The effectiveness of the use of the European Union Funds in Poland and Croatia

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Abstract: The purpose of European Union funds is based on the need for equalization of large differences in the development of the European Union. Their purpose is also to encourage the development of some areas important to national and supra-national economy, but also for other important areas of life and work in Europe. Some states, such as Poland, the developers realized the potential of providing EU funds and have focused their work on development by the EU funds. Unlike them, some states are not so focused or organized, and lose a step in the field of development through EU funds. That's why, in this research we compare the work of the EU funds in Poland and Croatia, and to point out the good and bad side effects in the two countries.

Key-Words: European Union funds, public investment, private EU projects, national organization.

1. Introduction

The European Union funds are an integral part of the financial resources required for the development potential of economies of all countries of Europe, and especially the economies of the countries in transition. The EU fund cause that the transition economies have been still developing. In some countries, where the European funds are used very well, they ensure rapid economic growth, but there are lots of countries where these funds have not been used in an appropriate way, yet. Therefore, the subject of this research is a comparative analysis of the effectiveness of the use of the European Union funds in countries in transition, where these funds are especially needed. The purpose of this paper is to highlight the problems of less successful countries, and explain the reasons why some countries are not able to use the EU funds, which are offered to them by EU. The goal of the research is definition of the factors which influence upon the fact that some countries in transition are successful in applying about EU funds, but on the other hand, the others not.

Analysis of the efficiency of utilization of the European funds imposes us to interesting hypotheses. The first is, it shows that a country which was previously in a more difficult position, it achieves faster development now. It supports the Thurow’s theory of punctuated equilibrium which indicates the rapid development of the less developed economies, and a delay in the development of more developed.[11] As an auxiliary hypothesis could be raised that the countries, which are located in a favorable environment, and that are open to cooperation, achieve better results. Moreover, such a hypothesis can be set to the economies that the development of the human recourses do not consider as a cost but as an investment, they also achieve better results.

In this research, there were used various analysis and researches of the official results from which one can get a good insight into the state of the economy. For the need of a comparison and a study of the problem, there was conducted a case study of Poland and Croatia, and a few comparisons in order to conclude that these are the factors that make a
country more successful than the others in terms of the use of EU funds.

2. The aims and the beneficiaries of the European Union funds

Most countries, which are the members of the European Union, take advantage of the financial support from the European funds and various financial institutions and instruments in the process of creating of budgets of the investment projects. The examples show that lots of investments, that were realized, would not be possible without a financial support from the external sources, like EU funds (see Fig. 1) or others, such as loans from: European Investment Bank or European Bank for Reconstruction and Development or even the World Bank. The knowledge about the possibilities for finding an investor or any financial support is a key to reach a success.

“In particular, the European Union makes for mitigating differences at the level of regional development and eliminating backwardness of the least favored regions and islands, including rural areas. The EU cohesion policy means assistance, in a form of subsidies, for EU regions. The Cohesion Policy consists in implementation of the three major objectives: convergence, growth in competitiveness of regions and jobs, European territorial co-operation. [4]. For the implementation of the EU Cohesion Policy, three main EU funds have the biggest importance. It means: The European Regional Development Fund (ERDF) and The European Social Fund (ESF), that are included in the Structural Funds, and additionally the Cohesion Fund (CF). ERDF is the largest of EU funds and generally it finances different projects planned in various regions of Europe. Next ESF supports projects regarding improvement of the quality and accessibility of jobs and mobility on the labor market. Finally, CF is responsible for co-financing of two main sectors: environment and transport. This is one of the richest funds and it supports only projects where huge budgets are required.

EU funds can be taken by various groups of interests for a variety of purposes and projects of development. Among them there are both public and private entities, local governments, institutions, organizations, colleges, kindergartens, training institutions, educational centers, entrepreneurs, scientific centers, associations and others. However, getting funding from the EU for the implementation of a project is associated with a number of formalities and the need to meet the specified criteria. One of the most important criteria, it is the aim of the EU project, which always must refer to the human needs and expectations. Any investment or an activity funded from the EU funds should bring as a result the increase in standard of humans’ living, the development of employment opportunities and mobility in the labor market, improving the quality of healthcare, reducing the number of accidents and increasing the level of safety on the roads, etc. The well-being of a man is always the priority.

