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EU FINANCED REGIONAL DEVELOPMENT PROGRAMME IN POLAND

1. INTRODUCTION

Polish transformation processes take place with significant support from foreign assistance, in particular from the European Union (EU) and the US. As the European integration influences more and more Polish policies its natural consequence is steady phasing out of non-European assistance.¹ And the latter undergoes change towards accession-driven approach.

After the early 1990s, when EU assistance was dominated by humanitarian and then TA (training and advisory) aid, there was clearly a growing demand from the Polish side for 'hard' (investment type) support. After a period of tough macroeconomic and stabilisatory measures many people believed an idea of introducing modern regional development programmes as particularly needed. The idea was to implement a pilot programme in selected regions to help them solve local and regional policy. The European Commission found the initiative attractive and convergent with future requirements of European integration. No need to say that whereas European Regional Development Fund is the key Structural Fund, after the stabilisation period Poland was left with no regional policy. As there were no regional budgets such a pilot programme was considered a real challenge. For that reason simple transfer of Structural Fund approach was out of the question. Adjustments related to ways of co-financing and management were unavoidable. As for the instruments used, some of them were never before used (or never before used in a systematic advanced form) in Poland.

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¹ Cf. *Assistance – to accession and beyond* (1997), Warszawa: PECAT.

The outcome of this programme may serve as a point of reference and experience. Because of its size, complexity and other features by now is the only programme which may be of importance for state policies. The other programmes contribute to modernisation of regions and localities as well, none of them however is of the size or complexity of Phare STRUDER. Phare Cross-Border Co-operation programme gets ca 50 million ECU a year with most of its resources serving projects of state rather than regional character (main border crossings on German frontier). Others are mostly much smaller and rarely use more than one dominant instrument.

2. STRUCTURAL DEVELOPMENT IN SELECTED REGIONS – PROGRAMME PHARE STRUDER

The regions covered by the Programme were selected according to objective criteria reflecting their particularly bad economic situation and also on the basis of the recommendations to be found in the state's regional policy. As a result of detailed analysis, the following voivodships² were selected: Olsztyn, Suwałki, Łódź, Rzeszów, Wałbrzych and Katowice³ (figure 1). Each represented a different type of development and restructuring problems. Considering the pilot nature of the Programme, the effects and experiences of which are intended to help the Polish Government to develop and implement larger-scale regional policy programmes, the selection of such economically and socially diversified voivodships made it possible to verify the usefulness of specific instruments under varying conditions.

Formally, the Programme came to an end on December 31, 1996, and, to a large extent, its implementation has been completed (cf. figure 2).

Specific objectives of the Programme included:

- developing measures and basic structures for regional economic restructuring;
- mobilising local resources for the stimulation of new economic activity and employment;
- providing comprehensive financial, training and advisory support for the creation and development of SMEs;

² Voivodships referred to in this paper are part of the former administrative division which exists till December 31, 1998.

³ The Katowice voivodship was incorporated into the Programme following the Government's decision, after new financial resources were obtained. In this voivodship, the programme activities aimed to prepare the ground for the expected restructuring of industry.



