustainable development,
- Poland's position in the WEF ranking,
- a short description of the EU funds available to finance environmental protection as well as chances and risks connected with implementing them.

Keywords: competitiveness of the economy and enterprises, environmental protection, structural funds, sustainable development

Introduction

Currently, in the period of the dynamic changes, everyone (including enterprises, the economy or employee on the labour market) wants to be highly competitive because it enables existence, development and fulfilling various economic, ecological, social or private objectives. In fact, "being competitive" is a sign of the times. Nobody asks „why we should be competitive" but „ what to do to be more competitive? ”

At present the term of competitiveness is understood in a broader aspect because of progressing integration and globalization. It's used not only at the microeconomic level but also at the macroeconomic one. For this reason, we talk about competitiveness of regions, countries or their associations. In the developed countries, including the Member States, competitiveness is associated with sustainable development. The concept of sustainable development emphasizes the necessity of combining and maintaining three orders such as: economic, ecological, and social. Environmental protection should be particularly taken into account as it became one of the determining factors in competitiveness of both enterprises and the entire economies.

If Poland wants to improve the level of competitiveness and fulfil the commitments made to the EU at the same time, it is obliged to take care of the environment and ensure its proper condition. The actions taken in this field are financed from the structural funds.

Therefore this article focuses on:

- the term of competitiveness of the economy,
- relation between competitiveness of the economy and sustainable development,

- Poland's position in the WEF ranking,
- a short description of the EU funds available to finance environmental protection as well as chances and risks connected with implementing them.

Competitiveness of the economy

Basically, competitiveness means ability to compete i.e. increase the share in the market or maintaining the position that has been reached so far. Such point of view concerns product, enterprise and technology, with the time being, progressing integration and globalization, the concept of competitiveness started to be used in reference to the economy. The reasons for using the term with reference to it are as follows:

- some economies are more competitive in attracting foreign capital,
- the range of analyzed sources of economic advantage has been expanded, they are to a lesser extent connected with trade exchange and to a greater extent with capital flow, technological innovations, quality of enterprise and its management, knowledge, skills, organizational structures (including various international relations) and their consequences for production factors and real incomes *per capita* (Bossak, Bieńkowski, 2004, p. 40).

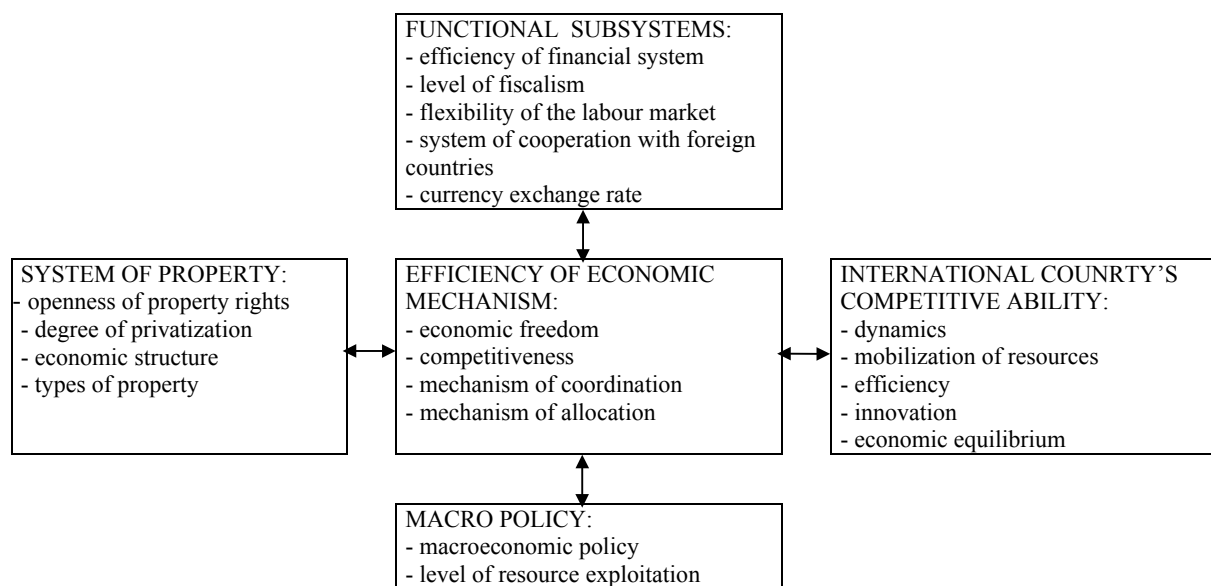
Hence, there is a need for assessing and comparing economic advantage of individual countries. Determining the level of competitiveness is a basis for decision making which actions should be taken, system solutions or instruments implemented to improve competitiveness of the economy.