The next important criterion, and even sometimes a decisive, It is a possibility of bringing own contribution to the project by a beneficiary, that can range from 15% to 60% of the value of the entire project. Due to the additionally principle, the maximum financing, which can be awarded to a project from the EU funds, amounts to 85%. [5].

How large financial support an applicant may receive is dependent on the plenty of factors such as: a kind of a project, a kind of the EU program, a formal status of an applicant, a location of an applicant, a size of a company (applicant) and others which are usually dependent on the sort of a EU program.

In addition, it should be noted that every institution, that delivers a financial support for development, has its basic rules and principles, that must be taken into the consideration while applying
for it. For example there are a few major principles of EU Cohesion Policy, that must be respected by all EU members and other applicants in the preparation and realization of the strategy for development of a state, a region and a commune or also in all investments realized with the EU support. “Delivery of development strategy should be based on rules and values stemming from the adopted system of community and national legal regulations, as well as on additional rules whose application is indispensable for achieving the set objectives.” [7]. Usually the following principles are applied: Additionally, Complementariness and cohesion with other community policies, Concentration, Coordination, Evaluation, Partnership, Improvement of governance, Programming, Equality of opportunities, Civil society, Subsidiarity and Sustainable development. [7].

The EU financial support can be applied for financing the investments and activities such as: establishment and modernization of the road, railway and air transport infrastructure, modernization of energy systems, investments in water supply systems, investments in disposal and treatment of sewage, modernization of flood prevention safety systems, modernization and improvement of the medical care standard and infrastructure, innovative operation in the small and medium enterprises, promotion of products and services, tourism development, modernization of culture infrastructure, development of Human Recourses, development and modernization of rural areas, trainings, workshops and grant support to employment and others. Of course, the list of activities, that can be co-financed by the EU funds, is not complete. The European Commission may finance a variety of other activities. If they are included in the National Development Strategies prepared by the member states. Each member state shall draw up the National Development Program, in which the assumptions and development trends are included. This document is a base for negotiations with the European Commission on determining the amount of financing of the defined social and economic areas.

3. The European Union funds and their developmental role, Case study Poland

Poland became the largest beneficiary of the European Union funds in the history. Poland became a member of the EU in 2004 and in the first period of membership, from 2004 to 2006, Poland received “8.3 billion euro for execution of programs co-financed from structural funds, 0.35 billion euro within two programs of Community Initiatives INTERREG and EQUAL, 4.2 billion euro from resources of the Cohesion Fund, and also 4 billion euro of national public means for the implementation of the Europe a cohesion policy.“ [7]. Even in the first period of EU financial support for Poland, there were registered a positive impact on the economy of the country both in macroeconomic and in microeconomic perspectives. “Direct support for enterprises, including investments made in fixed assets in modernization and development of enterprises and implementation of new technologies helped improve their financial results, and consequently also enabled an increase in competitiveness on the single EU market. (…) Thanks to the executed infrastructural investments a considerable improvement took place in the living conditions and activity for business entities in Poland. Poland’s investment attraction keeps growing, which may be proven by the high level of foreign investments, allocated on areas appropriately provided with technical infrastructure.” [7].

Moreover in the second financial perspective 2007-2013, Poland has got an access to all structural European funds and “became a kind of "experimental laboratory" of efficiency and effectiveness of the European Union Cohesion Policy.” [6]. “The value of the largest investment in the history of the European Union amounts to EUR 347.41 billion. This sum has been allocated to three main goals of the Cohesion Policy in the period from 2007 to 2013: 1. Convergence – 81.5% (EUR 293 billion) – supports growth and creation of new jobs in the most disadvantaged regions (GDP per capita below 75% of the EU average), 2. Competitiveness and employment in regions – 16% (EUR 55 billion) – supports structural changes in regions which are not covered by Convergence objectives and the changes in the labor market, 3. European territorial cooperation – 2.5% (EUR 8.7 billion) – supports territorial competitiveness and promotes harmonious and sustainable development of the EU territory under three components: cross-border, transnational and interregional.” [9]