Fig. 1. Voivodships selected for detailed analysis

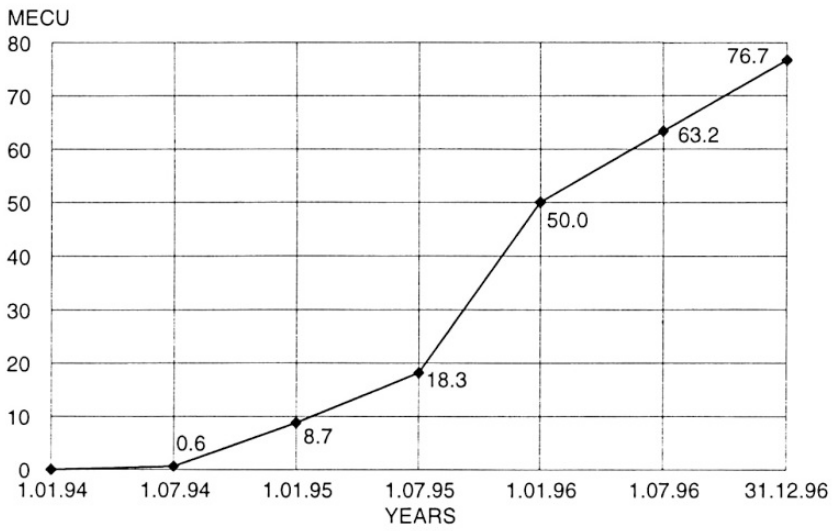


Fig. 2. Implementation of the Phare-STRUDER Programme

– developing the methodology and techniques that can be used by the Polish Government in the regional policy strategy, through the experience in the selected regions.

In the course of programme implementation, rules and instruments typical of EU Structural Funds were applied to the largest possible extent. Guidelines and forms developed by PARR staff and advisers have been copied extensively by other institutions and programmes.

The Phare-STRUDER Programme comprised four groups of instruments with specific budgets allocated for their implementation:⁴

– support for regional development structures and operations (11.9 million ECU);

– training and advisory services (6.0 million ECU);

– financial instruments including: grant scheme, regional investment funds,⁵ guarantee scheme, technical (training) aid to banks (42.5 million ECU);

– small infrastructure projects (18.4 million ECU).

The implementation of tasks under the various components required a variety of instruments, which were selected in accordance with the requirements of specific objectives on the one hand, and on the other, in accordance with the characteristic features of the individual voivodships covered by the programme. The description of particular instruments and their operation permits the evaluation of specific activities in relation to the adopted objectives.

The objectives of the Programme determined the mode of organisation and management applied in the course of its implementation. Its key quality was decentralisation. While PARR functioned as the overall co-ordinating agent of the programme, the majority of duties and obligations related to programme implementation (in particular training and advisory) rested with regional development agencies (RDAs) operating in the voivodships covered by the programme.

The regional agencies were also accountable for the preparation of six-monthly work programmes, and upon their verification and approval by PARR and the European Commission, the preparation of tender documentation, projects implementation, monitoring and reporting. Supervision over the RDAs' activities in this respect was also carried by regional authorities, which paid close attention to the conformity of individual projects to the regional needs and strategies. As a result, in addition to PARR as the central implementation unit, eight independent RDAs actively and independently implemented the programme as well as other institutions which were, on the basis of contractual

⁴ Final budget allocation as approved in *Work programme IV*.

⁵ Additionally 2.6 million ECU were reallocated to RFIs from unused funds of the Phare 9011 Programme (Equity).

agreements, directly or indirectly engaged in programme execution. The content of specific regional work programmes, as well as the range of individual projects within them, were therefore developed at the regional level.⁶

3. REGIONAL DEVELOPMENT STRUCTURE AND OPERATIONS

Support to regional structures and operations can be divided into two main categories: financial support to institutions serving regional growth, and financial support to regional activities and operations.

3.1. Strengthening business-environment institutions

This instrument was used to support the operation of business-environment institutions and regional development agencies (RDA) involved in the implementation of the Phare-STRUDER Programme. The Programme's funds went to such institutions as foundations promoting economic initiatives, centres for entrepreneurship, business associations and chambers of commerce, business incubators, business support centres, trade and promotion institutions, etc. The funds were allocated for direct support to those organisations (e.g. purchase of equipment) thus enabling them to raise standards of service, increase staff as well as to finance or co-finance their operations related to regional promotion, research, creation of data bases, organising seminars, etc. The resources in this component were partly designated to generate and increase the operational capacity of individual RDAs.

3.2. Financial support to regional operations

This instrument was applied to the support of promotional activities as well as to the financing of regional fairs and exhibitions. The Wałbrzych RDA organised the Mineral Water Fair and the Glass and China Fair and co-financed the Spa Promotion Fair. Some activities were also undertaken in other regions.

