Local Government Units in the European Union Financial Perspective

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Abstract:
The article aims to determine the local government units’ participation in the implementation of European Union (EU) funds from the 2014-2020 financial perspective in Poland and its assessment. The paper uses data covering eligible expenses of projects carried out. The analysis of secondary data on the European Funds Portal, literature analysis and program documents were used. The analysis confirms the continuing high participation of local government units in the implementation of the next EU financial perspective. However, the variation in local government units (LGU) participation by program type is evident. The units dominate as beneficiaries of regional programs, with little participation in central programs. The key importance of territorial self-government units for the implementation of regional programs was confirmed, as well as the high share of the public sector in the projects implemented. This was also a trend in earlier programming periods.

Keywords: local government unit; EU funds; operational program; cohesion policy.

JEL Classification: O20, R10

Introduction

There are various actors involved in the implementation process of cohesion policy. The involvement of some is critical to achieving goals, while others occupy a marginal place. The article aims to determine the relevance of local government units’ (LGU) participation in the implementation of EU funds from the 2014-2020 financial perspective in Poland and its assessment.

The analysis of the value of eligible expenditures settled by LGU in comparison with other entities and particular operational programs was presented. The problem of LGU involvement in operational programs was taken up in literature, which was also taken into account by the author. However, since Poland has been involved in the implementation of the cohesion policy from the moment of its accession to the EU until the present day, it is important to examine this process in an up-to-date manner.

The study was based on the Operational Programs implemented in the 2014-2020 perspective in Poland, and the research covered the period from the beginning of the perspective to the end of May 2022, due to the availability of data. The analysis of secondary data on the European Funds Portal, literature analysis and program documents were used. The article also includes a synthetic discussion of LGU financing and the 2014-2020 financial perspective. The analysis confirms the continuing high participation of local government units in the implementation of the next EU financial perspective. However, the variation in LGU participation by program type is evident. The key importance of territorial self-government units for the implementation of regional programs was confirmed, as well as the high share of the public sector in the projects implemented.

1. Financing of Local Government Units

The concept and regulations of the local government system are contained in various sources of law, however, there is no uniform and comprehensive definition (Budget lexicon 2021). The understanding of a self-governing community as the entire population of a specific territorial subdivision of the state is derived from the constitution. Also, in this act we find a reference to the participation of local government in the exercise of power and the implementation of public tasks.

The position of the commune as the basic unit of local government has found its legitimacy in the constitution, in which the issues of local government are discussed in Chapter VII (Constitution of the Republic of

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Poland 1997). Local government is also seen as a decentralized form of public administration or an association of the local community that was created by law within the structure of the state to carry out specific tasks (Owsiak 2021). As a result of decentralization, a three-tier territorial division of the country was introduced and administrative functions were divided into three levels of local government – commune, powiat, and voivodeship (Act on the Introduction of a Basic Three-Tier Territorial Division 1998).

Local government units were defined as organizational and legally separate in the structure of the state, created by law, unions of local society, which were established to independently perform state administration and equipped with material means to carry out the imposed tasks (Kobiałka 2017). Decentralization of funding that ensures the ability to finance the tasks assigned to the unit also affects the actual dimension of decentralization of public authority (Łubina 2020). The performance of public tasks by LGUs in an efficient and effective manner requires providing the units with an efficient and stable source of budget income (Dworakowska 2018).

Financial independence, which is at the same time a necessary condition for LGU tasks to be realized, results to a large extent from legal conditions. Also, the diversity of economic development has a significant impact on the possibilities to raise tax income and opportunities to undertake investment activities, or local development (Kobiałka 2017). We can speak of local government when the level of independence of local government bodies from government bodies is maintained to a certain extent, and when local government bodies are free to determine the hierarchy and scope of their own tasks and expenses related to their implementation.

However, it is important to keep in mind that this freedom depends on the financial capacity of the local government unit (Kozera 2018). The above points are also supported by the increased effectiveness of the use of public funds, as cited in the literature, when their administrators and performers of public tasks are closer to the community for which they work (Felis Rosłaniec 2017). The effective use of material, financial and human resources transferred by the society to the state is also influenced by the harmonious functioning of public authorities between central authorities and local governments (Owsiak 2021).

The budget is the most important source of financing of LGUs' activities and the decisive instrument for the implementation of the local government policy. A part of the budget is budgetary income, the sources of which are defined by law. This income can be classified differently (Dworakowska 2018). One of the divisions is the division of local government income into obligatory and optional income (Act on Local Government Unit Income 2003). Obligatory income includes own income, general subsidies and restricted grants from the state budget. Optional income includes funds from foreign sources, non-reimbursable, funds from the EU budget, as well as other funds specified in the legislation turning the catalog of optional income into an open catalog (Dworakowska M. 2018). The share of each category in LGU income varies (Pietrowski 2020).