Poland has received EUR 67 billion from the total EU budget for the purpose of coherence policy. “Together with the national financial contribution, Poland has got at its disposal the total amount of EUR 85.6 billion for investments and realization of the National Strategic Reference Framework (NSRF) which assumes reducing the
civilization gap and spatial developmental disproportions, as well as establishing a modern, competitive and innovative economy and improvement of the living conditions of the society.” [7]

NSRF has been being realized by the Operational Programs regarding: Infrastructure and Environment, Innovative Economy, Human Capital, Development of Eastern Poland, Technical Assistance and additionally 16 Regional Operational Programs but also Operational Programs of European Territorial Cooperation, which are generally financed by the ERDF, ESF and additionally by the CF. Due to the additionality principle, each project for development on every level (state, regional, local) must be financed with the participation of a state budget, and sometimes, depending on the kind of a project, there is a need to ensure a financial support from the regional or local authority budget or a private capital. „The experts are reporting that today lots of cities in Poland, particularly large agglomerations, are much indebted. Supporting of local development with the EU sources is associated with increasing of debts. Therefore, cities and municipalities leading in obtaining of the EU funds, are often at the top of the list of the most indebted local governments. Thanks to this obligations, local authorities have a chance of implementing numerous investments, which otherwise would not be able to carry out. Stimulation of investments on the market reduces the level of unemployment, generates income for the region, etc..” [2]

All the Operational Programs in Poland in the period 2007-2013 have been planned in order to realize “the guidelines of the European Union Cohesion Policy, which supposes: minimizing of social and economic disproportions in development of the regions in European Union countries and assurances of sustainable growth of all areas with preservation of their internally economic and social cohesion. It also concerns restructuring of the border regions, fighting with the long-lasting unemployment and development of farming areas.” [3]. Moreover Polish government has tried to oversee the social and economic impact of the EU financial support for the development of Poland in the period from 2006 to 2020 thanks to implementation of the NSRF or in the case of not implementing of the NSRF. (See table 1.).

Table 1. Impact of NSRF on selected macroeconomic parameters in the years 2007-2020 [7]

<table>
<thead>
<tr>
<th>Year</th>
<th>on level of GDP (in percentage points)</th>
<th>on unemployment rate (in percentage points)</th>
<th>on the number of employed persons (in thousands)</th>
<th>on resources of physical infrastructure (in percentage points)</th>
<th>on resources of human capital (in percentage points)</th>
<th>on productivity (in percentage points)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2007</td>
<td>0.5</td>
<td>0.1</td>
<td>0.2</td>
<td>0.5</td>
<td>0.5</td>
<td>0.1</td>
</tr>
<tr>
<td>2008</td>
<td>0.8</td>
<td>0.1</td>
<td>0.3</td>
<td>0.8</td>
<td>0.8</td>
<td>0.2</td>
</tr>
<tr>
<td>2009</td>
<td>0.7</td>
<td>0.1</td>
<td>0.2</td>
<td>0.7</td>
<td>0.7</td>
<td>0.1</td>
</tr>
<tr>
<td>2010</td>
<td>0.5</td>
<td>0.1</td>
<td>0.2</td>
<td>0.5</td>
<td>0.5</td>
<td>0.1</td>
</tr>
<tr>
<td>2011</td>
<td>0.3</td>
<td>0.1</td>
<td>0.2</td>
<td>0.3</td>
<td>0.3</td>
<td>0.1</td>
</tr>
<tr>
<td>2012</td>
<td>0.2</td>
<td>0.1</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
<td>0.1</td>
</tr>
<tr>
<td>2013</td>
<td>0.1</td>
<td>0.1</td>
<td>0.2</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>2014</td>
<td>0.0</td>
<td>0.1</td>
<td>0.2</td>
<td>0.0</td>
<td>0.0</td>
<td>0.1</td>
</tr>
<tr>
<td>2015</td>
<td>0.0</td>
<td>0.1</td>
<td>0.2</td>
<td>0.0</td>
<td>0.0</td>
<td>0.1</td>
</tr>
<tr>
<td>2016</td>
<td>0.0</td>
<td>0.1</td>
<td>0.2</td>
<td>0.0</td>
<td>0.0</td>
<td>0.1</td>
</tr>
<tr>
<td>2017</td>
<td>0.0</td>
<td>0.1</td>
<td>0.2</td>
<td>0.0</td>
<td>0.0</td>
<td>0.1</td>
</tr>
<tr>
<td>2018</td>
<td>0.0</td>
<td>0.1</td>
<td>0.2</td>
<td>0.0</td>
<td>0.0</td>
<td>0.1</td>
</tr>
<tr>
<td>2019</td>
<td>0.0</td>
<td>0.1</td>
<td>0.2</td>
<td>0.0</td>
<td>0.0</td>
<td>0.1</td>
</tr>
<tr>
<td>2020</td>
<td>0.0</td>
<td>0.1</td>
<td>0.2</td>
<td>0.0</td>
<td>0.0</td>
<td>0.1</td>
</tr>
</tbody>
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“The completed studies have indicated a relatively stronger impact of EU funds on the economic growth than on the labor market, i.e. the value of employment and unemployment rate. Structural funds have a particular impact on the increase of production factors output (both by improving qualifications of manpower, and better access to the technical infrastructure, including also to the transport system). Increasing the global productivity of the economy, maintaining the same production level causes limited demand for manpower, however, over a longer period, it improves the international competitiveness of the economy, attracts foreign capital, leads to production increase and as a consequence affects in a positive way the number of employed persons.” [7]

