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Foreign aid budget of the European Union and the investment potential of local government in Poland between 2014-2020

***Abstract.** Local government entities are the greatest investors in Poland since entering into the EU. In the years 2007-2013, they spent PLN 259.4 billion altogether on investment activity. This was possible, mainly, due to the support of EU non-repayable aid. It is expected that in the programming period of 2014-2020 that is starting now, LSEs will also constitute one of the main groups of beneficiaries of this aid. Funds from the EU will significantly increase the investment potential of LSEs in a given period. It is estimated that the funds that the LSEs in Poland could invest on their own equal the average annual operational surplus from the last 7 years, and amount to PLN 170 billion. EU aid will constitute about 36% of the funds LSEs will be able to designate for investment activity. The remaining problem is, however, that not all LSEs will be able to make use of this aid because of their indebtedness, which, in turn, will result in a lack of possibility to incur new debt, and thus, the inability to ensure their own contribution to European projects at the same time.*

***Keywords:** investment potential, self-government, European funds*

Introduction

Local self-government entities (LSE) were brought to life to fulfil certain functions – to deliver goods and public services. Their activity should be focused not only on current tasks, but also on the improving of both living conditions and carrying out economic activity. This is connected, however, with the necessity of ensuring the availability of funds for their development activity. LSEs, by acquiring revenues that are laid down by law, at first have to carry out current tasks,

and only after they have been completed, can they allocate funds for investment. Their investment potential depends, on one hand, on the amount and structure of revenues, on the other hand, however, on the scope of tasks that are assigned for them for realization and reflected in their expenditures. In recent years, the investment potential of LSEs has depended on the amount of funds received from EU non-repayable aid. This aid made it possible for self-governments both to develop and modernize technical and social infrastructure and to undertake other activities to enhance their development.

On the eve of the aid fund release of the 2014-2020 financial perspective, a question arises as to the extent to which these funds will contribute to the increase of the investment potential of LSEs within this time period. Thus the aim of this article is to present the current investment potential of SGEs in Poland and the predicted influence of the European funds on it in the years 2014-2020. To achieve such an aim, you have to carry out analysis of the data concerning the financial situation of LSEs, the scope, conditions, and the amount of funds granted to Poland in the 2014-2020 perspective.

1. Investment potential of local self-government and the ways of measuring it

Local self-government, apart from carrying out current tasks, is responsible for undertaking investment activity. Significant disparities are noticeable in the scope of these activities.¹ Local self-government investment is characterised by a wide range of positive effects on local communities and on the entire local economy (including entrepreneurs carrying out their activity within LSE territory) as well.

To carry out such activity, LSEs have to have a certain investment potential.² This can be defined as the entity's capability to carry out development investment. The potential depends on many factors, including the amount of funds that can be allocated for this type of activity.³ From the financial angle, investment potential is the entity's capability to generate or to obtain funds to finance investment activity. The possibility of designation of funds for LSE investment activity depends

¹ J. Czempas, *Investycje gminne – znaczenie i pomiar*, in: *I Forum Samorządowe. Polska samorządność w integrującej się Europie*, Fundacja na rzecz Uniwersytetu Szczecińskiego, Szczecin 2004, p. 86 ff.

² T. Kaczor, M. Tomalak, *Potencjał inwestycyjny jednostek samorządu terytorialnego*, Instytut Badań nad Gospodarką Rynkową, Warszawa 2000, p. 9 ff.; T. Lubińska, M. Będzieszak, *Własny potencjał inwestycyjny jako miara pozycji wydatkowej gmin*, in: *Budżet państwa i samorządów, decentralizacja – oświata*, ed. T. Lubińska, Difin, Warszawa 2005, p. 61 ff.

³ Investment potential can be seen as a human phenomenon, an organizational-technical, a legal, or a financial one. This work analyses solely the financial one.

mainly on the revenues and expenditures on current tasks and also on the availability of the external sources of investment activity financing.

