

## HOW TO MAKE EU COHESION POLICY MORE EFFECTIVE? CONCLUSIONS FOR POLAND

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### Abstract

In order to remove economic regional disparities, the European Union is realizing a cohesion policy. It is justified economically and socially. It is however conditioned by an acceptance of an active role of the Union and member states in the economy, and therefore a permission for cross-national interventionism. The mechanism of the cohesion policy is based on transfers, and then its essence is redistribution of incomes in order to support selected regions and unfavoured social groups. The main aim of the herein article is to evaluate the influence of the cohesion policy of the European Union on the economy of the regions and economic disparities as well as to formulate recommendations, which will enhance its effectiveness. The evaluation of the Union cohesion policy is not easy. We have to, however, separate its influence from other factors affecting the social-economic situation of the regions. Most of the studies and analyses indicates a positive influence of programmes of the cohesion policy on the economic growth, the situation in the labour market and other economic rates. It has however many imperfections. The controversies are evoked mainly by unsuccessful attempts to reach the main goal, that is social, economic and territorial cohesion. It does not mean the negation of the results of numerous researches, which confirm a positive influence of the cohesion policy on the economic growth. Those and other research methods confirm in fact, that the structural funds contribute to the growth of GDP per capita and to the reduction of unemployment.

**Keywords:** EU Cohesion Policy, economic development, economic regional disparities.

**JEL classification:** R11.

## **Introduction**

The development is accompanied by social and economic disproportions. A participation in a regional integrating grouping may favour the acceleration of the pace of economic growth, but at the same time it can deepen the disparities between the regions. In order to limit the interregional disproportions, the European Union is realizing a cohesion policy.

The main aim of the herein article is to evaluate the influence of the cohesion policy of the European Union on the economy of the regions and economic disparities as well as to formulate recommendations, which will enhance its effectiveness.

The basis for the conducted research was an analysis of scientific publications, statistical data, documents and legal acts. On account of the extensity of the problem, the author is focusing on the assessment of the effects of the cohesion policy of the EU.

In order to remove the regional economic disparities, the EU is realizing a cohesion policy. Effectiveness and equality are its most important reasons<sup>1</sup>.

Effectiveness is an argument of economic nature. The regional disparities are contributing to an improper use of production factors. The instruments of the cohesion policy, through the mechanism of redistribution, contribute to the removal of barriers in the development. Then the resources that have not been used, or have been used inappropriately, can again and better participate in the production process. That way the cohesion policy contributes to the more effective allocation of resources, and therefore to the growth of prosperity.

Equality is an argument of the social nature. The concept of European integration assumes, among others, solidarity and social integrity, according to which the disproportions are not accepted. Therefore we can take some minimum, equal standards of an access to public goods. The areas that are not able to achieve those, receive additional support through the mechanism of incomes redistribution. Those means are to contribute to the improvement of living conditions and the equalizing of opportunities. It is a way in which one justifies the expenditures on the realization of activities aiming at removing disparities between the social groups, regions and countries<sup>2</sup>.

The cohesion policy is thus justified economically and socially. It is however conditioned by an acceptance of an active role of the Union and member states in the economy, and therefore a permission for cross-national interventionism. The mechanism of the cohesion policy is based on transfers, and then its essence is redistribution of incomes in order to support selected regions and unfavoured social groups.

The subject for discussion is then a right balance between the equality and effectiveness. The key issue is an answer to the question, who and how to support, whether the help should be directed to areas which guarantee the biggest added value, or whether the priority should be giving equal opportunities and support for the poorest. At present the cohesion policy is trying to combine both those aims. However with limited resources and rising social, economic and territorial disparities those actions are ineffective. An additional problem requiring a solution is more and more frequent use of instruments of the cohesion policy to dealing with current matters and thus doing it for national budgets and policies.

### **1. Cohesion policy of the European Union**

The overall activities of local, regional and state governments in the range of a conscious impact on the social-economic development of the regions is defined as regional policy. It is therefore the policy of economic development realized in the territorial dimension. The regional policy occupies more and more important place in the economic policy. It results, among others, from the rising importance of the regions (regionalization of national economies), from the processes of globalization and regionalization of the global economy, from the development of IT and communications technologies, environmental threats and spreading of knowledge on disproportions in the development and aiming at the cohesion. In connection with the decentralization process and endogenous use of the potential of the regions, the meaning of intraregional policy is increasing. It does not mean, of course, marginalization of interregional coordination, whose task is to balance the development in the scale of the whole country<sup>3</sup>.