Summing up, it is important to underline that European Union financial support for Poland has caused much good. There is seen a great improvement in transport accessibility to major metropolises, such as: Gdansk, Warsaw, Cracow or Wroclaw. “The development and improvement of the standard of transport links determines the efficient flow of goods and persons and affects positively the internal economic, social and territorial cohesion of Poland.” [7]. In spite of it, there were also realized plenty of environmental projects with the EU co-financing, that have improved the standard of living for inhabitants and reduced the negative aspects of natural calamities. In addition, EU funds granted for “structural transformations in agriculture and fishery and for the development of rural areas have helped improve the competitiveness of those sectors and sustainable development of areas on the basis of other non sectoral growth factors.” [7].
4. The European Union funds and their developmental role, Case study Croatia

>From the beginnings of Croatian statehood, assistance from the European Union was significant for the process of development of a young Croatian state. Given that Croatia is not an EU member that we can talk about the pre-accession funds. It is clear that the European Union has its funds wisely followed the development process in Croatia, and their share of the first beginnings until today has fundamentally changed. Since 1991 EU funds helped to develop destroyed Croatia, and prepared Croatia to the accession to the European Union. The CARDS program (2001-2004) was the first generation pre-accession fund, which purpose was to aid institutions in reforms and preparations for accession to the EU. The CARDS was followed from 2005 by the PHARE, so from 2005 the ISPA joined (for infrastructure projects in transport), and from 2005 - SAPARD (for projects in agriculture). Observed in the period since 2001, when the said funds, the total amount of funds, provided by the EU, was 58 million euros until 2006, when it was 127.1 million, an increase of funds ranged at an average annual rate of 17%. After the start of accession negotiations, the fund replaced the IPA, which in itself has four components, namely five areas of development support, (1) the transition assistance and institution building, (2) cross-border cooperation, (3) regional development, (4 ) human resource development, and (5) rural development.