There is no obligatory definition of competitiveness of the economy in the professional literature. According to the representatives of the World Economic Forum: „Competitiveness concerns adapting state economic institutions and economic structures to produce a growth visible in the international scale. The national economy is competitive in the international scale if its institutions and policy support rapid and stable economic growth” (Rechul., 2001).

A very similar way of thinking shares Żukrowska who understands competitiveness as „an ability to adapt economy (i.e. entities or their production) to changeable conditions so that it enables maintaining of improving position on the market in global conditions (Żukrowska, 1995).

In the Polish literature the most detailed definition is presented by Bossak who believes that „competitiveness of a country can be described as such shaping various conditions so that they indicate economic basis for the dynamic development of enterprises in changeable conditions. Taken into account conditions are as follows: institutional, macroeconomic, competition, and efficiency of market mechanisms”. (cf. chart 1) (Bossak, 2000, p. 21).

Chart 1. Legal system, organizations, mechanisms, economic structure, macroeconomic policy in terms of international competitiveness of country



Source: (Bossak, 2000, p. 21)

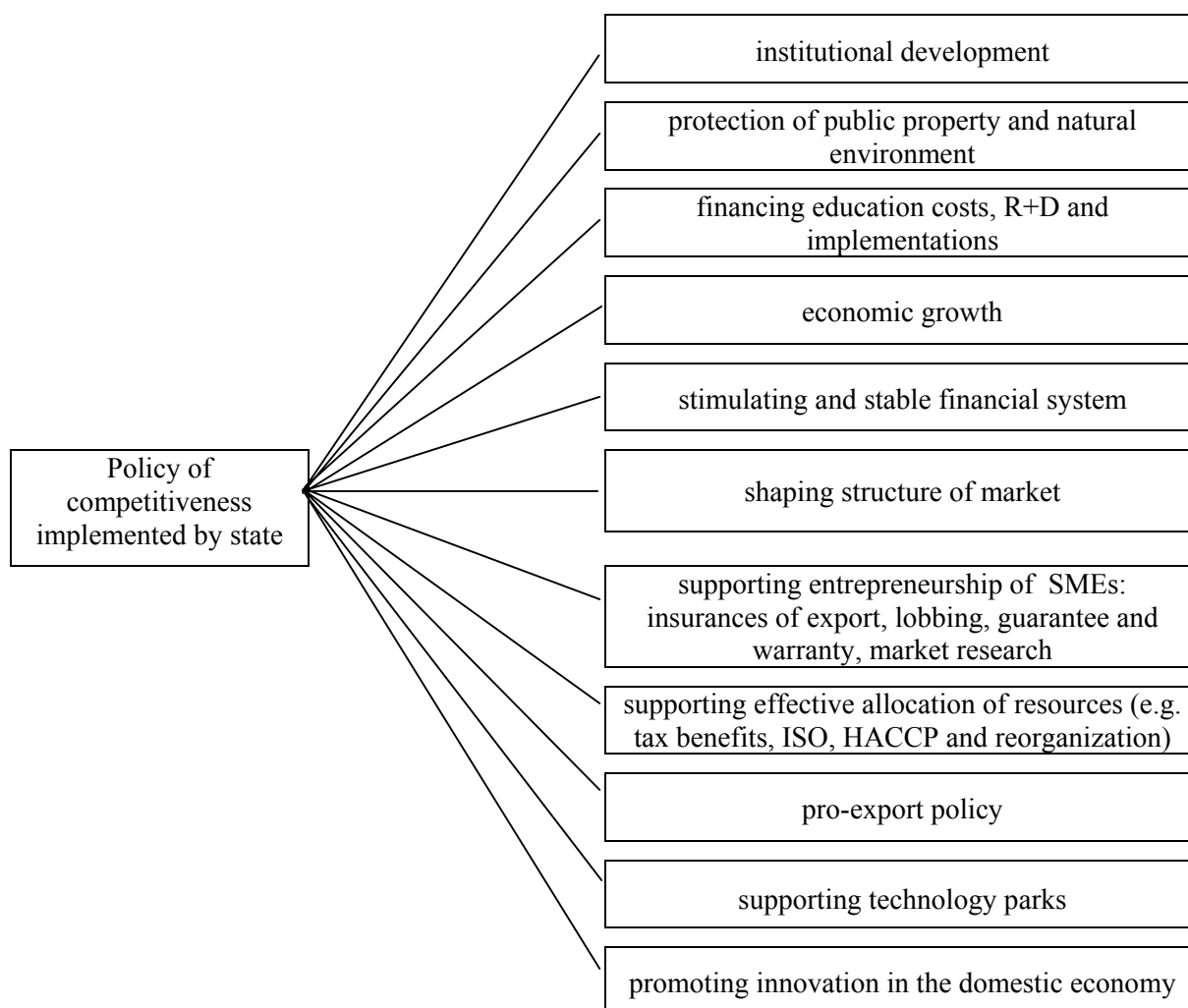
Described above definitions allow to notice more or less directly that competitiveness of the economy is reflected in the ability of enterprises to be competitive. Also Porter shares this opinion, according to him competitiveness of the country depends on ability of business entities to implement innovations and improvements (Porter, 2001, p. 14 and the next ones). Such abilities are determined by differences in culture, values, economic structure and history. Innovations being the main weapon in competition don't need to be technological in character, they can be connected with product, process of production, new approach to the market. Above all, the most important is continuity of innovation. Hence, the state plays so significant role in stimulating them, mainly by financing R+D from the budget.