The concept “regional policy” is connected with a broader term “structural policy”. It means operations aiming at the restructuring of economic structures, and therefore their economic modernization and optimizing of the use of resources. Therefore the regional policy constitutes a part of the structural policy of a country or an integrating grouping.

One of the purposes of restructuring and modernization of the economy is increasing cohesion between particular areas. The cohesion policy denotes the operations of public authorities oriented at stimulating social-economic development in the regions. Its main aim is to reduce the economic, social and territorial disparities, provision of a permanent and balanced growth and raising competitiveness and innovativeness of all the regions<sup>4</sup>.

The European Union is realizing the cohesion policy in cooperation with member states. According to the subsidiary rule, it is a supplement to national regional policies. Therefore the cohesion policy of the European Union is a subject-ordered action aiming at counteracting

to excessive disproportions, as well as the provision of permanent and balanced growth and increasing competitiveness of all its areas and of the EU as a whole. Among the main aims of the European cohesion policy, one should point at an improvement of the situation in the problematic regions and prevention of occurrence of new signs of regional diversity resulting from the structural changes in the global and European economy.

To sum up, the basic aim of the cohesion policy is to diminish disproportions in development between the individual parts of the European Union, and also to increase competitiveness of the regions and solving the structural economic and social problems. Those aims are included in the range of the policy of development. That is why the instruments of the cohesion policy must be compatible with the mechanisms of development. The assumed areas of support included in co-financing within particular funds and programmes may contribute to the improvement of competitive capacity of the regions. The restriction is a small budget of the cohesion policy. Therefore the instruments of the cohesion policy may have a complimentary function in relation to the economic policy of the country. In view of that fact, it is unjustified to state that EU funds have a decisive impact on the level of social-economic cohesion in the area of the EU, that they are able to eliminate the disparities resulting from the allocation of resources, natural conditions and from integration.

## **2. Evaluation of the cohesion policy**

The evaluation of the cohesion policy from the point of view of experience of individual member states and the European Union is not unambiguous. The controversies are evoked mainly by unsuccessful attempts to reach the main goal, that is social, economic and territorial cohesion. It does not mean the negation of outcome of econometric studies which confirm the positive influence of regional policy on the economic growth. Those and other research methods confirm however, that structural funds contribute to the growth of GDP per capita and to the reduction of unemployment. Positive macroeconomic effects of the EU projects were the largest in cohesive countries and in the regions embraced with the goal 1. Goal 1 is directed at the poorest regions whose GDP per capita is lower than 75% the EU average.

The case of cohesive countries shows, that what matters for the development of the regions is the way of spending the funds rather than their amounts. In Spain, Ireland and Greece the biggest part of the resources was assigned for infrastructure, development of human resources and the industrial surrounding. However the proportions of the funds division were different on those supported areas. In Ireland, where the highest rate of growth was noted, the largest

resources were directed at education and support of entrepreneurship. It is estimated, that the use of structural funds caused an additional growth of GDP by 1.56% in 2000 and by 1.2% in 2005. At the same time, a significant increase of value added per capita was noted in the years 1999–2004 (in the South-Western region from 23,000 EUR to 35,000 EUR, in the Middle-West region from 15,000 EUR to 23,000 EUR)<sup>5</sup>.

The Ireland's experience shows, that effectiveness of the EU help is connected first of all with the right choice of development priorities, the combination of structural investments with a responsible policy of public finances and with an intensive development of professional qualifications of the workers of public administration. The experience of cohesive countries indicate a lack of a clear connection between the scale of support from structural funds and the economic results of the countries – beneficiaries of the cohesion policy. It may mean, that the internal economic policy is more important than the subsidies from the EU.