Budget income affect the ability of local government units to perform public tasks. Due to the limited level of own income, LGUs must use external sources of financing. EU funds are a recommended source of funding to improve the infrastructure facilities of LGUs that affect the speed of their development (Dworakowska 2018). The territorial reform carried out in 1998 initiated the legal existence of the new 16 voivodeships that were active subjects in applying for aid funds in the pre-accession period, as well as after accession to the EU, participating in the process of redistribution of European funds (Korczak 2018).

2. The 2014-2020 European Union Financial Perspective

The European Union's 2010-2020 Social and Economic Development Program contained in the Europe 2020 Strategy underpins the creation of the 2014-2020 financial perspective. In turn, the rules for managing aid funds are set out in packages of EU regulations. Looking at the area of the country, the basic strategic document is the National Development Strategy 2020 (NDS) which sets out three areas: competitive economy, social and territorial cohesion, and efficient and effective state. It should be noted that the NDS significantly exceeds the implementation of development processes financed solely from the EU budget. The issues of investment of European funds in the areas of cohesion policy, common agricultural policy and common fisheries policy in Poland in the years 2014-2020 are defined in the Partnership Agreement. It was on the basis of this document that the resources for the implementation of the cohesion policy were allocated (Michalik 2017). The breakdown by program, source of funding, and European funds is shown in the Table 1, below.
Table 1. Programs and sources of funding in 2014-2020

<table>
<thead>
<tr>
<th>No.</th>
<th>Program name</th>
<th>Fund</th>
<th>Allocation (in billion euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Infrastructure and Environment Program</td>
<td>European Regional Development Fund, Cohesion Fund</td>
<td>27.4</td>
</tr>
<tr>
<td>3</td>
<td>Smart Growth Program</td>
<td>European Regional Development Fund</td>
<td>8.6</td>
</tr>
<tr>
<td>4</td>
<td>Knowledge Education Development Program</td>
<td>European Social Fund</td>
<td>4.7</td>
</tr>
<tr>
<td>5</td>
<td>Digital Poland Program</td>
<td>European Regional Development Fund</td>
<td>2.2</td>
</tr>
<tr>
<td>6</td>
<td>Eastern Poland Program</td>
<td>European Regional Development Fund</td>
<td>2.0</td>
</tr>
<tr>
<td>7</td>
<td>Technical Assistance Program</td>
<td>Cohesion Fund</td>
<td>0.7</td>
</tr>
<tr>
<td>8</td>
<td>16 Regional Operational Programs</td>
<td>European Regional Development Fund, European Social Fund</td>
<td>31.1</td>
</tr>
<tr>
<td>9</td>
<td>Rural Development Program</td>
<td>European Agricultural Fund for Rural Development</td>
<td>8.5</td>
</tr>
<tr>
<td>10</td>
<td>Fisheries and Sea Program</td>
<td>European Maritime and Fisheries Fund</td>
<td>0.5</td>
</tr>
</tbody>
</table>

Source: own study based on [www.funduszeeuropejskie.gov.pl](http://www.funduszeeuropejskie.gov.pl)

Most funds were allocated to the Infrastructure and Environment Program and a total of 16 regional programs. The largest amounts were invested in transport infrastructure (road and rail), and the largest increase in spending occurred in the sphere of innovation and support for entrepreneurs. Funding in the current perspective also includes investments in environmental protection and energy engineering, projects in the fields of culture, education, employment and combating social exclusion ([www.funduszeeuropejskie.gov.pl](http://www.funduszeeuropejskie.gov.pl), 2021). It is worth noting at the same time that the conducted research classifies Poland as a country with a lower level of sustainable development in the EU (Rozmus 2019).

The level of possible EU funding depends on the category to which the given region is assigned. The Mazowieckie region was included in the more developed category, which resulted in the maximum level of co-financing amounting to 80% of incurred expenses. The remaining voivodeships are classified as less developed regions with a maximum co-financing level of 85% ([Regulation of the European Parliament and of the Council (EU) No. 1303/2013, 2013]). Regionally, the EU’s policy have also strengthened the management powers of regional governments (Poniedziałek 2018).

In the literature we can find studies on the impact of EU cohesion policy on the development of regions, as well as the factors conditioning this impact. The presented evaluations overwhelmingly point to the positive impact of this policy on areas that benefit from transfers (Herbst and Rok 2019). We also find positive opinions on the effectiveness of the use of European funds by Poland (Oleksiuk 2018).