Assistance was also given to promote the selected regions outside Poland. For example, the Wałbrzych RDA co-financed a trade mission of

⁶ The verification of the Programme on the supra-regional level included monitoring of their conformance with the objectives and provisions of the Financing Memorandum, preliminary quality control, and, in terms of finances, supervision of the conformance of contracted amounts with the programme's budget and general balancing of funds.

representatives of local authorities to Italy, and the participation of RDA representatives in international fairs and events such as EUROPARTENARIAT or BALTIC SEA PARTENARIAT.

3.3. Financing

Regional distribution of financial resources spent on support to regional structures and operations is shown in figure 3. Low spending in the Olsztyn voivodship can be explained by the fact that the agency responsible for programme implementation was established only after beginning of the programme. In total 11.9 million ECU was spent under this heading. It should be noticed that significant amounts were spent on foreign advisers whose assistance was extensively used both at regional and central level. Local TA, monitoring of the projects and other items were also covered within this sum.

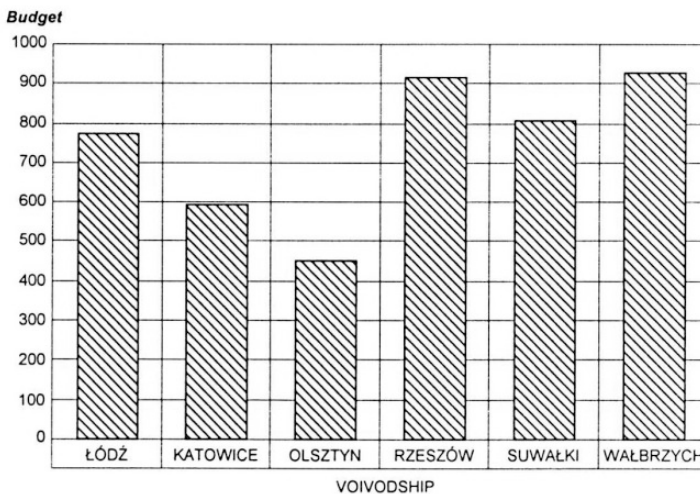


Fig. 3. Support to structures and regional operations (in thousand ECU)

4. TRAINING AND ADVISORY SERVICES

This instrument aims to raise the standards of skills and qualifications by providing training programmes and consulting services for individual regions. Its specific tasks included: contributing to increasing the knowledge of issues related to SME development, contributing to counteracting unemployment by

providing information and training about the possibilities for starting and running businesses, carrying out training programmes related to employing modern technology in business and regional promotion, popularising the knowledge of issues related to European integration and promoting regional contacts on a European scale (including learning foreign languages). It was assumed from the beginning that this instrument should reflect the actual needs of the regions so that demand would determine the kind and mode of courses offered⁷ (table 1).

Table 1. Disbursement in training and advisory activities of the Phare-STRUDER Programme up to December 31, 1996 in thousand ECU

Region	Allocation
Brussels, DGI*	124
PARR	930
Łódź	792
Katowice	861
Wałbrzych	942
Rzeszów	979
Suwałki	857
Olsztyn	474
Total	5,959

* Cost of the external audit.

As part of this instrument, individual RDAs conducted training programmes on financial and accounting issues. Particularly popular were courses for the unemployed or those facing unemployment, as well as courses enabling requalification, customised to the needs of the labour market.

A limited number of training programmes was organised centrally by PARR. These included an interactive training programme delivered by satellite transmission to over forty locations in Poland. The 1994 project was financed by the European Space Agency and provided invaluable experience which made the 1995 and 1997 project an enormous success. It is estimated that retransmissions of individual sessions by local and regional TV stations attracted about 100,000 participants.

⁷ The experience of other countries shows that the implementation of such programmes is often delayed due to their particularly cumbersome organisational requirements related to the preparation of hundreds of training courses. Assuming a large degree of decentralisation, special attention should be paid to the proper articulation of the goals by a well-developed and structured view of the desired outcome. The implementation of training programmes turned out to be extremely time-consuming.