To examine closely competitiveness of the state, Porter created so called diamond approach including four indices of advantage (Porter, 2001, pp. 206-209):

- production factors creating demand for products (quality, scarcity, specialization), particularly human factor, its education and knowledge,
- character of domestic demand (its quality, promptness, level of goods or services innovation) made by enterprises and households,
- related and supporting sectors through technology exchange, information flow, closeness of relations and opportunities,
- strategies, structures of enterprises and situation on the domestic and international markets.

Above-mentioned indices depend on each other and strengthen each other. Each of them is essential for the system of effective competition. To improve competitiveness of the economy, it would be necessary to establish the most favourable diamond approach to the conditions (environment) that will ensure long-lasting competitive advantage of business entities including enterprises. The state has a significant impact on shaping such environment, it should also ease adapting to new conditions and support micro-competitiveness. It means that the government should follow appropriate policy and use the instruments improving competitiveness of business entities (chart. 2).

Chart 2. Policy of competitiveness as the way to improve competitiveness of enterprises



Source: (Skawińska, 2002, p. 87)

At present, in most developing countries including Poland, environmental protection is one of the most important elements in competitiveness of business entities, having also impact on competitiveness of the economy and chances for implementing objectives of sustainable development.

Competitiveness of the economy and environmental protection in terms of sustainable development

Comparing to globalization and Poland's accession to the European Union, environmental protection plays a significant role not only in its ecological meaning but also in relations with business activity that is transnational in character. The complex concept of environmental protection was established at the end of 20th century, it was understood as sustainable development broaden by cooperation with various fields of science supported by intense activities of international organizations and establishing new legal regulations by developed countries.

Poland has adopted the concept of sustainable development and has taken actions to implement its objectives.