Local self-government plays a key role in creating local development. Regional development, on the other hand, is the responsibility of the voivodeship. European funds play an important role in creating the basis for modern regional and local policy in Poland. According to the law, they may constitute income for local government units. LGUs benefit from the possibility of co-financing investment tasks with EU funds, which positively affects local and regional development (Piszczyk 2018). In the framework of the ending financial perspective 2014-2020, from the amount of 82.5 billion euros of European funds, about 40% was allocated to the spending needs of local government units. Funds from the EU budget give LGUs the opportunity to implement various projects, however, these are mainly investment activities. The purpose of which is to improve the living conditions of residents and the activities of economic entities (Dworakowska 2018). The conducted research indicates that local governments of regional centers perceive cohesion policy funds through the prism of improving investment opportunities focused on the implementation of high-cost infrastructure projects. These local governments identify the opportunity to improve the standard of living and living conditions of residents as the most important benefits of access to European funds (Churski 2016).

3. Eligible Expenditures of Territorial LGUs in the 2014-2020 Perspective

According to the research carried out, between 2006 and 2017, municipal income from the EU budget and other foreign programs totaled PLN 80.25 billion, where 25% of these funds went to the ten largest urban centers. The distribution of funds among the other communes varied. The research also shows that the average share of European funds in the total income of municipal budgets was 4.79%. In contrast, there was variation from 0.05% to 34.58% across municipalities (Woźniarska 2020). Analyses conducted for the 2007-2013 financial perspective indicate local government units as the second most important beneficiary in terms of the amount of managed funds. Nearly 28% of the total value of the projects was implemented by LGUs. The units were an unquestionable leader
in the implementation of regional programs and the Human Capital Operational Program divided into central and regional components. On the other hand, in the case of central programs of the 2007-2013 perspective, the activity of LGUs was much lower (Jegorow 2017). Analyses identify LGUs as the main actors involved in the implementation of the Regional Operational Program of the Świętokrzyskie Voivodeship 2014-2020 (Pietrowski 2021).

The paper presents an analysis of the participation of LGUs in the financial perspective 2014-2020 taking into account the value of eligible expenditure in the submitted applications, i.e., expenditure incurred in connection with the implementation of the project under the given Operational Program that meets the criteria for reimbursement or settlement (Wytyczne w zakresie kwalifikowalności wydatków …, 2020). Conducting the analysis in this way allowed us to show the actual costs incurred for the projects implemented. A discussion of the data presented in the diagrams will allow for comparing the findings with those of previous perspectives.

The diagram below presents the values of expenditures submitted for settlement within the projects implemented, broken down by the legal form of the entity implementing the project.

Figure 1. Value of eligible expenditure in submitted applications by beneficiary’s legal form, 31.05.2022, in billions PLN

Source: own study based on CST SL2014 data.

Based on the breakdown shown in Figure 1, there is a clear high share of three types of entities in the value of eligible expenditures. Namely, enterprises, local government units and central government. LGUs are ranked second in the amount of eligible expenditures in payment claims submitted, with a value of over PLN 128 billion. This proves that the share of LGUs in the absorption of EU funds remains high.

Figure 1. Value of eligible expenditure in submitted payment claims by legal form of the beneficiary, broken down by regional and central programs as at 31.05.2022 (in billions of PLN)

Source: own study based on CST SL2014 data

Programs implemented in the 2014-2020 perspective can be divided into those implemented at the central level and regional programs implemented at the level of each voivodeship. It should be added here that in the case of regional programs, the responsibility for planning and implementation of a given Regional Operational Program

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lies with the Board of the Voivodeship. In the case of central programs, the above activities are organized by the relevant Ministries.

Analyzing the data presented in Figure 2, one can see the dependence concerning the public sector, namely under central programs the share of central administration is the largest, whereas in case of regional programs, the share of LGUs is significantly dominating. In the case of enterprises in central programs, the value of eligible expenditures is the highest, amounting to over PLN 121 billion. Also for enterprises, participation in central and regional programs is high looking at the form of the entity. Looking at educational and scientific units, participation in central programs is almost three times higher than in regional programs. Nonprofit organizations, on the other hand, have accounted for more than twice as much funding through regional programs. This can be attributed to the different scale of projects implemented under central and regional programs. In the former, the purpose of the activities goes beyond a given region, which makes the value of the implemented projects much higher. Also, cross-regional activities tend to be undertaken by entities that operate across the country.

Due to the overwhelming share of eligible expenditures by LGUs under the regional programs, the value of eligible expenditures submitted by LGUs is presented below, specifying 16 regional programs.