To sum up, such a large-scale training and advisory activity was an arduous and laborious process. None the less, considering the Programme's objectives, it was an extremely useful undertaking. Generally, training programmes financed under the Programme enjoyed great popularity and received top-quality ratings. In the future key training and advisory goals should be identified in relation to the particular needs of the region concerned and subsequently courses should be grouped into larger thematic clusters, which should facilitate administering the Programme and permit the focusing of resources on strategic issues.

5. FINANCIAL INSTRUMENTS

5.1. Investment grants for SMEs

In terms of allocation, the Grant Scheme constituted a major part of the Phare-STRUDER programme. It was the first such large-scale instrument of direct support to SMEs in Central and Eastern Europe. By December 31, 1996, support had been granted to 1,051 investments, and the total value of grants amounted to 30.7 million ECU. Considering the fact that co-financing was limited to 25% of the investment, the overall value of investment projects amounted to 130.9 million ECU. The most active companies to make use of the Grant Scheme were from the Łódź voivodship; they accounted for 20% of total applications, received 22% of the overall value of grants and had a 25% share in the overall value of investments started thanks to the Programme. It should also be emphasised that grant applications were processed in the order of submission and that there were no pre-set limits for each voivodship. The distribution of grants among the voivodships can therefore be considered as a simplified measure of their absorption capacity (table 2).

Table 2. The Grant Scheme. Awarded grants and creation of new jobs
(up to December 31, 1996)

Voivodship	Number of awarded grants	%	Value of awarded grants in thousand ECU*	New jobs	%
Łódź	235	22	7.592	2.953	25.9
Katowice	212	20	7.401	2.801	24.6
Olsztyn	147	14	4.690	1.446	12.7
Rzeszów	187	18	4.032	1.553	13.6
Suwałki	94	9	2.846	1.203	10.5
Wałbrzych	176	17	4.095	1.446	12.7
Total	1.051	100	30.656	11.402	100.0

* Does not include managing costs of the Scheme (banking analysis and monitoring).

Support was provided primarily to companies already operating on the market, possessing basic skills and knowledge of the market situation. Only a small fraction of grants was awarded to start-up companies. The share of the latter ranged from 6% of the overall number of beneficiaries in Katowice to 25% in Wałbrzych.

Generally, it should be stressed that the majority of companies which received support was closely connected with the local markets. The dominant type of enterprise awarded the grant varied from region to region. In Katowice and Łódź they were companies created on the basis of the property of state enterprises which, as a result of restructuring, found private owners. In Suwałki and Olsztyn voivodships, they were long-existing family businesses, while in Rzeszów and Wałbrzych they were businesses founded on their owners' initiative, which sought their chance in new economic and social conditions. This undoubtedly proves that the programme offered a variety of opportunities for fulfilling the diverse restructuring needs of the regions.

These differences also illustrate the variation in business practices. This is reflected, for example, in the manner of raising capital. In Suwałki, only 28% of companies that were awarded grants declared that in the past they had made use of bank loans. This testifies both to the weakness of companies and of regional banks. The highest share of beneficiaries having most developed contacts with the banking sector was to be found in the Katowice voivodship (67%).

The Grant Scheme significantly advanced the development of links between the banking sector and SMEs. In all, 60% of beneficiaries used bank loans to cover the balance of the investment. Nevertheless, these contacts seem to be still limited, since the value of contracted bank loans did not exceed 25% of investment costs in any of the voivodships due to the fact that entrepreneurs were unwilling to incur the costs of loan repayment, including interest. Given this situation, it seems that grants enabled entrepreneurs to considerably speed up the investment process. Unwillingness to take a bank borrowing, a lack of self-confidence, together with meagre own capital resources should the grant be refused, would otherwise have precluded such intensive development activities. About 70% of investments were spent on purchase of equipment, while the rest were primarily allocated to increase the tangible assets of the companies, especially the number and condition of buildings. At the same time, old technologies were upgraded or new technologies were introduced.