If we analyze the degree of the use of the IPA funds in the period 2007-2011, we see that for example the IPA IIB used (contracted / assigned) 65.4%, and IPA V only 14.7%. According to the latest data, from the end of 2012, Croatia has been allocated 668 million euros, of which she used only 37.4%. The political objective of the Croatian government is to reach 60% utilization. In the second half of 2013, Croatia will have a possibility of using 450 million euros and in 2014, this amount will rise to 1.1 billion euros. Certainly, these are significant increases, that could allow Croatia for faster development, but the question remains whether Croatia is poised to seize the opportunity. The question is: Where are the problems? Without going deeper into the analysis of problems, why Croatia has not been using more and better opportunities for development through EU funds, the fact is that, the future opens up even more possibilities that Croatia must retrieve. In this way the government points out that the fundamental problem with a small number of professional people to create investment programs. As the government points out, the basic problems is the small number of professionals capable to making investment programs according to EU methodology. According to estimates by the minister in charge, 2014th Croatia should have ready 1.7 billion of projects ready for the competition, and which someone needs to make.[1] According to the same estimation, it is considered that it is, therefore a necessity of training and hiring of 232 experts. Since € 1 invested in the EU project brings an additional refund of 60 €, this task is a priority for Croatia and is probably the most cost-effective investment. However, the problem of lack of skilled professionals and methodological quality is not acceptable to the entire Croatian evenly distributed, either vertically or horizontally. Observed vertically, then by level of government, the county level in the period 2005-2010 achieved only 15.8% of the possible means. Thus, higher levels of government exercised significantly better results.

Therefore, Croatia as an economy in transition, their local authority is not sufficiently developed. This fact is not all over Croatia evenly distributed. Seen horizontally, the best results achieved Istria which has realized 70.3%, while the Lika-Senj and Split-Dalmatia County realized 0.0% and 0.8%. According to the index of the population size, again leading inland counties such as: Međimurska County with € 46.9 per capita, while the Split-Dalmatian achieves only 3.0 € per capita. Generally, coastal counties, with regard to EU funds, leaders in the bad sense. What's the problem?

5. A comparative analysis of EU funds in Poland and Croatia

Comparing the organization during the implementation of EU funds in Poland and Croatia, then it is necessary to identify and highlight a few important differences, which indicate a low level of organization and activities in Croatia. This is precisely the reason for the unsatisfactory level of realization of assets and the lack of quality projects:

1. Poland has educated and hired sufficient number of qualified people able to build a project in accordance with the methodology and the rules of the European Union. Croatia has only been trying to break the notion that investment in such personnel costs and the level of investment, leads to profitable investments.

2. The Polish government is the issue of the funds of the European Union put the supra-national level,
and with the development and geostrategic potentials Polish, Poland extracted the 16 development regions. The special attention are given to the coastal regions and the rural and poor areas in the Eastern part of Poland. Croatia only approaches to extract the regions of development, but there is no development vision and no strategy, this issue is a subject of the political manipulation.

3. Polish government and the territorial authorities have developed their development model. They know what they want and where they have been going to. Additionally, the Baltic Sea Region is also an area of an intensive international cooperation within various projects which are supported by EU funds. Croatia has not got such luck, and a few neighbors in the region view each other as competitors rather than partners for development. If someone wonders why Poland is successful in development much more than the other countries in Europe, it is necessary only to look at Porter's diamond [8], who clearly gives the answer why the economy is one more successful than the other.

6. Conclusion
In conclusion, Poland successfully exploits the capabilities afforded by EU funds, for it is well organized and prepared, unlike Croatia. The reasons for this are clear. Poland has recently touched "the rock bottom" in which does not want to return, and Croatia has not touched "the bottom", yet. However, the shifts that have recently been seen in Croatia in terms of training people for development of projects at the county level are promising. Poland has excellent experience of the use of EF funds and Croatia can take it as a good example. It is worth to mention here a well-known German sentence, which says that: "Look at us but do not copy us," Croatia should do what Poland has already done, it means to learn a polish model of developmental. Thereby moving from a transitional economy to a market economy has the chance to be a success, it means primarily the strengthening of a local government in shaping the role of a liberal state. Croatia has a great potential thanks to the accessibility to the long coastline, which is the third longest coastline in the Mediterranean Region after Greece and Italy. Nevertheless, this potential has not still been well developed. The Croatian coast has still been an untapped resource and it needs to be managed, unlike the Polish coast, where its potential is appreciated and taken into account in the development of both by territorial authorities, as well as the state.

References: