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Impact of Cohesion policy on Poland

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Impact of Cohesion policy on Poland

Introduction

One of the most challenging task is assessment of effects of public intervention on development. Outcome of such an analysis depends on a number of assumptions made and factors taken into account. In particular in countries that have limited experience with large development type interventions such as Cohesion policy, with its specific assumptions, strategies, aims, rules etc. What is more, its implementation takes place in a complex, more and more global, recently also turbulent environment, what makes the methodology of evaluation studies real difficult. This complexity of environment and of activities may be one of the reasons that opinions on usefulness of Cohesion policy varies not only among societies and politicians, but also in Academia. And Poland is among new Member States, where a number of processes influences the path and pace of development. To mention just the key: socio-economic transformation in the nineties, globalization and European transformation processes (different but interlinked), move from industrial era to postindustrial one (knowledge based economy and information society). Understanding the differences between them is a problem for most people.

Despite the fact that Poland was the first in Central and Eastern Europe to get back to the growth path after 1989 and the only EU-27 Member State which did not suffer seriously from recent Eurozone crisis, still as far as GDP is concerned it belongs to the group of 2-3 least developed EU countries. And Cohesion policy is widely considered the key factor which may help create strong, competitive, inclusive economy. By many without European funds Poland would not cope so successfully with the potential crisis as it did. The position taken here is that there is a lot of misunderstanding behind most popular notions on Cohesion policy.

Main objective of this article is relatively modest in outlining key difficulties in designing national version of Cohesion policy and understanding the role of its planned and achieved outcome for the development. Main thesis of this article is that most studies and reports on Cohesion policy impact on Poland's development leads to overly positive conclusions (with mental and political background). The reasons are multidimensional and in general stem from the paradigm adopted, which has profound influence on such questions as choice of factors

used for diagnosis, design of development priorities, coherence within the system of strategic documents and programmes, as well as the way evaluations are structured and realized. An underlying assumption is that for the Cohesion policy to contribute to long-term development of Poland it has to accept new development paradigm, concentrate on quality rather than quantity of projects co-financed, on attain objectives rather than disbursement of funding, and on effects rather than products. That is to use it as an instruments and not a goal in itself. In order to prove that there is significant incoherence in the system (European, not only Polish, but Poland will serve as an example), the following issues shall be analysed:

- Factors influencing development of contemporary Poland;
- General structure of Cohesion policy intervention in Poland;
- Internal coherence (strategic vs operational level aims)
- Evaluation reports, studies and their conclusions.

Method applied: desk research, interviews with specialists in charge of development, Cohesion policy and evaluation. The logic model concept will serve as a basis for reasoning.¹ Main sources of information are official documents of the Cohesion policy, evaluation reports, literature available.

Factors influencing development

The discussions about the needed cohesion policy intervention structure for different countries and regions leads to the conclusion that there is a quite strong notion in less developed areas that their development depends on other factors (and intervention) than in case of these better developed. That they have to take the same development path which was taken by best developed regions more than half a century ago. This is visibly reflected in the structure of CP 2007-2013: in one Europe there is a convergence objective offered to underdeveloped regions (most of Central and Eastern Europe), with no formal obligation to earmark resources for new development paradigm related activities², and competitiveness objective for already pretty well competitive areas with an obligation of spending on new paradigm related activities not less than 75% of CP funding made available. What development factors are accepted as typical for this phase of EU (if not global) development? In the long-run, is this visible

¹ See: McLaughlin J.A., Jordan G.B., *Using Logic Models*, [in:] Wholey, J.S., Hatry, H.P. & Newcomer, K.E. (red.) *Handbook of Practical Program Evaluation*, s.7-32. San Francisco: Jossey-Bass

² With resources spent predominantly on hard infrastructure rather than entrepreneurship and human capital.

application of two different paradigms to two parts of the EU territory development a good choice in the 21st century?