The European Commission, when analyzing the structural funds and their influence on the regions embraced with this support, also indicated, that there exists a positive influence of the regional policy on the social-economic cohesion in the area of the EU<sup>6</sup>. There exist, however studies independent of the European Commission, which question or diminish the positive influence of structural funds on the convergence processes. Boldrin and Canova, using the regression model, conducted a research on 185 regions of NUTS II in the years 1980–1996. The results did not allow to claim, that disparities in the regions' development are decreasing. Boldrin and Canova conclude, that the cohesion policy plays mainly a redistributive role and is based mostly on political premises, not economic ones. A similar study by Canova and Marcet including 144 regions of NUTS II in the period 1980–1992 did not allow to unquestionably confirm the convergency thesis. The authors are emphasizing, however, that there are no explicit evidence, that the lack of regional policy could cause further deepening of disparities in the social-economic development between the regions of member states<sup>7</sup>.

It should be emphasized, however, that the cohesion policy contributes to the bigger involvement of public and private capital in the development projects. In the years 2000–2006 on each 1 EUR invested in the regions in goal 1, there were falling further outlays of 0.9 EUR. In the regions embraced with the goal 2, additional outlays were even three times bigger than the initial investment value<sup>8</sup>. It is worth mentioning also a fairly often avoided effect of the cohesion policy, which is institutional convergence. The principles of the cohesion policy favour, however, the improvement of quality of functioning of the institutional system of the member states, it especially concerns monitoring, evaluation and financial management<sup>9</sup>.

### **3. Cohesion policy in Poland**

Poland is currently the largest beneficiary of the cohesion policy of the European Union (about 20% of its budget), taking the place of Spain, which since 1989 had been the biggest beneficiary of the European funds. In programming of the structural funds and the Cohesion Fund for the years 2004–2006, Poland could use (until the end of 2008) over 12.8 billion EUR. As part of the financial perspective for the years 2007–2013, Poland will obtain over 67 billion EUR. Together with the national resources, average annual level of outlays on the cohesion policy will amount to about 5% GDP<sup>10</sup>.

From the reports of the Ministry of Regional Development, it appears that in the period 2004–2008, the impact of the cohesion policy on the social-economic situation of the regions in Poland was relatively small, mostly due to the low sums of resources and the schedule of their spending. Since the year 2008, there was an increase of the influence of the cohesion policy on economic growth, investment activity and the labour market in Poland. The biggest effects are expected only in the years 2013–2015. Moreover in the following years, the demand effect will be strengthened by the supply effect. It will contribute to the increase of the appealing power of the cohesion policy on the pace of economic growth. In 2013 the pace of GDP growth due to the use of the EU resources is predicted to be by 0.8–1.1% higher than in the situation of a lack of those resources.

Infrastructural investments and direct support for enterprises contribute to the revival of investment activity in Poland. It is estimated that in 2013–2014 the gross outlays on fixed assets may be bigger even by about 23%. The cohesion policy can also contribute to the structural changes in the economy. What is expected is first of all – a growth of participation of sector II (industry and construction) in the creating of gross value added in relation to sector I (agriculture) and sector III (services). At the end of the current period of programming, we may expect an increase of the employment rate by about 1.4–1.6% and a reduction of the unemployment rate by 2.1–2.5% as a result of EU funds spending<sup>11</sup>. Until June 2009, over 400 000 people were employed exclusively as a result of realization of projects co-financed from the European Social Fund<sup>12</sup>.

The analyses of the Ministry of Regional Development also show a positive influence of the previously analysed projects on the innovativeness of Polish economy, on the competitiveness of enterprises, especially micro-, small and medium enterprises, on education including also giving equal learning opportunities as well as on the development of transport infrastructure. It is also worth mentioning the positive trends in the employment structure, the irregular increase of

public investments, decentralization and financial and organizational strengthening of divisions of territorial government. The EU projects realized in Poland also generate profits for foreign enterprises, mainly from the EU member states<sup>13</sup>.

According to OECD<sup>14</sup>, the most important challenge for Polish regions is the development of human capital, innovativeness and transport infrastructure. Besides the huge backwardness in those areas, one may indicate the first positive effects of undertakings realized so far in Poland with the participation of structural funds. In the years 2004–2008 over 20 000 innovative projects were realized in Poland and their value was about 20 billion PLN. Until the year 2009, the help encompassed over 13 000 microenterprises. In 80% of those there was an increase of employment, and in 60% – an increase of incomes. Most enterprises using the EU support have improved the economic rates e.g. sales value, profitability. Nearly 40% of projects in the area of human resources and the labour market were connected with raising qualifications. Until June, 2009, about 5000 km of roads and over 600 km of railway<sup>15</sup> were built and repaired.

