No 23

Analyses & Opinions

Analizy i Opinie

INSTYTUT SPRAW PUBLICZNYCH
THE INSTITUTE OF PUBLIC AFFAIRS

Third Cohesion Report of the European Commission - conclusions for Poland

Tomasz Grzegorz Grosse
Jan Olbrycht

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- *Based on the latest European Commission Report on Economic and Social Cohesion, we may expect a division of the EU cohesion policy (for 2007-2013) into two main trends. The first trend will be directed before all else at assistance to regions lagging economically for the purpose of achieving a higher cohesion on the EU territory, will almost entirely consist of traditional public-work investments and will be centralized at the national level. The second trend will be increasingly directed at the implementation of Lisbon strategy objectives, its procedures will be simplified a great deal and it will be managed regionally. This policy will benefit the regions located in the "old" Member States. The proposed division of developmental policies is detrimental to Poland and may lead to the preservation of economic and structural disparities between the European center and its periphery.*
- *Polish diplomacy should declare itself in favor of keeping the bulk of Lisbon priorities in the new EU cohesion policy. The government should also strive toward a modification of EC proposals so as to enable the countries of our region to take advantage of Objective 2 of the cohesion policy, i.e. to finance development of advanced economy. Its position should also include a proposal to simplify and regionalize the management of structural assistance under Objective 1. It should also continue to oppose a re-nationalization of the European cohesion policy.*
- *When planning the absorption of EU resources within the framework of the National Development Plan for 2007-2013, the Polish government should not focus solely on the priorities associated with the development of basic infrastructure and countering unemployment. The ability of the Polish administration to build a knowledge-based economy should be nurtured with an equal amount of effort.*

At the end of February, the European Commission presented the third report on the economic and social cohesion of the European Union. This document constitutes an important step in the debate on the future European cohesion policy in 2007-2013. The report studies the two main challenges which, according to the Commission, are facing the enlarged Union: equalization of developmental disparities in the enlarged Union and reinforcement of the priorities of Lisbon strategy, i.e. providing support to an advanced and competitive European economy.

More for the old Member States

The quantity of resources granted to the acceding countries raises certain doubts. In the initial period, the ratio of financial assistance to "old" and "new" Member States will be 60/40 and will become 50/50 only in 2011. The financial advantage for the current Member States results from the so-called statistical effect associated with the EU enlargement, i.e. a 12% drop in the average income in the European Union. The Commission decided to keep assisting the 18 "old" regions which will exceed 75% of the average GNP in the EU as a result of the enlargement and which without it would have remained below that threshold. Financial assistance will also cover regions which to date have been using structural help but do not qualify for it any longer owing to their economic development. In both cases, the decisive reason for granting financial assistance was political and boiled down to soliciting support for Commission proposals among current Member States.

The upper ceiling of EU assistance was set at 4% of the given country's GNP. The usefulness of this restriction is questionable. In case of Poland, an EU annual subsidy corresponding to 4% of the Polish GNP in the forthcoming financial year would amount to 8-9 billion Euro. The necessity to co-finance EU projects combined with the poor organization of the public administration make the absorption of such large subsidies difficult. Consequently, it is hardly appropriate to request their additional increase.

Competitive and innovative economy – a priority with a question mark

Another challenge presented by the Commission lies in reinforcing Lisbon strategy priorities directed at the construction of an advanced and competitive European economy. The report contains many declarations of the necessity to develop the competitive advantage and ability to innovate among regional economies, especially those that are lagging behind. However, a closer analysis of Commission proposals leads us to doubt a realistic possibility of redirecting the new cohesion policy toward advanced economy.

The third cohesion report gives grounds to believe that priority will continue to be given to assisting Objective 1 regions, most lagging economically and socially, where income per capita is lower than 75% of the EU average. Nearly 80% or resources of the new cohesion policy in 2007-2013 will be allocated precisely to meeting that goal. Therefore, most resources will go to the development of the transportation infrastructure, environmental protection and creation of jobs. Although activities aimed at raising the level of economic competitiveness and innovativeness will be also possible in Objective

1 regions, experience clearly shows that financing these priorities will be marginalized. Indeed, public funds allocated to co-financing EU projects as well as administration structures and qualifications of the administration personnel are focused on achieving objectives associated with infrastructure.