There has been a noticeable impact of the investments in terms of employment increase. The data demonstrate convergence between the award of a grant and increased employment. It is estimated that the grants helped to create over 11,000 new jobs (cf. table 2).

The investments were predominantly made in the most rapidly developing business sectors in individual regions; e.g. in Olsztyn it was food-processing and hotel industries, and in Katowice – chemical and building industry.

By way of conclusion it should be said that this instrument in practice has already stimulated regional growth and that it will, due to the synergy effect, affect their further development potential. Furthermore, the leverage effect should be emphasised – each 1 ECU of grant reflects 3 ECU invested from the beneficiaries' own resources or bank loans. For this reason, the actual value of investments made by the end of December 1996 exceeds 130.9 million ECU, that is, 469 million PLN (excluding working capital). Just a few of the projects supported have failed and all other beneficiary companies remain in a sound financial position.

Grants awarded under the Phare-STRUDER Programme proved to be an effective means of mobilising investment. As a result of the meticulous financial and economic analyses, the supported projects enjoyed high standards of preparation and safety. These analyses helped to identify the most promising investment projects in the problem voivodships, to support them and contribute to a steady increase in new jobs. Thus, some earlier fears that grants under this programme would only reward the losers were dispelled. The data related to absorption capacity of individual regions prompt a question whether this instrument should not be eliminated from the voivodships with a diversified structure of the economy, abundance of business-environment institutions and easily accessible sources of financing, and retained in voivodships manifesting economic backwardness.

5.2. Regional Investment Funds

Regional Investment Funds (RIF) are instruments of 'non-debt' support to SMEs. They offer finance to businesses by taking equity in the company (normally 15–49% of initial capital). The company obtains capital for growth, and the Fund hopes for profits in the future by selling the shares. The Fund would then reinvest the proceeds from the sale of shares in other businesses. Apart from equity shares, RIFs can offer such instruments as subordinated loans, counselling, etc. Due to the scarcity of funds allocated to this component, so far only two RIFs have been established as limited liability companies in Łódź and Katowice. The Katowice RIF is also expected to support investment in the Wałbrzych region. Both RIFs carried out a promotion campaign and acquired equity in the first investments.

In order to increase the modest resources allocated to this instrument, the Polish Agency for Regional Development received the reallocation of

uncommitted funds in the Equity Investment Programme Phare PL 9011 (2.6 million ECU).

5.3. Guarantee Scheme

This instrument is difficult to evaluate since one guarantee has been given up to date. Undoubtedly, as is shown by the experience of another guarantee programme financed from public funds and managed by the Bank Gospodarstwa Krajowego (BGK), guarantees are an instrument difficult to prepare and implement – unless they are operated on a local scale.

For organisational reasons, the Guarantee Scheme was planned to be launched directly after the launch of the Grant Scheme. However, it turned out that the interest in the Grant Scheme grew rapidly, while the preparation of the Guarantee Scheme (regulations and numerous associated documents) conforming to the Polish law and practice and the donor's expectations was a complex and time-consuming process.

5.4. Training programmes for bank staff

As part of the activities aimed at increasing the awareness of EU standards, a series of training programmes related to the procedures applied in the process of awarding grants under the Grant Scheme was organised for the staff of 80 branches of accredited banks and financial institutions. In addition, training programmes in developing strategy and carrying out financial analyses for the assessment of the programme's investment projects were conducted. In 1997 another training programme for bank personnel was conducted.

6. SMALL INFRASTRUCTURE PROJECTS

The goal of this instrument was to offer assistance in building infrastructure indispensable for increasing development potential of regions (roads, local transport facilities, local investments in ecological infrastructure) and to create opportunities for the development of SMEs (setting up business incubators, centres for new technologies, etc.). Moreover, each applicant (usually the *gmina*) had to prove that the project would directly or indirectly contribute to the establishment and development of SMEs. By the end of December 1996, all the allocated funds (18.4 million ECU) had been committed. In all, 188 projects

were supported in almost 50% of the *gminas* in the voivodships covered by the programme. Investments in municipal infrastructure, especially in small towns, were of particular interest and it should be borne in mind that this was an effect of complementarity with many other programmes and projects focusing on the development of infrastructure in rural areas. Business incubators, established in each region as a vehicle for stimulating local enterprise, also enjoyed high popularity.