In Poland according to the *Environmental Protection Act*, **sustainable development is defined as „such socio-economic development where integration of political, economic, and social activities takes place and accompanies the natural balance and permanence of basic natural processes in order to guarantee meeting basic needs of contemporary communities or citizens and the future generations”** (The Journal of Laws of 2001, no 62, item 627).

Continuing counterbalancing of the economic, ecological, and social dimensions is prerequisite for sustainable development. All the dimensions are taken into account by Piontek in his definition, according to him: permanent sustainable development means the permanent improvement in quality of contemporary and future generations' life, achieved by keeping the right proportions among three kinds of capital: economic, human and production (Piontek F., 2002).

International cooperation, particularly Poland's accession to the EU, required adopting the concept of sustainable development in the state ecological policy. Therefore, already in the *First Ecological Policy* the objectives and priorities were determined, their implementation allowed to follow the path of sustainable development. **Thanks to implementing the policy:**

- were established legal basis for efficient natural resource management and their protection against negative impact of business activity,
- were established institutional structures of environmental management and supervision of law implemented in mentioned scope at all levels of state administration,
- was promoted economization of actions taken in the environment according to the *principle the one who pollutes shall pay* and *the principle of dual benefit* (economic and ecological),
- were established institutions that finance environmental protection effectively,
- reduced significantly emission of pollution, condition of the environment was improved,
- improved significantly the level of ecological awareness among society and were set legal basis for its participation in the environment management.

In the *Third State Ecological Policy* that is being implemented at present (with the period of 2007-2010 taken into account) the following **objectives** were declared:

- providing ecological safety of citizens, social infrastructure and natural resources (this objective is being continued),
- combining ecological aspects with sector policies (good practices in use and management of the environment),
- implementing new economic mechanisms and systems financing environmental protection,
- creating vacancies in the environmental protection institutions at all levels of state administration in order to strengthen them,
- increasing the share of society in making decisions concerning use of the environment, improved access to information and social dialog, increasing the level of ecological education,
- making town-and-country planning and using land more ecologically,
- developing researches, technological progress and stimulating innovations in environmental protection (it is planned to appoint new state research institutes and conduct research programmes for many years),
- continuing the international cooperation in the scope of environmental protection.

The objectives of ecological policy have been reflected in the National Development Plan for the period of 2004 and 2006 (NDP - Warszawa 2003), which states that environmental protection and land development are the priorities in implementing NDP and establishing conditions for sustainable development. In the scope of the long-term socio-economic policy,

the strategy that enables identification of the most important conditions for the development and defining the main objectives of NDP is *Poland 2025, the long-term policy toward stable and sustainable development* accepted in 2000. It assumes that Poland is able to establish such conditions which will enable a stable and sustainable development. The priorities in the strategy cover : education, scientific development, the base for research and development of the economy and culture, as well as environmental protection, personal & material safety. The precondition for implementing the priorities, both NDP and strategy, is modernization of the economy structures, to do it various financial sources are used, including the structural funds. Thanks to these funds, more rapid alignment with the EU requirements is possible, including ecological ones, increasing competitiveness of the Polish enterprises and economy and also implementing the objectives of the ecological policy is faster.

Poland's competitive position in the world

The position of Poland in the ranking of the most competitive economies of the world proves that Poland needs to improve its competitiveness. One of the most known rankings is the one prepared by the World Economic Forum. According to it, competitiveness of the economy mainly depends on stable macroeconomic and political situation, the economic principles determining modus operandi and companies' strategies, investments, the government policy establishing favourable conditions for competition of enterprises. The WEF emphasizes the role of the government because it has an impact on the economy development through its education policy, government purchases, regulation of import, etc. As the basis for the analysis of the ranking, the WEF takes into account eight indices:

- opening up the economy (13 criteria)
- government (22 criteria)
- finance (24 criteria)
- infrastructure (16 criteria)
- technology (23 criteria)
- management (23 criteria)
- job (17 criteria)
- institutions (23 criteria).

