

# The cohesion fund's role in financing local-government investments in road infrastructure

*Jerzy P. Gwizdała*<sup>1, \*</sup>

<sup>1</sup>University of Gdańsk, Department of Banking and Finance, Faculty of Management, 101 Armii Krajowej St., 81-824 Sopot, Poland

**Abstract.** The growing needs of local communities, deficiencies in road infrastructure, and under-investment in the public sector has led to the search for alternative sources of project financing. Poland's accession to European Union structures has opened the possibility of obtaining co-financing from EU funds for various types of projects. Aid can be obtained from several types of funds, mainly intended for investments in economic development. Investments in the field of transport carried out by local-government units have been supported by funds from the European Union budget over two six-year financial perspectives: 2007-2013 and 2014-2020. During this time, funds were allocated to local governments to compensate for differences, expand the road network, and to improve the quality of transport. The authorities of individual territorial local-government units received support from structural funds and cohesion policy funds. In return, they were able to count on benefits such as financing for services and road infrastructure facilities that meet the needs of the community, and access to new technologies.

## 1 Introduction

Investments in the field of transport carried out by local-government units have been supported by funds from the European Union budget over two financial perspectives: 2007-2013 and 2014-2020. During this time, funds were allocated to local governments to compensate for differences, expand the road network, and to improve the quality of transport. The authorities of individual territorial local-government units received support from structural funds and cohesion policy funds. In return, they were able to count on benefits such as financing for services and road infrastructure facilities that meet the needs of the community, and access to new technologies.

The purpose of this article is to present the role of EU funds in supporting the development of road infrastructure in Poland. Co-financing from the European Union plays a key role in the choice of sources of financing for local-government infrastructure projects. In addition, the financing periods discussed and the EU funds available in the years of Poland's membership of the European Union indicate the importance of such funds in the economic development of the country. The tendencies in development in road infrastructure

---

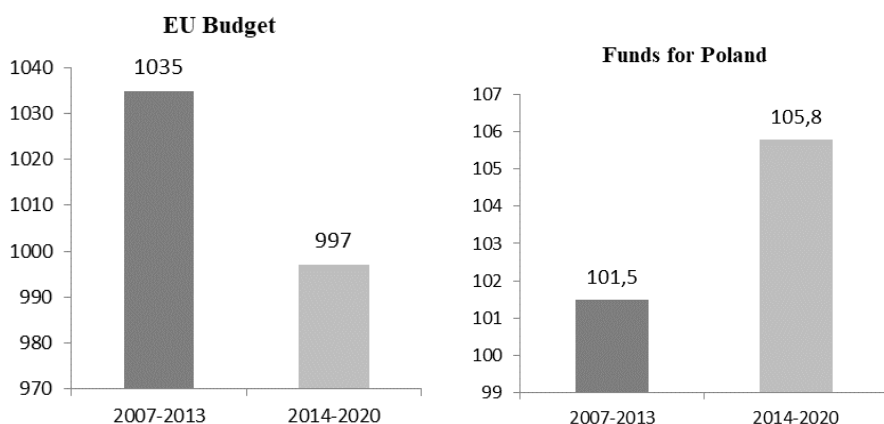
\* Corresponding author: [jgwizdala1@wp.pl](mailto:jgwizdala1@wp.pl)

and the importance of the Cohesion Fund in financing local-government investments over the coming years are also discussed.

The research necessitated conducting theoretical and practical research. Basing analysis on experience from the regional level made it possible actually to measure the role of EU funds in the financing of public projects in terms of road infrastructure. A quantitative analysis of EU funds over the two financial periods made it possible to summarize the achievements of investments completed.

## 2 Effectiveness in the use of the Cohesion Fund in Poland

By joining the European Union, Poland received an opportunity for development and a chance to improve the country's economy after the years of stagnation under the communist regime. As part of the celebration of the tenth anniversary of accession to EU structures, many governmental studies were carried out in 2014. EU funds had been used for ten years to achieve changes in the economic, political, and social field. Poland is the largest beneficiary of EU funds among EU members. In 2004-2013, it received PLN 375 billion within two so-called financial perspectives. Over ten years of affiliation, for each zloty paid to the EU (PLN 125.4 billion), Poland received three zlotys in return. Budget negotiations for the years 2014-2020 turned out to be a challenge; however, these settled on a sum of PLN 349 billion paid out of the cohesion policy (an increase of EUR 10 billion compared to the previous program). For the first time in history, an EU member had achieved this level of financial support within one financial perspective. From the first year of its membership in EU structures, Poland has received more money than it has paid into the common budget. As of 2011, the country receives the most funds of all EU countries on an annual basis. The increase in received funds is shown in Chart 1. In economic terms, spending the funds granted within a ten-year perspective has resulted in an increase in gross domestic product (GDP). This increased by half (48.7%), making Poland (next to Slovakia) a leader among the member states of the region and within the entire European Union in terms of economic growth (Fig. 1.). In the years of the 2008-2013 global crisis, Poland's GDP was above 20%. It should be noted that in 2009, Poland was the only country in the European Union that did not fall into recession, experiencing only a slowdown in the years of global crisis.