A particularly good example of the effectiveness of this instrument was the support for the refurbishment of the former barracks of the Soviet army in Świdnica which are now becoming a real centre of the town's economic activity. The optic fibre network in Łódź, and the system of dams and water reservoirs on the Klikawa stream in Lewin Kłodzki which is generating the development of a zone of tourist services, are also good examples, just as the Elk zone or Iława town centre.

It should be stressed that supporting small infrastructure projects had an advantageous effect on the number of projects implemented by *gminas* by contributing to their overall budget for local infrastructure projects. It is estimated that each project benefited 20–150 SMEs. In a number of cases the reduced cost of transport and increased road communication capacity as a result of the assisted investment contributed to the region's capacity to attract inward investment in the long-term perspective. It should also be noted that *gminas* were given an opportunity to apply the European standards of procurement even before the relevant Polish law had been passed, which has resulted in high efficiency and competence in using the new regulations when they came into force.

The selection of projects for support, and their prioritisation, rested with the Regional Councils which include representatives of executive authorities and therefore are competent bodies to deal with the regions' needs and priorities.

7. PROGRAMME OBJECTIVES AND THEIR FULFILMENT

In assessing its effectiveness, the Programme's fundamental objectives should be considered.

7.1. Developing measures and basic structures for regional economic restructuring

The programme adapted a number of support instruments to the Polish law and environment. The application of these instruments by regional institutions made it possible not only to implement them but also for these institutions and staff to gain some practical knowledge.

Some basic structures of economic reconversion already existed or were developed during the implementation period. Therefore, rather than starting from the beginning, it was necessary to strengthen and improve the main structures, build new relations, and, sometimes, merely to fill the gaps. Most of the work in this respect was performed in co-operation with voivods, and the programme activities were co-ordinated with other projects in the region, e.g. through the Regional Councils.

The most advanced example of co-ordination is a regional contract for the Katowice voivodship, where the programme activities were written into, and co-ordinated in, the framework of a wider institutional scheme. Measurable results include strengthening a number of institutions relevant to the development of the voivodship, which, apart from improving the institutional network, made it possible to increase the activity of the network for the benefit of the region. At present it may be stated that thanks to the Phare-STRUDER Programme, among other things, each of the participating voivodships has institutions and co-ordination mechanisms allowing for economic reconversion.

7.2. Mobilising local resources for the stimulation of new economic activity and employment

The objective of the programme funds to activate local resources has been achieved by varying the amount of support and the effective leverage. As mentioned before, in the case of the grant scheme, one ECU from the programme was, on average, supported by a minimum of three ECU from the regional resources (without taking into account the working capital requirements!). In small infrastructure projects, the general proportion of resources was 1:1. The support for regional activities and operations was also only a part of the financing. Additional resources from outside the region for implementation of individual projects were also frequently generated, depending on the initiative of the agency. Investment funds and the guarantee scheme also require substantial involvement of investors from the region. The requirement that the beneficiary bear the main costs (and thus, also the risk), considerably increases the security and effectiveness of the programme, resulting in better

preparation of individual projects. Therefore, it also has an indirect educational benefit.

As a result of financial support for investment projects, numerous firms were in a position to upgrade their products, technology and introduce new types of business operations. Over 11,000 permanent jobs were also created, without taking into account new jobs in co-operating firms. In many cases, especially in smaller, more poorly developed centres, the demonstration effect and a positive example for the community proved to be very important.