Among 117 countries ranked by WEF in 2005, Poland was placed as 51st. In comparison with the previous report it is a significant improvement, the Polish economy went up by 10 places during a year, it is the most significant improvement among the new Member States (cf. table 1). It is a source of delight but shouldn't be a source of pride because our country slightly took over Mauritius and higher competitiveness are in Botswana, Tunisia, Thailand, and Kuwait. Furthermore, Poland didn't manage to maintain the position it already had in 2003.

Table 1. The most competitive economies in the world

Country	2005	2004	2003	2002
Finland	1	1	1	1
the USA	2	2	2	2
Sweden	3	3	3	3
Denmark	4	5	4	4
Taiwan	5	4	5	6
Singapore	6	7	6	7
Island	7	10	8	12
Switzerland	8	8	7	5

Norway	9	6	9	8
Australia	10	14	-	-
Japan	12	9	11	16
the UK	13	11	15	11
Germany	15	13	13	14
Spain	29	23	-	-
China	49	46	-	-
India	50	55	-	-
Poland	51	60	45	50

Source: WEF Report, „Rzeczpospolita” daily , 29.09.2005.

According to the assumption of the government strategy for the period 2004 and 2006 and NDP for the period of 2004 and 2006, Poland's competitive position should be improved in the nearest future. Undoubtedly, support from the EU funds will change the position in the ranking as the funds aim mainly at improving competitiveness of the economy.

The European Funds

Since Poland's accession to the European Union, the country is eligible for support from the available instruments of the structural policy i.e. the structural funds and the Cohesion Fund.

The Cohesion Fund was set up in 1993 pursuant to the Maastricht Treaty. Its main objective is to support projects operating at the national level, structural transformation of regions resulting in reducing development disparities among the Member States. The objective of support is to provide assistance in infrastructure investments made by the poorest Member States so that they could comply with the convergence criteria for the economic and monetary union.

Financial resources of the Cohesion Fund are addressed to such Member States where GDP per capita is below 90% of the Community average and where a programme of economic convergence was prepared. The assistance of the Cohesion Fund together with the transfers from the structural funds shouldn't exceed 4% of beneficiary's GDP.

Projects financed by the Cohesion Fund should comply with the provisions of the Treaties, the instruments adopted pursuant thereto and with Community policies including those concerning environmental protection, transport, trans-European networks, competition and the award of public contracts.

According to the Council Regulation 1164/94/EC the assistance from the Cohesion Fund can be granted for support of two sectors: environment and transport. In case of Poland, both sectors will be equally supported.

The Cohesion Fund finances large projects or groups of projects which are cohesive and their budget doesn't exceed 10 million euro. The maximum rate of aid for investment projects granted by the Cohesion Fund amounts to 85% of public expenditures or other equivalent expenditures (so called eligible expenditures). Eligible expenditures also include those made by bodies undertaking activities within an administrative or legal framework by virtue of which they may be deemed to be equivalent to public bodies (e.g. public enterprises). The Polish party must guarantee at least 15% of financial resources needed to finance the project from one or several sources, a project mustn't benefit both from the Cohesion Fund and structural funds.

Available Structural Funds are as follows:¹

1. **The European Regional Development Fund (ERDF)** was set up in 1975. Its main objective is to reduce discrepancies in regional development of the Member States. The financial resources can be allocated to investments enabling to remain or create new places of job, infrastructure development which will support regional development, local modernization and development initiatives, investments in education and health care, R+D activities, and investments in environmental protection.
2. **The European Agriculture Guidance and Guarantee Fund (EAGGF)** was set up in 1964 and is divided into two sections namely: guidance and guarantee. The Guarantee Section finances the Common Agricultural Policy, it isn't a structural fund. While the structural instrument is the Guidance Section that supports transformation in agriculture in particular Member States and assists in development of rural areas. Within the framework of the Guidance Section the assistance is provided in the following fields: initiatives leading to changes in the occupational structure in the country, development and modernization of rural areas, improving competitiveness of rural products, transformation and adapting production potential, development of tourism and craft, development and exploitation of forests, investments in environmental protection.
3. **The European Social Fund (ESF)** was set up in 1960. It co-finances activities connected with the employment policy and the programme of human resources development. It supports initiatives counteracting unemployment, stimulates growth of entrepreneurship and employment as well as shapes the potential of local community, improves women's participation in the labour market, and deals with social marginalization.²
4. **The Financial Instrument for Fisheries Guidance (EIFG)** was set up in 1993. The main objective of EIFG is to support transformation of fishery in the Member States. It finances the following initiatives:
 - development of aquaculture,
 - development of fishing port facilities,
 - transformation and modernization of fishing fleet, methods of fishing and fish processing,
 - increasing competitiveness of fishery products and their promotion on the market.