Those funds which can be generated by the entity itself constitute its own potential. It can be defined as the amount of money that a self-government entity can, in a given time, designate from received revenues to finance development expenditures, which are in this work understood as investment expenditures.⁴ To evaluate its own potential, LSE needs to take into consideration not only its own revenues, but also transfer revenues (subsidies and grants from the state budget, grants from extra-budgetary state governments). The fact that transfer revenues have been included here stems from the fact that these funds either complement or constitute funds designated for investment activity. Without them, a significant group of LSEs would have a negative own potential, which does not mean that these entities do not have the ability to bear development expenses. What is more, a part of transfer revenues (grants-in-aid) is in reality designated solely for investment.

The own potential can be increased by the external funds.⁵ They can be repayable funds from loans and issues of securities. As a matter of fact, these funds do not increase in a significant way the LSE potential measured in longer periods, but they let them accelerate the realization of development ventures at a given time. However, they bring out the limits on the investment potential at the time of repaying the debt. It should be remembered, however, that there are legal restrictions on the indebtedness of entities. Therefore, investment potential is the sum of the entity's own potential and the planned amount of indebtedness in a given time, minus the payments of debt with interests.

Since the accession of Poland to the EU, the investment potential of LSEs has increased also, due to funds from Structural Funds (ERDF – European Regional Development Fund, ESF – European Social Fund) and from Cohesion Funds (CFs). It is the funds from ERDF and from CF that have made it possible for the LSEs to carry out investment activity on a much greater scale in recent years.⁶

⁴ *Ocena potencjału finansowego jednostek samorządu terytorialnego województwa pomorskiego do realizacji projektów w ramach RPO Województwa Pomorskiego 2014-2020*, ed. W. Misiąg, Wyższa Szkoła Informatyki i Zarządzania, Rzeszów 2012. Development expenses are understood as all capital expenditures (excluding replacement investment) and running expenditures for ventures beyond obligatory tasks of LSE that are carried out constantly.

⁵ J. Szolno-Koguc, *Wybrane wskaźniki kondycji finansowej jednostek samorządu terytorialnego*, in: *Samorząd terytorialny w zintegrowanej Europie*, eds. B. Filipiak, A. Szewczuk, Vol. 2, Wyd. Naukowe Uniwersytetu Szczecińskiego, Szczecin 2006, p. 271 ff.; M. Jastrzębska, *Polityka budżetowa jednostek samorządu terytorialnego*, Wyd. Uniwersytetu Gdańskiego, Gdańsk 2005, p. 95 ff.

⁶ In 2007-2013 LSEs spent 259.4 billion PLN on investment, and in 2003-2006 nearly 70 billion PLN.

Basic measures used to assess investment potential of LSE include:

- the index of the share of own revenues in total revenues, which shows which part of LSE revenues enables them to use their discretionary power and to implement their own expenditure policy including the investment one;
- operational surplus, which shows if a LSE is able to cover running expenditures from current revenues;
- the index of the share of operational surplus in total revenues, which shows the extent in which a LSE can spend on capital expenditures or incur liabilities in relation to revenues;
- the index of covering total expenditures from revenues, which shows the extent in which an entity can finance its expenses without using the repayable sources of financing;
- the index of the share of own revenues in total expenditures, which shows which part of the expenditures is affected by a LSE most;
- the index of covering investment expenditures from own revenues, which shows which part of investment expenditures can be financed from own revenues;
- the index of covering investment expenditures from available funds, which shows the LSE ability to finance investment from own revenues.⁷

In this work, the investment potential of LSE is measured with the following indices: covering current expenditures from current revenues (operational surplus – S_o), share of operational surplus in total revenues ($S_{s,r}$) and with covering total expenditures with revenues ($C_{e,r}$). The values of these indices are presented in Table 1.

Data in Table 1 shows that in the years 2007-2013 all LSEs generated the total operational surplus of 97.3 billion PLN. Half of this sum was generated by communities. However, the financial situation of each LSE differs significantly. Not all entities of self-government generate an operational surplus.⁸ For example, in 2010 a deficit in current activity was recorded in 473 entities (20.4% LSE), in 2012 in 102 entities (3.8% LSE). Taking into consideration current legal regulations concerning the possibility of incurring debt by local self-government, it can be stated that these entities do not possess investment potential in terms of finance.