The European Commission also proposes to broaden the cohesion policy by a new Objective 2. It will be much more oriented toward the accomplishment of Lisbon strategy goals, including support to regional economic competitiveness. However, the efficacy of this instrument is put in doubt by relatively meager funds allocated to its implementation, i.e. approximately 18% of the entire cohesion policy budget. In addition, Objective 2 tasks will be also spread among other priorities, especially the implementation of the Göteborg strategy oriented toward supporting the so-called sustainable development, i.e. linking economic development with environmental protection and construction of an ecological infrastructure. Moreover, Objective 2 will also include the tasks of the European Employment Strategy, such as creating jobs, helping the disabled, ethnic minorities and immigrants to find work or ensuring an equal employment status for women. Some 10% of Objective 2 and new Objective 1 budget will be allocated to the Community's current URBAN initiative.

Two development models – center and periphery

The introduction of a diversification between Objective 1 and Objective 2 priorities is in step with the philosophy of assigning separate instruments to each successive stage of development. According to that philosophy, regions and countries with the lowest income level should focus on developing basic infrastructure and creating jobs. This is precisely the orientation of Objective 1, which covers all new Member States, old cohesion countries (e.g. Greece and Portugal) and regions impacted by the statistical effect. On the other hand, support for the development of entrepreneurship and technological innovation is reserved for better developed regions covered under Objective 2. Except for a couple of exceptions (Prague and Bratislava), none of these regions are located in the new Member States. This instrument is also available to regions "leaving" the cohesion policy, i.e. those where the income level is exceeding the threshold of eligibility for structural assistance (for example, those located in Ireland).

The proposed division of developmental policies may lead to the consolidation of economic and structural disparities between the European center and its periphery. Traditional investment instruments assigned to cohesion countries help to improve the transportation and ecological infrastructure, and make it possible to accelerate the adaptation to European environmental protection legislation. They also raise the overall quality of citizens' life. This is important from the political perspective, be it only to improve the image of the European Union in the eyes of the electorate. They foster the convergence process, i.e. a painstaking closing of the economic gap between the poorest regions and the European leaders. At the same time, cohesion countries clearly neglect the development of advanced economy and, by doing so, become increasingly dependent on imported technologies and capital. This in a longer term creates an economic system dependent on the European center. The more so since the most competitive economies have a natural tendency to concentrate their activities in only a few core growth locations. Taking the Growth Fund out of the cohesion policy is an additional factor contributing to these processes.

Decentralization reserved for the "old" Union

When the European Commission talks about decentralization of the cohesion policy it means transferring a portion of EU competencies to national governments. All decisions related to building partnerships with regional and local authorities will continue to be made by Member State governments and they will be the ones deciding the role of territorial authorities in programming and implementing structural funding. The report provides a vehicle for this endeavor in the form of "trilateral accords" concluded between central governments and their territorial (regional and local) partners. Such vehicle obviously reinforces the position of the central government in the entire organizational system by giving it the opportunity to "play" on divergences of interest among various territorial self-government levels. Hence it is probable that, in the case of Objective 1, regional programming will be done at the central-government level.

The discussion of Objective 2 also refers outright to programming using either national or regional programs, whereas the Commission favored regional programming in the 2000-2006 budgetary period. However, for Objective 2 regions, the European Commission introduced a 50/50 division of financial resources between regional and sector (national) programs. The Commission also stressed the need to rely in the development of such regional programs on regional development strategies, which should combine the developmental policy proposed for the entire region with EU financial assistance to its poorest parts. Regional programs should be developed as a result of consultations between regional authorities and the European Commission. Management and financing of these programs will lie within the competencies of regional authorities. This regionalization of management is justified by the conviction, expressed in the report, that the most effective way of building regional competitiveness and creating jobs is precisely by relying on decentralized management.

In contrast to these proposals, the cohesion policy pursued in our part of Europe will be much more centralized and controlled by the European Commission. One example of such increased control (applicable only to Objective 1 regions) is the plan to inspect compliance with the principle of supplementability of EU resources, i.e. whether they only supplement domestic public funds or actually replace them. Consequently, in real terms, simplified and more flexible management of structural assistance is being introduced more for the benefit of Objective 2 and Objective 3 regions than to assist new Member States.