Within the framework of the structural funds, the most chances to finance activities involving environmental protection are offered by ERDF and EAGGF Section of Guidance.

In order to plan the EU assistance and efficient allocation of the funds, Poland prepared the NDP which was mentioned before. Within the NDP have been prepared:

- five Sectoral Operational Programmes (SOP):
 - Improvement of the Competitiveness of Enterprises
 - Human Resources Development
 - Restructuring and Modernisation of the Food Sector and Rural Development
 - Fishery and Processing of Fishery Products
 - Transport
- The Integrated Regional Operational Programme (IROP)

¹ <http://www.structum.com.pl/zefe-fundusze-strukturalne.shtm> dated 26.10.2004 .

² These issues are also implemented at present by the Sixth Frame Programme of the European Community, Research and Technological Development and the Presentations supporting establishing European Research Centre and Innovations (for the period of 2002 and 2006).

- Operational Programme Technical Assistance.

The NDP for the period of 2004 and 2006 will allocate 14,8 billion euro from public sources including 11,4 billion euro financed by the UE and 3,4 billion euro financed by own financial means. The commitments toward Poland will be allocated as follows: 3,7 billion euro financed by the Cohesion Fund (33%) and 7,6 billion euro financed by the structural funds (67%). On environmental protection will be earmarked: 50% of the Cohesion Fund (i.e. 1866,6 million euro), 12,5% of the Sectoral Operational Programme (i.e. 163,8 million euro) and 14% of the Integrated Regional Operational Programme (i.e. 407,3 million euro).

Support received in the form of grants is based on the reimbursement of eligible expenditures on condition of allocating by Polish enterprises so called financial contribution to a project, hence given below amounts of money should be considered as potential, conditioned by enterprises' decisions.

It is estimated in the compilation prepared for the Ministry of Environmental Protection that possible donations from the structural funds earmarked for environmental protection in the period of 2004 and 2006 will amount to 1610,2 million euro calculated in prices in 1999. Adding another 1866,6 million euro financed by the Cohesion Fund, there will be 3476,8 million euro for environmental protection in total. Comparing this amount of money with available estimations of required expenditures on environmental protection (cf. Table 2), it can be stated that it amounts to 13% - 16% of total demanded investment capital for environmental protection. It means that remaining 84% - 87% of financial means will have to be financed by from other sources (particularly domestic sources, both public and private). Such visible discrepancies in financing prove that Poland will have to bear significant expenditures to fulfil the EU commitment only in one field- environmental protection (Kryk, 2006).

Table 2. Forecast of demand for investment capital to implement the adjusting programmes in environmental protection

Forecast	Estimated amount	Period for the estimated expenditures	Comments
Ministry of the Environment	27,6 billion euro in 2000	2002-2010	Feasibility of the listed tasks is confirmed
The Office of the Committee for the European Integration	230 billion euro in 2000 34,8 billion euro in 2000	2003-2010 2003-2015	Feasibility was questioned, the amount of deficit in investments was determined
The World Bank	21,5-41,6 billion euro in 2000	1998 until complete directive implementation	Difficulties in Programme balance were indicated

Source: (Berbeka, 2004, no 1).