The limited investment potential of LSEs is also visible from the values presented in other indices in the Table. The average share of operational surplus in the revenues constituted 9%. It was higher during the first years of the given period. At the analyzed time, LSEs were not able to cover their expenditures with revenues, which resulted in the accumulation of debt, although LSEs have limited

⁷ It is calculated as the share of operational surplus and the revenue from selling the property in capital expenditures. See also: P. Galiński, *Możliwości finansowania inwestycji przez gminy w Polsce w latach 2010-2012*, "Zeszyty Naukowe Uniwersytetu Szczecińskiego. Finanse, Rynki Finansowe, Ubezpieczenia" 2014, No. 65, p. 4.

⁸ The exception are voivodships which, in a given period, generated operational surplus.

Table 1. Investment potential of local self-government entities in Poland in the years 2007-2013 (in million PLN)

Year	2007	2008	2009	2010	2011	2012	2013
Communities							
S_o (million PLN)	7195	8075	6191	4687	9113	6241	7341
$S_{s/r}$ (%)	12.6	13.0	9.5	6.5	12.0	8.0	9.2
$C_{e/r}$ (%)	101.6	99.1	92.7	90.7	95.2	99.9	100.8
Cities with county status							
S_o (million PLN)	6794	5760	2982	2503	2788	2572	4152
$S_{s/r}$ (%)	14.5	11.6	5.9	4.6	4.9	4.2	6.5
$C_{e/r}$ (%)	102.2	96.6	89.6	91.4	92.4	96.1	98.9
Counties							
S_o (million PLN)	976	1099	883	780	1267	1092	1256
$S_{s/r}$ (%)	6.0	6.1	4.4	3.5	5.4	4.8	5.4
$C_{e/r}$ (%)	100.5	100.2	94.9	94.4	97.9	100.2	100.7
Voivodships							
S_o (million PLN)	2753	2804	1903	1314	1513	1721	1588
$S_{s/r}$ (%)	24.3	22.1	9.7	9.3	10.0	11.3	9.9
$C_{e/r}$ (%)	102.3	97.4	95.5	92.5	92.2	96.7	97.5
LSEs							
S_o (million PLN)	17718	17738	11959	9284	14681	11626	14337
$S_{s/r}$ (%)	13.5	12.4	7.7	5.7	8.6	6.6	7.8
$C_{e/r}$ (%)	101.7	98.2	92.3	91.6	94.3	98.3	99.8

Source: own elaboration on the basis of the data from the Ministry of Finance: www.mf.gov.pl/ministerstwo-finansow/dzialalnosc/finanse-publiczne/budzety-jednostek-samorzadu-terytorialnego/sprawozdania-budzetowe [5.08.2014].

their capital expenditures in the last years. It will have a negative effect on the investment potential in the years to come (the necessity to repay the interest and principal). At the same time, it can be a serious obstacle for LSEs to attain EU funds due to the need to ensure co-financing of European projects.⁹

2. EU aid funds for local self-government entities and the role of these funds in the formation of the investment potential of these entities in the years 2014-2020

In accordance with the Multiannual Financial Framework for the years 2014-2020, which was passed by the European Parliament on 19 November 2013, the

⁹ J. Sierak, M. Bitner, A. Gałązka, R. Górka, *Oszacowanie środków niezbędnych do zapewnienia krajowego wkładu publicznego do projektów realizowanych w ramach średniookresowych ram finansowych 2014-2020*, Warszawa 2013.

total allocation for Poland will be 85.5 billion EUR, of which 8.6 billion EUR will be designated to carry out activity within the framework of Rural Development Programme.¹⁰ The allocation of funds for the given operational programmes is presented in Table 2.

Table 2. Allocation of EU funds by operational programmes in the years 2014-2020 (in million EUR)

Operational programme	Allocation	Share in % in total allocation
Intelligent Development	8 613,9	10.1
Infrastructure and Environment	27 413,0	32.1
Knowledge, Education and Development	4 436,8	5.2
The Operational Programme for the Digital Development – Digital Poland	2 172,5	2.5
The Operational Programme of Technical Assistance – Technical Assistance	700,1	0.8
The Operational Programme for the Eastern Poland	2 000,0	2.3
The Operational Programme for Rural Development	8 598,3	10.1
Youth Employment Initiative	252,4	0.3
Regional Operational Programmes	31 276,9	36.6
Total	85 463,9	100.0

Source: own elaboration on the basis: Programowanie perspektywy finansowej na lata 2014-2020 – umowa partnerstwa [Programming the financial perspective for the years 2014-2020 – Partnership Agreement], Ministerstwo Infrastruktury i Rozwoju, Warszawa 2014, p. 158.