A short literature overview leads to a conclusion that unlike in an industrial era, technical infrastructure is not anymore a sufficient condition of development. Instead of creating growth, it rather helps to speed it up and make it more effective, while true development factors are of “soft” character. Human capital is stressed all over the world though there are some opinions that kept in isolation from other factors may be less effective than expected (Pike et al 2006). Social capital, a concept developed by Coleman and Putnam, is increasingly used to explain interregional differences. Landes (1993), Harrison and Huntington (2003) declare that culture is a major factor determining chances to develop, while Keating et al. (2003) put stress on relationship between culture and institutions. Innovations in knowledge economies (Cooke 2002) and innovative milieu (Camagni 1991) concepts treat ability to innovate as a key condition of competitiveness. Florida (2000) started from the same position to move towards specific 3T concept (development “seeks” places where talent, tolerance and technology coexist)(2004). Castells (1996), starting from the old concept of clusters, suggests that it is networks what makes places competitive. The metropolization of development (concentration of growth in metropolises) is widely accepted fact of life, extensively used in development policies. General conclusion from this review is that while material and financial capital are still of importance, their effective usage depends more and more on intangible factors. As we will see, this is an approach that is strongly represented also on the strategic level in Poland.

Structure of Cohesion policy intervention in Poland

It may be assumed that the structure of any public intervention to a large extent reflects the paradigm adopted. Industrial era paradigm would concentrate on hard infrastructure development, in line with Keynes concept. Such an approach was typical all over the world till the end of 1960s. Costly motorway system in pre-war Germany and Italy, huge infrastructural investments in Appalachian region, Tennessee Valley Authority are among best examples echoed in the so called socialist countries. Despite the fact that global crisis of 1970s led to introduction of new development paradigm, this process of change has met in various areas and social circles unexpectedly strong social barriers. It turned out that historically accumulated common cumulative put many social groups into “lock-in” situation

(previous success as a barrier to restructuring and modernization). It happened particularly often in previously successful industrial regions undergoing or threatened by dramatic restructuring (Ruhr Basin, Newcastle region, Upper Silesia and many other). Facing new and turbulent future most typical response was to protect old industries and way of life: if successful for century, should be successful now. As a rule, such approach never worked but led to increase of the costs of delayed transformation.

Surprisingly, problems with getting acceptance for new paradigm nowadays it is not exclusively the case of less developed countries and regions. Eastern Germany after 1990 is a perfect example of modern form of “colonization” of newly re-united 5 Neue Laenders and heavy investment into infrastructure. As a result of such a policy ignoring social and political conditions, Eastern Germany is lagging behind, suffers from unemployment, outmigration and faces demographic catastrophe. Two thousands of billions euro spent up-to-date did not transform Eastern Germany into flourishing land. Does such propensity to use old paradigm happen in other countries, like Poland?

In Poland in the period of 2004-2006, just after accession, planned Cohesion policy activities were defined in National Development Plan (2003)³. It formulated 5 objectives:

- support to long-term high GDP growth;
- employment and education;
- inclusion into European transport and information infrastructure;
- increase of the share of high value added sectors in the economy, ICT development;
- support to inclusion of all groups and regions into development and modernization processes (NPR 2003: 64).

Aforementioned objectives obviously reflect high priority given to elements of new paradigm. However, when it comes to final operational decisions on structure of spending, propensity to accept new paradigm turned out to be much more limited.⁴ In general, over 60% of funds

³ By the way in parallel to designing operational programs

⁴ Enterprise Competitiveness Growth Operational Program had a relatively large suport planned to businesses. Part in the form of grants to cover the costs of infrastructural and equipment investment, while other part in the form of grant to innovative projects. It turned out soon, that there is high demand for the first type, while no demand for the latte. Under media and social pressures to spend money, the resources earmarked for innovation were transferred to the other activity and consumed soon. The demand from beneficiaries was of high significance.

were earmarked for hard infrastructure, ca 24% for widely understood entrepreneurship and ca 15% - human resources development (see MRD 2010 a: 26, 33). Relatively low level of spending on other than infrastructural projects was noted in ex-post evaluation of Cohesion policy programs (EC 2010). Taking into account that certain projects in the last two areas were also of infrastructural character, real share of infrastructural spending was close to 70%, that is not different from Greece. Interestingly, despite the fact that for not convincing reasons instead of a number of regional operational programs there was one “integrated regional development program”, that is centralized and managed by one of central ministries (finally Ministry for Regional Development), under bottom-up pressures from the regions that program was even more hard infrastructure oriented. It was clear that there is wide gap between official strategic pro-Lisbon approach and more than traditional point of view on development factors among beneficiaries and local elites (Gorzelak & Kozak 2008).