Describing the funds set up by the European Union, it is worth mentioning also some risks which can make implementing the funds difficult. 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),
- organizational problems connected with fragmented tasks,
- lack of well-prepared personnel,
- threat of not completing ecological investments that were applied for in 2004 because the European Commission withheld the payment financed by the Cohesion Fund, the Polish law didn't comply with the EU regulations in the field of requirements concerning reports on human impact on the environment,
- extending by the EU the scope of investments that require reports on the human impact on the environment; at present such investments as sewer and water supplies systems, roads also require such reports, if communes want to realize such investments, they will have to prepare reports on human impact on the environment, they haven't done them so far³,
- delays in enacting new law what threatens to lose opportunity to receive the EU funds,
- increasing unnecessary bureaucracy and amount of required documents,
- the European Commission demands that Poland expanded the area categorized as the Nature 2000, it could stop or thwart large investments such as *Via Baltica*, if Poland doesn't agree to expand the area, it won't receive any donation.

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:

- 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 environmental facilities,
- contribute to development of the economy branches connected with environmental protection.

Conclusion

In conclusion, competitiveness of the economy (and its entities at the same time) is also determined by the condition of the environment. Therefore, it can be stated that all taken actions to protect the environment, have direct or indirect impact on competitiveness of the economy and its entities. Pro-ecological activities are financed from various sources, one of them are the structural funds.

³ According to new regulations, reports on human impact on the environment will be issued by chief councillors, mayors. They are issued regardless of decisions made by office of starost.

The European funds are for Poland a significant source of financing pro-ecological activities. Although they aren't able to meet all financial need in this field but they should contribute to increase in competitiveness of the Polish business entities and entire economy.

REFERENCES:

1. Berbeka K. (2004), Prognozowanie zapotrzebowania na nakłady inwestycyjne w ochronie środowiska w kontekście integracji z Unią Europejską, „Ekonomia i Środowisko” no 1.
2. Bossak J. (2000), Międzynarodowa konkurencyjność gospodarki polskiej – ujęcie instytucjonalne, in: Konkurencyjność gospodarki polskiej a rola państwa przed akcesją do Unii Europejskiej, ed. H. Podedworny, J. Grabowiecki, H. Wnorowski, Uniwersytet Warszawski, filia w Białymstoku, Wydział Ekonomiczny, ZMSG.
3. Bossak J., Bieńkowski W. (2004), Międzynarodowa zdolność konkurencyjna kraju i przedsiębiorstw. Wyzwanie dla Polski na progu XXI wieku, SGH, Warszawa, p. 40.
4. Kryk B. (2006), Rozwój zrównoważony jako podstawa aplikacyjnych założeń rozwoju przemysłu, in: Zarys strategii rozwoju przemysłu, ed, W. Janasz, Difin, Warszawa, pp. 548-549.
5. Narodowy Plan Rozwoju 2004-2006, Warszawa 2003.
6. Piontek F.(2002), Sektorowość i integralność kapitału ludzkiego i przyrodniczego w procesie globalizacji a w rozwoju zrównoważonym i trwałym, in: Kapitał ludzki w procesie globalizacji a w zrównoważonym rozwoju, ed. F. Piontek. Akademia Techniczno-Humanistyczna w Bielsku-Białej, Wyższa Szkoła Ekonomii i Administracji w Bytomiu. Wisła, p. 15.
7. Porter M. (2001), Porter o konkurencji, PWE, Warszawa.
8. Rechul H. (2001), Konkurencyjność polskich firm ABB a Unia Europejska, „Ekonomika i organizacja przedsiębiorstw”, no 11.
9. Skawińska E. (2002), Reakcje na zmiany a konkurencyjność przedsiębiorstw, in: Konkurencyjność przedsiębiorstw – nowe podejście, ed. E. Skawińska, Wydawnictwo Naukowe PWN, Warszawa – Poznań.
10. Ustawa z dn. 27.04.2001 r. *Prawo ochrony środowiska*. Dz. U 2001, nr 62, poz. 627.
11. Żukrowska K. (1995), Umiejdzynarodowienie produkcji a konkurencyjność, in: Międzynarodowa konkurencyjność gospodarki Polski – uwarunkowania i perspektywy. Instytut Rozwoju i Studiów Strategicznych, seria: Raporty. Studia nad konkurencyjnością. Warszawa, p. 35.