In the programming period starting now, it is the voivodship self-governments that will manage about 40% of cohesion policy funds (31.28 billion EUR). They will allocate them within two-fund – ERDF, ESF – regional operational programmes. The allocation of EU funds for regional programmes is presented in Table 3.

It should be stressed that LSEs will be able to attain funds from all enumerated OPs. The most important source of self-government investment financing, just like in the passing programming period, will be regional operational programmes. Assuming that that LSEs use these funds on a similar scale like in the years 2007-2013, we can also predict that they will attain almost 23 billion EUR (96.6 billion PLN).¹¹ According to the estimations commissioned by the Ministry of Regional Development, LSEs can use as much as 107.2 billion PLN¹².

¹⁰ Programowanie perspektywy finansowej na lata 2014-2020 – umowa partnerstwa [Programming the financial perspective for the years 2014-2020 – Partnership Agreement], Ministerstwo Infrastruktury i Rozwoju, Warszawa 2014.

¹¹ This constitutes 30% of allocation excluding funds for OP ID and Youth Employment Initiative. At the assumed exchange rate of 1 euro – 4.2 PLN.

¹² J. Sierak, M. Bitner, A. Gałązka, R. Górka, op. cit., p. 9.

Table 3. Allocation of funds within ROP in the years 2014-2020 (in million EUR)

Voivodship	Total allocation	Voivodship	Total allocation
Lower Silesian	2 252,5	Pomerania	1 864,8
Kuyavian-Pomeranian	1 903,5	Silesian	3 476,9
Lublin	2 231,0	Świętokrzyskie	1 364,5
Lubusz	906,9	Warmian-Masurian	1 728,3
Łódź	2 256,1	Greater Poland	2 450,2
Lesser Poland	2 878,2	West Pomerania	1 601,2
Opole	945,0	Total 15	29 187,1
Subcarpathian	2 114,2	Masovian	2 089,8
Podlasie	1 213,6	Total 16	31 276,9

Source: personal elaboration on the basis: Programowanie perspektywy finansowej..., p. 168.

In the programming period starting now, the territorial perspective takes on a special meaning, which will be reflected in, among others, the support for urban functional areas of voivodship centres and their sustainable development with the use of the new instrument, i.e. Integrated Territorial Investment.¹³ ITI of urban functional areas (UFAs) of voivodship centres will be financed obligatorily from ROP allocation. On the level of all ROPs, the allocation designated for this purpose in total, in comparison with the entire allocation of all funds for Poland, will amount to at least 5.2% ERDF allocation and 2.4% ESF allocation.¹⁴ The sums of ITI allocation in given voivodships are presented in Table 4.

Table 4. ITI allocation within ROP in the years 2014-2020 (in million EUR)

Voivodship	Allocation	Voivodship	Allocation
Lower Silesian	173,0	Pomerania	215,8
Kuyavian-Pomeranian	153,8	Silesian	484,0
Lublin	105,4	Świętokrzyskie	62,3
Lubusz	66,6	Warmian-Masurian	45,2
Łódź	203,5	Greater Poland	178,6
Lesser Poland	229,9	West Pomerania	109,1
Opole	46,0	Total 15	2 220,0
Subcarpathian	70,8	Masovian	164,8
Podlasie	75,8	Total 16	2 384,9

Source: own elaboration on the basis: Programowanie perspektywy finansowej..., p. 213.

Amounts of funds shown in the Table are minimum sums; the governments of voivodships can decide to designate greater sums of funds for UFAs of voivod-

¹³ Apart from this instrument, there will also be available a new territorial development instrument for rural areas: Community-Led Local Development.

¹⁴ Programowanie perspektywy finansowej..., p. 213.

ship centres to use. They can also decide about designating funds for other UFAs, e.g. subregional ones. In the case of a lack of interest in this instrument, funds for this purpose will be lost. It should be stressed that it is up to the UFAs in consultation with the governments of voivodships to decide on the use of these funds; therefore, these funds will not be a reason for rivalry between LSEs and other beneficiaries.