In the programming period of 2007-2013 the overall structure did not change, though for the first time the Polish government made a serious effort to earmark large amounts of funding to Lisbon Strategy type projects. The strategic objectives of the national strategic reference framework left no doubt: “The strategic goal of the National Strategic Reference Framework for Poland is creation of the conditions for the growth of competitiveness of knowledge based economy and entrepreneurship which are to assure an increase in the employment and in the level of social, economic and territorial cohesion.” (MRD 2007:50). There were following 6 specific objectives adopted :

- Improving the functioning standard of public institutions and development of partnership mechanisms,
- Improving the human capital quality and enhancing social cohesion,
- Establishment and modernisation of technical and social infrastructure crucial for better competitiveness of Poland,
- Improving the competitiveness and innovativeness of enterprises, including in particular the manufacturing sector with high added value and development of the services sector,
- Increase of the competitiveness of Polish regions and preventing their social, economic and territorial marginalization,
- Balancing growth opportunities and supporting structural changes on rural areas (MRD 2007) .

As said, major part of resources was earmarked for hard infrastructure. Unfortunately, in practice large part of it was spent on local, isolated projects, with little or no influence on job and income creation (MRD 2009), at the expense of delayed implementation of large strategic infrastructure⁵. One may ask, if in the previous period there were problems with spending relatively small amount on innovative projects in enterprises, how is it possible that since 2007 the progress in implementation of large, € 8,3 billion worth Innovative Economy Operational Program is running relatively smoothly? The answer is simple: this is due to relaxing project selection criteria⁶.

Impressive was the dedication of the Government to earmark as much as possible resources to Lisbon Strategy type of activities (absolutely voluntarily, as there is no legal obligation). Of the total resources available, in the period 2007-2013 earmarking level has reached 64% (Kierzkowski 2009: 762). However again the regions, for the first time playing the role of managing authorities of 16 individual regional programs, have shown much less enthusiasm for earmarking. At various conferences and meetings they left no doubt that in their opinions key barrier to development is the shortage of hard infrastructure, in particular in transport. Therefore on average Lisbon-type projects are to consume between 37% and 43% of the total resources available on regional level. In reports on implementation of Cohesion policy in Poland there is repeated conclusion that over last few years the stress was not put enough on strategic projects. More strategic and Lisbon-type approach, concentration of resources, more evidence-based and place-based co-ordinated and integrated approach are needed (MRD 2010; MRD 2010 a). Also OECD (2008) calls for more integrated approach and more long-term commitment in Poland.

Effects of Cohesion policy in Poland: overview

It has to be stressed that there is much more up-to-date information available on disbursement (even on weekly basis), than performance progress. Visible result of partial replacement of goals: objective-attainment replaced to a large extent by spending at all costs orientation. While ex-post evaluation of the 2004-2006 period (14 plus one summary reports) is a vital source of information, the progress of Cohesion policy 2007-2013 in Poland is difficult to monitor and understand. The only exception are regularly up-dated econometric studies on

⁵ Obviously the reasons for delays in motorway construction or railway modernization were of wider character: poor legal environment, property rights problems, environmental conflicts, lack of qualified staff in charge of these projects.

⁶ New design of package (e.g. bottle of perfumes) is considered an innovation. Same for technology introduced for the first time (e.g. new type of carwash).

Cohesion policy impact on employment, unemployment and GDP. Therefore, to have general overview, let us start with financial progress of all 21 operational programs (5 central, 16 regional).

Table 1. Financial progress in Cohesion Policy programs implementation, 2007-2013, as of 31 April 2011

Operational program	Value of the contracts signed as % of program resources	Disbursement in %
Human Capital OP	61,4	31,6
Eastern Poland Development OP	62,5	19,9
Innovative Economy OP	68,8	17,0
Infrastructure and Environment OP	56,9	13,1
European Cross-Border Co-operation OP	42,1	10,4
Dolnośląskie ROP	67,3	29,6
Kujawsko-pomorskie ROP	74,3	29,9
Lubelskie	66,0	26,3
Lubuskie ROP	85,7	45,8
Łódzkie	79,4	30,6
Mazowieckie	58,4	26,0
Małopolskie	80,5	35,0
Opolskie	96,1	46,9
Podkarpackie	74,3	31,0
Podlaskie	78,2	31,6
Pomorskie ROP	94,0	37,0
Śląskie ROP	67,4	25,8
Świętokrzyskie ROP	67,1	38,6
Warmińsko-mazurskie ROP	73,1	25,2
Wielkopolskie ROP	96,9	36,6
Zachodniopomorskie ROP	68,4	25,7