Keeping the N+2 principle

The N+2 principle of EU assistance fund spending will continue to apply. N+2 means that financial resources assigned for the given year must be absorbed within the next two years. This principle is a cause of much controversy among the beneficiaries of EU assistance. However, in the Commission's opinion, it promotes budgetary discipline and a more effective utilization of subsidies. At the same time, the report clearly indicates that the N+2 rule forces the entities participating in EU programs to focus on financial matters and ensure the most effective spending of EU funds. Consequently, they are less attentive to strategic issues associated with quality and to the most sensible ways of releasing EU funds. Moreover, in the case of less experienced administrations of the acceding countries, it is probable that a large proportion of granted resources will not be used up in the required three-year spending period. This is possibly why the European Commission expressed in the report its intention to transfer each year about one billion Euro to the Growth Fund from the pool of unexploited structural funds.

Exclusion of rural area development funds from the cohesion policy

The proposal to exclude the funds intended for the development of rural areas and for restructuring the fishing industry from the cohesion policy is quite alarming. It weakens the political significance of the new cohesion policy and at the same time strengthens the agricultural lobby in the European Union. It pushes back the probability of a pro-development application of the assistance funds. Instead, the rural area development policy should be better integrated with the regional development policy with a view to maximizing the multiplier effect and ensuring an effective development of rural regions. The difficulties experienced by the Polish countryside and agriculture are one of the main Polish structural problems. Taking funds intended for the development of rural areas out of regional policy (rather then bringing them closer together) will do nothing to speed up structural improvements in our country.

Challenges for Poland

Member States will most probably adopt a majority of European Commission proposals expressed in the third cohesion report. However, it would be worth while for the Polish government to present its own position. In particular, Commission proposals should be modified so as to allow the countries in our region to benefit from Objective 2 of the cohesion policy. The government should also suggest simplified and regionalized management of a portion of structural assistance granted under Objective 1.

Adoption by the Polish government of a strategy for absorbing EU resources within the framework of the National Development Plan for 2007-2013 will be of considerable significance. Focusing solely on priorities associated with the development of basic infrastructure and countering unemployment would be short-sighted. Possibilities of applying structural funds under Objective 1 in the development of advanced economy are limited but they do exist. We must take advantage of this opportunity and start building pertinent administrative structures and defining their competencies. A reform of public finances, consisting among other things of putting aside State budget resources to co-finance EU projects, will also be important.

Taking into consideration the trend toward centralized management within the framework of Objective 1, we may expect increased difficulties accompanying the attempt to appoint 16 Polish regional operating programs in the successive EU budgetary period. However, the European Commission admits itself in the report that management regionalization is a more effective way of building regional competitiveness and increasing employment. It seems, therefore, that an attempt should be made to reorganize the administration system in the direction of reinforcing regional authorities and equipping them with relevant legal, financial and organizational instruments.

Poland faces important decisions concerning the NUTS classification

During the 2000-2006 period, the basic level at which structural funds under Objective 1 are programmed and implemented are regions defined in the regional statistical system as NUTS 2 units. Poland defined 16 provinces as units of this type and by doing so decided not only on the method of compiling and calculating statistical data but also on the province as a proper level for planning and spending structural funds.

An amendment to the directive of the European Parliament and Council adopted in 2003 requires Member States (including Poland) to adapt territorial units for statistical purposes to the requirements set out in the directive. Lowering the upper ceiling of statistical classification causes the entire territory of a country to cease being a NUTS 1 unit and, therefore, the need arises to divide Poland into new, smaller units of this type. Already today there is talk about establishing six macro-regions of the NUTS 1 type. Since the nomenclature of statistical units goes beyond statistical purposes and also serves the process of planning the cohesion policy, we should be approaching the new division proposal with particular care. Indeed, it may turn out that the proposed macro-regions will not only serve statistical purposes but will also constitute a basis for pursuing regional policies at the supra-provincial scale. As a result, it will not only do nothing to strengthen self-government administration but will also lead to the establishment of a new macro-region administration in the central government.

The third cohesion report presented by the European Commission leaves no doubt that in this and similar matters all responsibilities will fall on the Polish government and that it will be fully liable for designing a programming and implementation system capable of achieving the objectives set out for 2007-2013.

DR. TOMASZ G. GROSSE and **DR. JAN OLBRYCHT** are experts at the Institute of Public Affairs. They specialize in regional development in Poland and in the European Union, and in absorption of EU funds in Poland.

Analyses & Opinions
No 23, april 2004

Editor: Mateusz Fałkowski
e-mail: mateusz.falkowski@isp.org.pl
Layout design: Andrzej Jasiocha
e-mail: jasio70@interia.pl

Institute of Public Affairs
Address: 5 Szpitalna St., # 22
00-031 Warsaw, Poland
e-mail: isp@isp.org.pl
www.isp.org.pl