Taking all these points into consideration, it can be stated that LSEs will be able to increase their investment potential in the next years by using EU funds. At the assessment of the influence of these funds on the investment potential of LSEs in the upcoming programming period, EU funds should be compared to the sums which LSEs will be able to generate on their own, as it is known that the use of EU aid is connected with the need to co-finance the projects for realisation. We can assume that LSEs will be able to generate an operational surplus similar to the one generated within the last 7 years (about 170 billion PLN), although this is quite an optimistic assumption.¹⁵ The greatest share in the generated surplus will probably belong to the communities – about 50 billion PLN; the smallest – to counties – about 7 billion PLN. While comparing these sums with the sums which LSEs will be able to attain in the years to come, it can be stated that the sums of non-repayable EU aid will still have a great influence on the investment potential of local governments in Poland. We can expect that they will constitute about 35% of the funds designated for investment. A matter of concern is the situation of investment potential of Polish local governments when the inflow of EU aid is stopped. In such a case, the investment potential of LSEs in Poland will go back to the level similar to the one of the years 2003-2006 and will reach 15-25 billion PLN a year, unless a significant change in the system of LSE revenues is introduced and the increase in the sources and amounts of revenue of LSEs is not accompanied by the further decentralisation of public tasks.

Conclusions

Self-government entities have been the greatest investors in Poland since accession to the EU. In the years 2007-2013 they spent 259.4 billion PLN altogether on investment activity. This was possible mainly due to the support from EU non-repayable aid. It is expected that in the programming period of 2014-2020 that is starting now, LSEs will also constitute one of the main groups of beneficiaries

¹⁵ In the last years, an increase in current expenditures has been observed, which is caused by, among others, the increase in the cost of maintaining and modernising technical and social infrastructure. A significant group of LSEs will also cover the costs of servicing the debt incurred in recent years. A far less optimistic prediction is shown in e.g.: J. Sierak, M. Bitner, A. Gałązka, R. Górka, *op. cit.*

of this aid. According to various estimates, LSEs can attain funds amounting to 96-107 billion PLN. Taking into consideration the sum of the generated operational surplus of the years 2007-2013, it can be estimated that LSEs in the 7 years onwards will be able to generate about 170 billion PLN, which could be spent on investment. Therefore, it can be stated that EU funds, amounting to about 100 billion PLN, to be used by LSEs will have a great influence on the increase of investment potential of LSEs in a given period.

However, not all LSEs will be able to make use of this help. Those ones which do not generate an operational surplus or ones which have run into serious debt in recent years will not have the possibility to incur new debt and, at the same time, ensure co-financing of European projects. This will lead to widening the gap between both the infrastructural background of LSEs and the scope and the quality of public services. The solution to the problem could be a change in legal regulations connected with the limits on incurring debt by LSEs or with the preparation of instruments of financial support for these LSEs so that they could also make use of EU aid.

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Środki pomocowe Unii Europejskiej a potencjał inwestycyjny jednostek samorządu terytorialnego w Polsce w latach 2014-2020

Streszczenie. *Jednostki samorządu terytorialnego od momentu wstąpienia Polski do UE są największym inwestorem w naszym kraju. W latach 2007-2013 wydatkowały w sumie 259,4 mld zł na działalność inwestycyjną. Było to możliwe dzięki wsparciu środkami bezzwrotnej pomocy z UE. Przewiduje się także, że w okresie programowania 2014-2020 JST będą stanowiły jedną z głównych grup odbiorców tej pomocy. Środki pozyskane z UE przyczynią się istotnie do zwiększenia potencjału inwestycyjnego JST w analizowanym okresie. Szacując środki, które samodzielnie mogłyby zainwestować JST w Polsce na poziomie średniorocznej nadwyżki operacyjnej z ostatnich 7 lat – 170 mld zł, pomoc unijna będzie stanowić ok. 36% funduszy, które będą przeznaczane na działalność inwestycyjną. Problemem jest jednak to, że nie wszystkie JST będą mogły z tej pomocy skorzystać ze względu na poziom ich zadłużenia, skutkujący brakiem możliwości zaciągania nowych zobowiązań, a tym samym zapewnienia wkładu własnego do projektów europejskich.*

Słowa kluczowe: *potencjał inwestycyjny, samorząd terytorialny, fundusze unijne*