**Fig. 1.** EU Budget and amount of funds granted to Poland in 2007–2013 and 2014–2020 in 2011 values (in billions of EUR) [1].

Ten years in the European Union was enough to accelerate the pace of state modernization. In the years 2004-2013, total investment expenditures increased by 75%, and

in 2009–2011, 51.6% of Polish public investments were financed from the EU cohesion policy. This also affects the growth of innovation among enterprises and organizations. Polish companies successfully compete on international markets.

Thanks to Poland’s accession to the European Union, unrestricted access of Polish products and services to European markets was obtained, which made it possible to increase exports. What is more, the status of the Polish currency increased as it became exchangeable on financial markets (the zloty became one of the strongest currencies in developing markets, in particular in relation to the euro). The application of EU law and the incorporation of environmental protection principles followed, and Poland began to derive the benefits of joining the Schengen area (cross-border cooperation, freedom of travel, development of border areas).

As part of the economic dimension of Poland’s membership of the European Union, there has been significant technological progress, society’s wealth has increased (income per person in Poland has increased almost two-fold from PLN 700 to PLN 1300; wage growth has also been noted), and the competitiveness of Polish enterprises has improved. The financial situation of households has improved, which is reflected in a decrease in food and drink expenditure and lower energy costs. Expenditure on culture and recreation has increased, and the percentage of people at risk from poverty has decreased. In terms of monetary policy, the main objective of which is to maintain price stability, total cumulative inflation was lower than the average of the EU-9 countries (although higher than the EU-27) and amounted to 33% in the time period considered.

### 3 Cohesion Funds in financing of road infrastructure development in 2007–2020

Within the framework of national programs financed from cohesion policy funds in the years 2014–2020, six national programs (including the supra-regional Eastern Poland program) have been implemented. National programs along with distribution of resources are presented in Table 1. The main objective of the largest program, Infrastructure and Environment, is to support an environmentally friendly and resource-efficient economy, as well as to support social and territorial cohesion [2].

**Table 1.** Distribution of allocations to national operational programs [3, 4].

Program	Program Aim	Allocation in current prices (mln EUR)
Infrastructure and Environment (POIS)	Program priorities are: transport network, technical infrastructure, energy security, environmental protection.	27,513.9
Smart Growth (POIR)	The program finances activities aimed to support scientific research, growth, and innovation.	8,614.1
Knowledge Education Development (POWER)	The program aim is to support activities in higher education, education, mobility, social inclusion, employment.	4,419.3
Eastern Poland (POPW)	The aim of the program is to co-finance activities in the field of raising competitiveness and innovation in Eastern Poland.	2,117.2
Digital Poland (POPC)	The aim of the program is to increase access to broad-band networks and to develop IT.	2,255.6
Technical Assistance Program (POPT)	POPT aims to support the effectiveness of implementing institutions and to raise the effectiveness of information movement.	700.1
TOTAL		45,620.1

The largest sum (as in the previous financial perspective) was reserved under the Infrastructure and Environment program, financed from the Cohesion Fund. The sum of EUR 27,513.9 million consists of European Union funds, forming part of the ERDF and CF. The remaining value of the Program (EUR 4,873.3 million) is made up of funds drawn from national contribution. The distribution of the rest of the funds also supported education and technology and their role in state development. The least funds were allocated for technical assistance.

Poland’s ability to raise funds for investment projects has been significantly increased by the country’s accession to the European Union. The launch of subsidy programs for local governments in the 2007–2013 and 2014–2020 programming periods financially supported projects implemented by local-government units. The value of co-financing depends on the terms of the program within which an application is submitted and the specific aspects of a concrete project. Grants awarded to municipal investment projects have constituted support for Poland from the beginning of the 1990s – initially in the form of pre-accession funds, currently under accession funds. They are a matter of interest for local governments, and they help in the development of local infrastructure.

There are two objectives set out for 2014–2020, one of which was left over from the previous perspective (European territorial cooperation). The importance of economic investment and cooperation is emphasized, reducing an emphasis on competitiveness (Table 2.).