Source: MRD, 2010, Wykorzystanie środków UE..., p.4,
http://www.mrr.gov.pl/aktualnosci/fundusze_europejskie_2007_2013/Documents/2011_04_30_miesieczna_kwiecien.pdf [29 May 2010]

Data in table 1 suggest that regions are far more advanced in program implementation than Ministry for Regional Development which is Managing Authority for all central programs. One has to take into account, that unlike in the regions, at least in some programs (e.g. Infrastructure and Environment) they have to deal with large and complex projects.

According to recent MRD (2010 a) report covering 2004-2009 period, the effects of structural funds and Cohesion fund implementation on Poland are very significant, both on micro- and macro-level. The structure of EU funds disbursement manifests significant differentiation between regions. In the period 2004-2006 on basic infrastructure Śląskie region had spent 81,5%, Dolnośląskie 79,9%, Mazowieckie 74,1%, Łódzkie 74,0%, Pomorskie 68,2%, Wielkopolskie 67,8% and Małopolskie 65,4%, while least developed Podlaskie 39,9%, Lubelskie 52,5%, Świętokrzyskie 53,3% and Warmińsko-mazurskie 60,0% (MRD 2010 a:34).

The data, however, do not give full and comprehensive picture of contemporary state of affairs. In various spheres it looks as follows (2004-2009).

Environment protection and municipal infrastructure. The length of the sewage systems increased by 31,3 th. km (45,5%) and number of sewage treatment plants increased in 2004-2009 by 211 (5,1%). Thanks to that the share of population having access to sewage systems increased from 57,4% to 61,5% (MRD 2010 a:49-51). Faster grew the length of water pipes: from 232,3 th km to 267,3 th. km, mostly in less developed eastern regions (including rural parts of Mazowieckie region). Share of population benefitting from access to tap water increased from 2003 to 2009 from 85,1 to 87,2%. Regional differences got smaller.

Transport infrastructure. Due to insufficient maintenance of both railway tracks and roads at the time of accession the transport system was obsolete. In 2003 Only 40,1% of roads was in good technical condition. This figure increased to 59,6% in 2009. Particularly serious problem was the lack of motorways and express roads (405,1 km and 225,6 km in 2003; 849,4 and 521,5 km in 2009) (MRD 2010 a: 61). Most of investment was in local roads, mostly not co-ordinated with the main transport corridors. As a result, improvement in accessibility of centres of growth was rather limited (except for western parts of A2 and A4). Road infrastructure in general is the major consumer of Cohesion policy transport related funds.

As far as railway is concerned, the situation at accession date was even worse. Only 37% of tracks were in a good shape; length of tracks in use had shortened until 2009 by 0,7%. Only

recently this trend has been reversed. While in 2003 there was no line with the speed limit over 160 km per hour, in 2008 the figure was 5%. (MRD 2010 a:64). Much more successful was development of air transport in 11 airports (with Warsaw as a biggest one) and serving in 2009 19,5 mio passengers (175% as compared to 2003). Water transport was and is of little economic and political significance.

Social infrastructure. Most of funding available in this sphere was spent on educational infrastructure (PLN 3,7 bn⁷), health sector (PLN 2,7 bn) and culture infrastructure (PLN 2,4 bn). It resulted in significant improvement in terms of medical, social care and educational infrastructure and equipment. Also 74 historical objects (including many churches) and 316 cultural, recreational and sport objects have been renovated (*ibidem* 82-3).

Human capital, employment and unemployment.

Poland's tertiary education has improved significantly, but still in 2008 it characterized only 16,5% of population aged 15-64, which is significantly less than OECD average (OECD 2008: 72). The best situation is in Mazowieckie (23,3%) and Małopolskie regions (16,9%), while worst in kujawsko-pomorskie, lubuskie (13,0% each) and warmińsko-mazurskie (13,4%). Simultaneously the dynamics of growth is among world's highest (from 0,4 in 1989 mio to 2,0 mio in 2008 studying at university level) (KSRR – załączniki 2010: 101). This progress can hardly be attributed exclusively to Cohesion policy funding: Poles manifest high motivation to study and willingness to invest into better future (see Kozak 2011).