7.3. Providing comprehensive financial, training and advisory support for the creation and development of SMEs

Phare-STRUDER was the only programme offering a comprehensive financial, educational and advisory support for SMEs in the voivodships covered by the programme. Each entrepreneur could use many forms of support at the same time. However, firms already operating on the market undoubtedly found it easier to make use of the financial offer in comparison to those in their start-up phase. It seems that the two groups of potential participants should be separated and offered different forms of financial support, or at least different procedures for application and evaluation of requests for financing. As more mature development strategies for voivodships are being prepared, training should be focused on addressing strategic priorities.

It has to be generally emphasised, however, that firms relatively well established in their market and understanding their needs in the area of training, most frequently make use of training and advisory service opportunities.

Proposing a comprehensive offer of support makes it possible to target many segments of SMEs as well as to adjust training and advisory service supply to the life cycle of SMEs.

20,000 persons have been trained with traditional methods. It is estimated that approximately 100,000 persons have been covered by the interactive satellite training.

7.4. Developing the methodology and techniques that can be used by the Polish Government in the implementation of regional policy strategy

It may be generally stated that a ready and field-tested implementation system is available for the Government, which, after the introduction of marginal changes resulting from the present experiences can be easily adaptable to any region of the country which would be covered by intervention activities in the framework

of the regional policy. The main conclusion seems to foster an approach in which the basic functions of the programme are maintained without taking decisions in advance concerning the type and character of the instruments which should be adapted to social and economic conditions of a region, its diagnosed needs and desired directions for the development of its strategy. As evidenced by the STRUDER experience, the absorption of individual instruments differs in various regions. Without going into detail, it can be seen that, for example, particularly in less developed regions, the emphasis should first be placed on the development of other institutions in a business environment, as well as training and advisory services, and then an increased absorption of other instruments may be expected (e.g. investment in SMEs). Contrary to popular opinion, the needs of voivodships resulting from their under development do not easily translate into a high demand expressed by a large number of well prepared projects.

Generally speaking, the more advanced the social and economic structure (as well as institutional) the higher the absorption capacity of the region. Thus, weaker regions should be assisted in increasing their abilities to absorb resources. Implementation of simpler instruments (e.g. grants) also seems reasonable since one should not underestimate the importance of the time before support will be actually available (grants can be provided in a short time). On the other hand, commercial resources (of a bank and non-bank type) should play an increasingly bigger role in financing the growth of better developed regions.

The selection of an appropriate package of instruments for a certain region should result from an initial analysis of the region profile.

Naturally, improvements and changes concerning the conditions, framework and activities of the programme are also necessary. Some procedures in case of the grant scheme have been definitely excessively bureaucratic and time consuming. This, however, became evident after some experience has been gained and it may be easily corrected in the future. It also seems to be advisable to generally relax the control and procedural regime in the framework of the Phare programme. This refers mainly to the introduction of an ex post control instead of an ex ante one. It is important since all the auditing procedures (the Supreme Chamber of Control, European Court of Auditors, etc.) proved that transparent procedures had been maintained and the programmes had been efficiently implemented in accordance with the intentions and objectives defined by the Polish Government and the European Commission.

8. CONCLUSIONS

There is a number of criteria which may be taken into account when assessing any assistance programme. Some of them more or less explicitly were discussed already.

It has to be emphasised that apart from measurable and direct outputs of the operation of individual instruments, what actually makes the Phare STRUDER programme exceptional is the creation of an institutional system which makes it possible to implement support programmes at all the levels of territorial administration: from a *gmina* to a voivodship and the centre. As a result of the objectivity of the decision criteria applied, the programme made it possible to protect the employees and managerial personnel from the external pressures. It facilitated the focus on the support for regional and local initiatives with simultaneous constant monitoring as well as respecting the objectives and principles of the regional State policy. It is also the only programme in Poland which has resulted in the establishment of a considerable group of specialists able to manage large-scale and complex financial programmes. With full respect to other smaller programmes being implemented in the area of regional or local development, it had been assumed that they had no chance for implementation at all levels of the administration. This issue is definitely more complex than managing projects limited to the level of a *gmina*, for example. In the light of the European integration, and in particular a potential utilisation of the Union's Structural Funds, this is perhaps the most valuable long term result of the programme.