**Table 2.** Aims of cohesion policy for 2007–2020 [5].

2007–2013	2014–2020
Convergence	Investments in economic development and growth in employment
Competitiveness among regions, employment	
Territorial cooperation in Europe	Territorial cooperation in Europe

When comparing both perspectives, we should note that the share of individual programs in the overall pool of EU funds for financing human capital to support regional programs has been reduced (Table 3.). The assumption is that local communities will use the allocated funds more effectively. The effectiveness of the use of EU funds is demonstrated by the fact that 2016 was characterized by a significant acceleration of the implementation of operational programs for the years 2014–2020. By the end of 2016, applications were invited for over PLN 182 billion.

**Table 3.** Comparison of programs and budgets in the EU financial perspective 2007-2013 and 2014-2020 [6].

PERSPECTIVE 2007-2013		PERSPECTIVE 2014-2020	
Program	Allocation of EU funds (billion EUR)	Program	Allocation of EU funds (billion EUR)
PO Innovative Economy	8.7	PO Smart Growth	8.6
		PO Digital Poland	2.3
PO Infrastructure and Environment	28.3	PO Infrastructure and Environment	27.5
PO Development of Eastern Poland	2.4	PO Eastern Poland	2.1
PO Human Capital	10	PO Knowledge Education Growth	4.4
16 Regional Operational Programs	17.3	16 Regional Operational Programs	31.3

In the perspective from 2014, voivodship local governments were granted a larger pool of European money; in the years 2007–2013 they had at their disposal about 25% of the total funds for Poland, and in the next perspective, assistance amounted to 40% of the total fund.

A comparison of funds in the years 2007–2013 and 2014–2020 underlines the increased emphasis on cooperation and the regional character of programs. This means that support is more willingly granted to smaller areas than it is on the national level. Significant resources have been reserved for equalizing differences and for infrastructure development. The Cohesion Fund has become more important and has become a significant pool of resources at the disposal of states of the European Union.

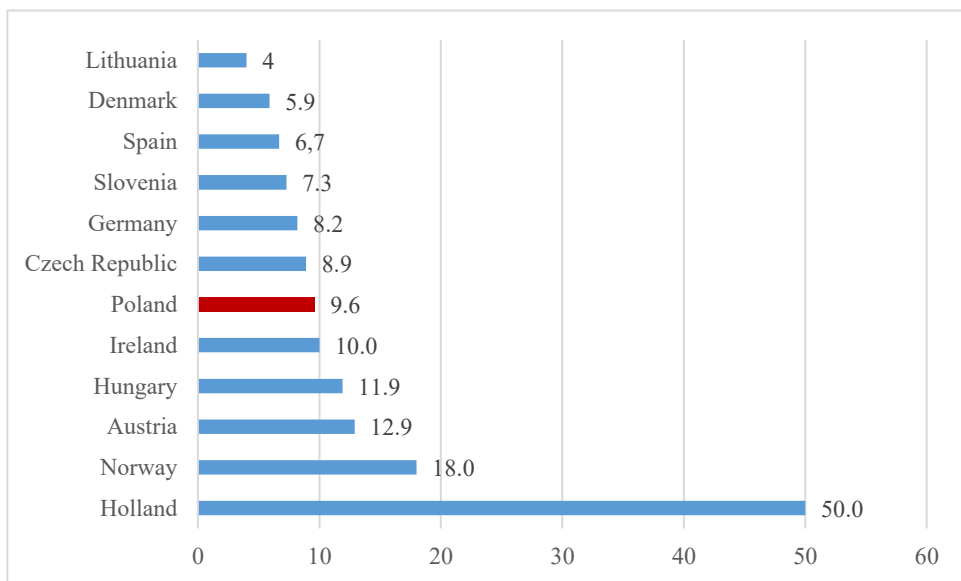
## **4 The place of the Cohesion Fund in terms of implemented road investments in Poland**

The aim of planned and implemented activities is to create a coherent and innovative system of national roads and transport infrastructure, ensuring effective functioning of both passenger and freight transport. An improvement in the state of the road network will foster the efficient and effective functioning of the country and of individual regions. Adaptation of comprehensive routes of national roads and motorways to required load capacity standards is now a key task for the effective economic development of the country. The increase in throughput and density of transport arteries will increase the dynamics of the development of the entire country through a generally available, faster, and less expensive flow of goods. Citizens' expectations regarding safety and pace of transport will also be met. Construction of bypasses will improve communication in locations with problems related to transit traffic. Ultimately, the infrastructural gap between Poland and the EU-15 countries will also be reduced. A systematic increase in expenses up to 2018 can be observed, followed by a decrease related to the methods employed in granting European funds. There is also an increase in the share of funds from the European Union in the financing structure. The National Road Fund remains the main source of financing in the analyzed years.