In the period of 2003-2009 significant progress had been made in terms of reducing unemployment rate (from ca 20% to 9%, less than EU average).⁸ Similar improvement was noted in employment rate: only 51,2% in 2003 and 59,3% in 2009. (MRD 2010 a: 84-6). It should be noted, however, that inter- and in particular intra-regional differences are quite significant. For instance, in 2011 unemployment rate in county of Warsaw was 3,6%, while in the same Mazowieckie region, in its southern county of Szydłowiec, it was 37% (GUS 2011).⁹

Innovativeness and information society.

⁷ In June 2011 1EUR=3,95 PLN.

⁸ In April 2011 unemployment rate is ca 13% and stable (GUS 2011).

⁹ Important information on regional disparities gives analysis of Gini coefficient which tends to raise in Poland (32,4 in 2010). Highest internal differentiation can be found in Mazowieckie region (39,2) and other metropolitan regions (ca 31-32), while the lowest in a group of mostly lagging behind regions of Kujawsko-pomorskie, Warmińsko-mazurskie, Lubuskie, Opolskie and Podkarpackie (27,6-28,6) (Panek 2011:19)

In recent *Innovation Union Scoreboard* Poland was located on 22 position in EU-27 as a country of low innovativeness level and its dynamics. Spending on R&D as a share of GDP in 2006 in Poland reached 0,56% (compared to 1,84% in EU-27, 2,61 in the USA, 2,53 in Germany, 3,45% in Finland and 3,73% in Sweden (Eurostat 2009-488). In 2008 only one Polish region (Mazowieckie) spent on R&D more than 1%. On the other end of scale, Lubuskie region – 0,09% (KSRR-załączniki, 2010:). Cohesion policy has some positive influence on indicators in this field but the progress is disappointing.

In 2005 in Poland there was 2,8 patents registered by EPO per milion inhabitants (EU-27 average was 101,3, in Germany 269,3, Finland 223,2, Austria 180, Norway 87,1, Switzerland 395,0 (Eurostat 2009: 494). Despite visible progress in information society building (both in terms of infrastructure and utilization in relations with the public administration), Poland still remains behind most European states. And digital exclusion is well visible. While 83% of people with tertiary education use computer and web, this figure is only 7% among people with primary education attainment. Similar gap is between young people and pensioners (Diagnoza 2009: 290). The data on R&D and information society (level and dynamics) are even more surprising when one realizes that Cohesion policy declares this field as a foundation for knowledge based economy. Overall assessment of Poland's competitiveness by World Economic Forum gives it 39 position (7 positions up in comparison with previous year) between Bahrain (37), Czech Republic (36) and Cyprus (40), Puerto Rico (41), Barbados (42) and Spain (43) (WEF 2010) .

This short overview suggests that while distance among Poland and other EU Member States is disappearing in terms of most typical infrastructure (local roads, traditional railway infrastructure, water and sewage systems) is disappearing pretty fast thanks to European funds¹⁰, the progress made in spheres related to new development paradigm factors (e.g. innovativeness) is by far slower. The quality of life seems to be a priority more important than competitive advantages building. This notion is confirmed by the overview of structural changes in Poland. One may assume, that any country at this particular stage of transformation and development should—using available EU support – undergo fast structural change towards knowledge based economy. Is it so?

Structural change

All data available show rather confusing picture of structural changes (table 2). First of all, against any expectation, the sectoral structure of Poland's economy is not characterized by

¹⁰ Not only Cohesion Policy, also rural areas development programmes play locally important role.

increasing share of services. Another surprising feature is high, and slowly going down employment in agriculture (despite the fact that it produces up to 4% of GDP)¹¹.