The experience from the pre-access period and programming of 2004–2006 allowed to work out a fairly effective system of using the instruments of cohesion policy. Its main imperfections concern the procedures, which are complicated and long-lasting. They therefore contribute to the growth of costs of service of the whole system. The problem of the cohesion policy is also the prism of control over effectiveness. The barriers are connected with the regulations which do not result from the principles of the cohesion policy, but from other areas e.g. environment protection, public procurement, social care. It leads to a situations, in which the appropriateness of the used procedures is more important than the factual range of the project.

To sum up, a bigger than average pace of the EU economic growth in recent years in Poland has contributed to the making up of the part of the development distance towards the other member states. There was some participation of the EU cohesion policy in that process. However, which must be emphasized, the inflow of structural funds and other instruments was not able to hinder the process of deepening disparities between the regions in Poland.

## **Conclusions**

The evaluation of the EU cohesion policy is not easy. One has to, however, separate its influence from other factors affecting the social-economic situation of the regions. Most reasearches and analyses indicate at the positive impact of cohesion policy programmes on the economic growth, situation in the labour market and on other economic rates. It has, however, many imperfections.

The changes introduced to the cohesion policy in 2005 did not bring about the expected effects. The current shape of the cohesion policy does not match the most important problems faced by the European regions. The priorities of the cohesion policy require changes in the context of globalization, social-economic problems, climatic and demographic changes. There remains a question of improvement of effects of activities and a definition of function of the cohesion policy. Is it going to have a redistribution character or should it support a long-term economic growth and development of the Union and the regions? An attempt to answer those questions was made in a debate on the subject of a shape of the cohesion policy after the year 2013.

Its former course of conduct allows to claim, that a new model of the cohesion policy will be basing mostly on the support of all the regions, regardless of the level of their affluence. The support will be directed territorially and will be basing on strengthening of advantages and competitive potentials of the regions. In the opinion of the European Commission, the cohesion policy belongs to the most essential mechanisms of realization of the aims of the strategy Europe 2020<sup>16</sup>. Structural funds and other financial instruments may support the strategy. However, with a small EU budget, what will be essential is the involvement of private assets.

The cohesion policy is a great and probably a unique opportunity for the regions. Its use depends largely on central authorities (government administration) and regional authorities (territorial government). They fulfill the functions of managing institutions and ones mediating the European funds in Poland. In order to strengthen their effects for the development of the regions and the divisions of the lower level, the following should be applied:

1. Concentrate the assets on several (3–5) priorities (e.g. research and development, education, entrepreneurship, infrastructure),
2. Strengthen the role of regions in shaping the cohesion policy, especially on the stage of planning and creating operating programmes,
3. Increase allocation on regional programmes and diversify the forms of support depending on the needs and specificity of particular areas,
4. Increase competence of regional authorities on all the stages of implementation of the EU funds. The managing and mediating institutions on the level of voivodeships should independently create an institutional-organizational system connected with spending of the European assets,
5. Coordinate operations within individual financial instruments, it is favoured by unification of the principles of projects realization within various sources of financing and cooperation of institutions responsible for management of those resources,



6. Broaden the meaning of the factual range of a project and its effects on all the stages of evaluation, and when assessing the projects, what should be considered is first of all their factual value and the assumed effects, not only formal correctness and regularity of the applied procedures and guidelines, the evaluation of effects cannot be based only on the verification of procedures and achievement of maximum level of absorption,
7. Improve the way of evaluating and a choosing projects, to achieve that, what should be restricted is the out-of-competition procedure of projects' choice, strengthen the system of trainings for the members of commission for the projects assessment and to make the assignment of subsidies conditional on an independent opinion of experts proper for the subject of the project, the timespan of evaluation should also be shortened and what should be limited is the discretion in an assessment of individual parts of the projects through clarification of criteria and the rules of a choice,
8. Simplify the procedures concerning the documentation of the course of the project and calculation of expenses, which will contribute to the reduction of costs of their realization (management of the project),
9. Introduce a system of support for the selected beneficiaries, it should embrace entities, which have prepared innovative and important projects for the region and the country and which do not possess a proper organizational backing and financial resources, essential for their realization, such support should have a factual dimension (e.g. legal aid) and financial dimension (e.g. securing the means for pre-financing),
10. Create a motivational system for the best beneficiaries. It should be about producing a special financial reserve, and then the division of those assets in a competition among the projectors who have already achieved the best results.