Another issue related to investment tasks is the acquisition and effective use of domestic and EU funds. The General Directorate of National Roads and Motorways (GDDKiA) is the largest single beneficiary of EU funds in Poland. Up to 2013, GDDKiA contracted 100% of EU funds received for road projects under the Operational Program Infrastructure and Environment. At the same time, it received a return of EU funds in excess of 77%. An important factor in the analysis of funds used to finance road investments is also the condition of the sector. In the years 2007–2013, the number of road investments increased. However, construction companies often strive for continuity of operations and financial stability. By juxtaposing this data with the position of Poland in the ranking of motorway construction costs, the following conclusions can be reached:

- Poland comes in the middle of the ranking of European states in terms of the cost of constructing one kilometer of motorway;
- with an effective allocation of funds, the situation of the Polish road network can be improved at moderate costs;
- the increasing share of EU funds in the financing of projects related to road infrastructure testifies to the role they play; the acquisition and effective use of money from the European Union is a key factor in considering the future of this area of the Polish economy.

With regard to the above, GDDKiA analyses indicate the necessity of further research into requirements and resources necessary for transport development.



**Fig. 2.** Costs of constructing one kilometer of motorway abroad and in Poland (mln EUR) [7].

Poland is a leader in the EU in spending money within the new perspective. In tenders and announced invitations to tender, there is more than half the money available in the current perspective, while in signed contracts there is 17%. The contracts amount to almost PLN 90 billion, which means a boost to the Polish economy of PLN 10 billion a month. In financial terms, EU transfers to Poland from accession have amounted to PLN 130 billion, and the Polish contribution to the Brussels budget in this period has been PLN 42.4 billion. The EU contribution in 2017 was scheduled to amount to PLN 18 billion, and forecasts of transfers to Poland oscillate around PLN 50 billion [8]. A large part of the budget goes to the social fund group. The aim of support for the axis 9. Mobility for 2014-2020 is, among others, to improve the efficiency of public transport and to improve road connections between important centers in the region [9]. Funds for these purposes have been provided as part of the Infrastructure and Environment program.

Providing public goods as a local-government goal is associated with the reduced role of financial analysis with the effectiveness of projects for social benefits. EU funds fill the financing gap of these units. Due to underinvestment in the public sector, tasks belonging to non-private entities require the support of EU funds, including the Social Fund.

## 5 Conclusion

The key aspect of the implementation of local-government investments is the possibility of using financial assistance funds, which are granted to local government units for the implementation of infrastructure projects. Local governments receive public funds for tasks and public services; however, significant investment needs in the field of road infrastructure are a result of underinvestment in the public sector and of many years of delays and negligence. Resources from EU funds - including the Social Fund - fill the financing gap of these units. Limited budget funds supplemented by EU funds offer an opportunity for the development of the Polish economy.

Prospects for the development of the road sector point to the goal of creating a coherent and innovative system of national roads and transport infrastructure. A favorable factor is the possibility of obtaining funds from the European Union. Only a combination of a unit's own

resources with transferred foreign (including EU) funds creates a basis for achieving the efficiency and effectiveness of an undertaking. The creation of modernized transport routes is a key task for the effective economic development of the country as a whole. The improvement of the road network will also contribute to reducing the infrastructural gap in Poland.

## References

1. K. Janiak, *Budżet Unii Europejskiej*, 7 (Ministerstwo Spraw Zagranicznych, Warszawa, 2015)
2. R. Pawlicki, *Strategia finansowa dla Polski 2014–2020: fundusze unijne dla przedsiębiorczych* (Difin, Warszawa, 2014)
3. Polska Agencja Rozwoju Przedsiębiorczości, <http://www.parp.gov.pl/>
4. Portal Funduszy Europejskich, <https://www.funduszeuropejskie.gov.pl/>
5. Ministerstwo Rozwoju, <https://www.mr.gov.pl/strony/zadania/fundusze-europejskie/>
6. Portal Innowacji, <http://www.pi.gov.pl/>
7. Generalna Dyrekcja Dróg Krajowych i Autostrad, [www.gddkia.gov.pl](http://www.gddkia.gov.pl)
8. D. Zawilińska, *Puls Biznesu*, **226** (2016)
9. *Pomorskie Liderem! Raport z realizacji Regionalnego Programu Operacyjnego Województwa Pomorskiego na lata 2014–2020*, 18 (Urząd Marszałkowski Województwa Pomorskiego, 2016)