Table 2. Selected structural data, Poland

	Base year 2003	2008	EU average 2008
GDP per capita, pps (UE-27=100), in euro	10100 (48,9)	14100 (56,0)	25000 (100)
Net Value Added created in services, %	66,8	64,3	70,9
Employment rate	51,2	59,3	65,4*
Employment in agriculture, % (BAEL)	18,2	14,0	6,3
Exports as % of GDP	33,3	38,9	
High-tech exports as % of total exports	2,7	3,1**	16,6**
Investment rate as % of GDP	18,2	22,3	-
R&D spending as % of GDP	0,54	0,60	1,84*

Sources: on the basis of MRD 2010 a: 22 and 142, KSRR-załączniki 2010, EUROSTAT 2009: 73 and 269; EUROSTAT database table tec 00001 (GDP). Remarks: * data for 2007; ** data for 2006

Data presented in Table 2 confirm the process of convergence: GDP is rising dynamically, exports increases, investment rate is growing, though does not represent very high values. There is steady reduction of employment in agriculture. On the other hand, however, against expectations it is not services which is growing, but industry. The role of industry increased: in employment from 28,5 to 31,%, in NVA creation from 29,6 to 29,9% (2003-2008). In the same time share of services in NVA creation decreased slightly from 66,0 to 64,7% (MRD 2010 a: 22).

One may ask what are the reasons of relatively high economic growth (convergence with the EU-27) with little or no structural change? First, it may come from favourable terms of trade on natural resources (coal, copper, food) which Poland traditionally produces. Second, dynamic export growths in Germany resulting in high demand for supply of Polish made

¹¹ Small wonder when 0,7 million of farms are subsistence farms, below 5 hectares, not producing anything to the market and fully dependent on direct and indirect transfers from Polish and EU policies.

components. Third, conflicting paradigms and policies. Is agricultural policy with its unconditional payments to farmland not discouraging small farmers from changing occupation?¹² Is it not petrifying existing farm and employment structures? Is it not in conflict with Cohesion policy and EU development objectives?

Main problem with analyses of impact of Cohesion policy seems to lie in difficulties in attributing changes in reality to different factors and isolating these which can be undoubtedly Cohesion policy effects. Most of data used for presentation of Cohesion policy impact are de facto only of contextual character (see national reports or 5th cohesion report) (EC 2010 a).

Conclusions

Our knowledge about the impact of Cohesion policy on Poland is limited and does not offer a full picture. It is undisputable, that the impact is huge. However, is it of long-term (supply side) or short-term (demand side) in character?

A lot of information shown in various reports as effects should be treated as description of product. It is not the same. Number o kilometers of motorways built in itself does not say anything about results, benefits from building it. And in many cases information on results are limited or refer to one aspect only (e.g. accessibility of services provided in main urban centers).

Quite often instead of specific indicators linked with priorities and activities, the data available are of general characteristic and do not discriminate between effects of Cohesion policy and other factors that influence situation in Poland (globalization, opening of the European markets, results of other Polish and European policies etc). What is worse, interpretation of certain data (on medical services availability, for instance), is questionable. Number of medical doctors or nurses cannot be treated as a an indicator of quality (“the more, the better”). The quality depends also on other factors, such as equipment availability and organization.

¹² Unlike in most other EU Member States, in Poland financial support from CAP (pillar one) is made available to every farmer (owner of more than 1 hectare) without any conditions. Only special payments to specific production sectors require certain activities (e.g. plantation of trees or bushes, such as walnut trees, which, as everybody knows, have little chances to survive northern climate).

Anyway, we can safely say that there is no sector that would not be supported by European funds. The question remains, whether this is the reason for satisfaction or dissatisfaction (low ability to concentrate on strategic issues). The fastest implementation can be attributed to small, local projects of little or no impact on development, while the slowest absorption refers to large, serving many, strategic projects of potentially significant long-term impact on development. And Lisbon-type projects, which may help to improve competitive position of Poland. There is also insufficient co-ordination within the system as another factor reducing positive influence. Most of remarks found in ex-post evaluation of ERDF intervention 2000-06 is fully applicable to Poland.

On the macro-level, very positive is the significant impact on employment, unemployment and GDP creation. Impact reaching 0,4-0,9 percentage point above the “no-cohesion” line is truly impressive. On the other hand, however, one has to bear in mind that according to some think tanks producing econometric analyses this impact will be reduced to zero when European resources will come to an end (MRD 2010a: 27). Finally, there is little structural change. That would suggest that there will be no or little benefits for the future generations left. That too much resources has been spent up-to-now on quality of life and filling civilizational gaps rather than truly development projects.

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