The local governments do not take direct part in management of the EU assets. They may, however, indirectly influence on the way of their spending through appealing to central and regional authorities through a realization of their own projects and through a factual and organizational support for other beneficiaries. An increase of the role of the European funds in the development requires from local authorities the following:

1. Stronger link of public investments with the needs of enterprises, e.g. through preparation of areas under investment, provision of necessary infrastructure,
2. Better adjustment of projects concerning the labour market to the needs of the employers and a decisive increase of supervision on their course and effects,
3. Initiation of cooperation with the divisions of territorial government from the communes and surrounding territories in order to apply and realize the projects together,

4. Provision of factual and organizational support for the local enterprises. Such support should have first of all the substantial dimension and it should concern the subjects, with which the beneficiaries have biggest difficulties, e.g. rules of project financing, social care and public procurement,
5. Initiating of inter-regional and international cooperation, especially within the partnership projects. This will enable an exchange of experience and getting to know the so-called good practice in the field of the EU projects,
6. Creation of local forum of the cohesion policy with a participation of experts, representatives from the world of science, entrepreneurs, local authorities and local organizations,
7. Strengthening of cooperation of enterprises and scientific-research divisions in the range of common projects, e.g. through creation of a system of matching of local project partners. The coordination of local authorities will also allow to avoid repetition of similar projects by different institutions and will prevent the fragmentation of the resources,
8. Provision of stability and professionalism of staff from the local public administration through the realization of programmers aiming at the improvement of professional qualifications and work conditions. This issue can be achieved, among others, by the EU assets assigned for the development of human resources.

## Notes

<sup>1</sup> Pelkmans (1997), pp. 255–256.

<sup>2</sup> Molle (2000); *Integracja europejska* (2004).

<sup>3</sup> *Polityka gospodarcza* (2006), s. 278–288.

<sup>4</sup> Greta, Kasperkiewicz (1999), p. 135.

<sup>5</sup> Galiński (2009), p. 134.

<sup>6</sup> Compare: *The impact of Structural Policies on Economic and Social Cohesion in the Union 1989–99*, European Commission, Brussels 1997; *Sixth Periodic Report on the Social and Economic Situation and Development of the Regions of the Community*, European Commission, Brussels 1999; *Unity, solidarity, diversity for Europe, its people and its territory*, Second Report on Economic and Social Cohesion, European Commission, Luxembourg 2001; *A new partnership for cohesion – convergence, competitiveness, cooperation*, Third Report on Economic and Social Cohesion, European Commission, Luxembourg 2004; *Growing Regions – growing Europe*, Fourth Report on Economic and Social Cohesion, European Commission, Luxembourg 2007.

<sup>7</sup> Boldrin, Canova (2001).

<sup>8</sup> *Growing Regions – growing Europe* (2007), p. viii.

<sup>9</sup> *Polityka spójności po 2013 r. Pożądane kierunki reformy* (2008), p. 19.

<sup>10</sup> On the basis of information from the Ministry of Regional Development ([www.mrr.gov.pl](http://www.mrr.gov.pl)).

<sup>11</sup> *Wpływ polityki spójności na rozwój społeczno-gospodarczy Polski...* (2010).

<sup>12</sup> *Efekty polityki spójności UE w Polsce* (2009), p. 16.

<sup>13</sup> *Ibidem*, p 3–5.

<sup>14</sup> See: *OECD Territorial Reviews* (2008).

<sup>15</sup> *Efekty polityki spójności* (2009), p. 7–13.

<sup>16</sup> *Europe 2020, Strategy for the intelligent growth and balanced development favouring social inclusion* (2010); *Regions 2020, An Assessment of Future Challenges for EU Regions* (2008).

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