**Figure 2. Value of eligible expenditures in payment claims submitted by LGUs as a % of all claims submitted under particular Operational Programs as at 31.05.2022**

![Bar chart showing the percentage of eligible expenditures submitted by LGUs under various Operational Programs]  
*Source: own study based on CST SL2014 data.*

The average level of eligible expenditures submitted in payment claims by LGUs for operational programs in the 2014-2020 financial perspective is almost 30%. The average participation in all ROPs and OP Eastern Poland is significantly exceeded. In case of one regional program, the value of expenditures submitted by LGUs exceeds 60% (Opolskie voivodeships). Below 50%, this share occurred in Wielkopolskie, Podlaskie, Podkarpackie, Świętokrzyskie and Warmińsko-Mazurskie voivodeships. In the remaining 10 regions, the share of eligible expenditures submitted by LGUs is in the range of 50%-60%. The high share of expenditures submitted by territorial self-government units is also visible in case of the Eastern Poland Program (45%) covering Lubelskie, Podlaskie, Podkarpackie, Świętokrzyskie and Warmińsko-Mazurskie voivodeships. The lack of LGU expenditures under the Technical Assistance Program results from the purpose of this program's functioning and from the fact that within each ROP there was a priority axis covering technical assistance for the Voivodeship Boards implementing the programs. In their assumptions, the Digital Poland and Smart Growth programs did not
indicate LGUs as main beneficiaries of the support. Also, the scale of project implementation may have influenced the lack of interest in projects under these Programs. LGUs’ share of more than 15% in expenditures occurred in the Infrastructure and Environment Program, which puts LGUs on one of the further positions as beneficiaries of this Program. This share is significantly lower than the OP average and significantly lower than for the ROP.

Due to such a high share of territorial self-government units in complex expenditures in ROP and OP Eastern Poland, it was decided to present in more detail the structure of expenditures in particular programs with regard to the legal form of the beneficiary. These data are presented in Figure 4.

Figure 3. Structure of expenditures considered as eligible in particular ROPs and OP Eastern Poland according to the legal form of the beneficiary as at 31.05.2022

In spite of the fact that in each program presented in Figure 4 the share of LGUs prevails in the structure of beneficiaries, its diversification is visible. There are two groups of beneficiaries in the EP OP: LGUs and enterprises. Government administration participation is at a negligible level. In the case of this program, it is also possible to indicate a similar share in expenses for both LGUs and enterprises. For regional programs, the beneficiary structure is subject to change. However, this does not change the order of participation in spending by each beneficiary group. The largest share is held by LGUs, followed by enterprises, other legal forms (e.g. non-profit organizations, educational and scientific units), and the smallest by government administration. It is also worth mentioning the insignificant share of government administration in expenditures under regional programs of Mazowieckie, Śląskie and Małopolskie voivodeships. While in the case of Mazowieckie such a situation can be attributed to the involvement of the government administration in central-level programs, the situation in Małopolskie and Śląskie would require an analysis of the measures implemented under the ROP and the degree of involvement of funds from central programs in the region.

The high share of LGUs in the expenditures of regional programs, as shown in Figure 4, confirms the importance of these units in the implementation of cohesion policy and equalization of interregional disparities.

Conclusion

The analysis confirms the continuing high participation of local government units in the implementation of the next EU financial perspective in Poland. However, the variation in LGU participation by program type is evident. The
units dominate as beneficiaries of regional programs, with little participation in central programs. This can be seen in the objectives, types of beneficiaries and territorial coverage of individual programs. The key importance of territorial self-government units for the implementation of regional programs in Poland was confirmed, as well as the high share of the public sector in the projects implemented. It can be assumed that this trend will continue in the 2021-2027 perspective.

The ability to obtain EU funds is strongly related to the financial situation of a given local government unit, especially in the area of income. This is due to the necessity of providing own contribution within the framework of the implemented project. This is because the EU does not finance projects in their entirety. The required own contribution often includes large values of funds, and assuring it in the budget can be a difficulty for LGUs (Dworakowska 2018). Therefore, it is important for LGUs to skilfully select measures to be implemented with co-financing, so that they translate into improvement of the inhabitants’ standard of living, entrepreneurship development, and not only into the desire to obtain European funds for the unit.

The literature has addressed the territorial distribution of cohesion policy aid and its impact on the development of individual regions. This is a topic that is still valid on the one hand due to the period of settling expenses for the 2014-2020 perspective ending in 2023, and on the other hand due to the ongoing work on the final shape of the cohesion policy in the period 2021-2027. Studies on the participation of LGUs in the implementation of cohesion policy are a valuable source of information for programming the new financial perspective.

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