

No 18



INSTYTUT SPRAW PUBLICZNYCH
THE INSTITUTE OF PUBLIC AFFAIRS

Analyses & Opinions

Analizy i Opinie

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- *The regional administration is behind schedule in its preparations for the utilization of EU structural funds in practically all main areas: legislation, implementation of relevant institutions and procedures, civil servant training as well as financial assistance to territorial self-governments. In addition, there is not enough information and consultations about solutions being implemented.*
- *There is a need for a radical acceleration of training and hiring qualified personnel, both at the provincial administration and local self-government level. In this respect, the worst situation exists in Provincial Employment Offices, where additional financial assistance from State and EU resources is indispensable. Steering and monitoring committees, and expert panels are being established at a snail's pace. The rules of appointing these bodies must be simplified and provincial self-governments must be guaranteed more freedom in elaborating performance regulations and personnel selection methods applicable in subordinate institutions.*
- *There should exist a possibility for the State to subsidize financial contribution to projects by the weakest territorial self-government units. The EU-financed technical assistance should be concentrated in regions where organizational problems are the greatest, i.e. in Lubuskie, Opolskie, Pomorskie, Świętokrzyskie and Warmińsko-Mazurskie Provinces.*
- *Recent changes in the Integrated Regional Development Operating Program (IRDOP) are disturbing. Supplementing it with healthcare investment financing possibilities at the literally last moment in December 2003 has disorganized provincial self-government preparations and put a question mark on the priorities of regional development.*
- *The regional administration has taken up the great challenge of preparing for the absorption of EU assistance funds. Many issues may still be corrected and supplemented in the coming months, e.g. software systems, sharing information between institutions, organization of project selection, changes in the financial system. However, it is too late for certain other changes. It is already evident that there will be a need to overhaul the administrative system required to manage structural funds in the regions after 2006. Indeed, the system under development is too centralized, contains responsibility duplications and has too many bottlenecks.*

The European Commission has agreed to release structural funds to Poland in the early 2004. However, an appropriate organizational and financial system has not yet been prepared and the regions are receiving only very general information about its ultimate shape. The Integrated Regional Development Operating Program (IRDOP) has not been put in motion as expected on 1 January 2004 and a delay of at least several months is anticipated. Delays in the work on a regional administrative

system, indispensable for participation in the European cohesion policy, have been accumulating concurrently at several administrative levels. As late as in December 2003, the Polish government was still negotiating Community Support Principles and individual operating programs, including IRDOP, with the European Commission. This in turn has caused delays in the work on several specific procedures, organizational solutions, software systems, training and promotional undertakings.

Delays in the implementation of the required legislation

The work on legal documents which are key from the viewpoint of constructing an European fund absorption system is running behind schedule. This refers in particular to the Law on the National Development Plan (NDP) and the Law on Public Procurements. Without the latter document there can be no public tenders for projects financed with European funds. Whereas the absence of the NDP Law has resulted not only in delays in the appointment of institutions necessary to manage structural projects but has also created a great deal of confusion in the administration, which has found itself without any legal basis for appointing monitoring and steering committees both at the central and provincial level.

A serious shortcoming also lies in the absence of a law on public/private partnership, which was meant to raise the scale of involvement of the private sector in the financing of EU projects. Accordingly, the contribution of private funds in project financing at the initial stage of Poland's membership in the

EU is expected to be rather low. At the beginning of January 2004, the draft of the law in question was only being looked at by the government. The work on the bill on the credit guarantee fund is not advanced either. The fund was to be established from resources provided by banks, which would serve as a guarantee against loans contracted by private enterprises and territorial self-governments to supplement their equity invested in EU-financed undertakings.

Changes in IRDOP – at the last moment and in a wrong direction

At the same time, changes were being made to key program documents. In December 2003, i.e. on the eve of the first possible date of putting the entire system in motion, it turned out that the government was planning to introduce major changes into IRDOP. It wanted to supplement regional and local social infrastructure activities with the possibility of financing healthcare investments. The introduction of such changes should be considered incorrect for two reasons. It

is a troublesome undertaking for provincial self-governments and it disorganizes their preparations for IRDOP, which are already running behind schedule. These changes are also problematic from the viewpoint of regional development priorities. For example, activities associated with undertakings such as routine reconstruction of the healthcare infrastructure will dislodge projects earmarked for new R&D initiatives.

Self-governments are ill-informed about IRDOP's ultimate shape

Provincial self-governments have come to face very serious organizational challenges - often as a result of delays caused by central government institutions or the European Commission. They have been creating organizational structures without having sufficient knowledge of the ultimate shape of the system or sufficient information about procedures. Marshal's Offices were often startled by unexpected decisions downloaded on them by central institutions. Self-government authorities were given only a few days to examine program documents and that precluded any actual debate on the substance of texts of an essential political and systemic importance.

Such poor system of consultations creates an unfavorable climate and mistrust. It often causes organizational disarray at the regional level. As its result, functionaries are overburdened, nervous

and overly rushed in their work, and that in turn is propitious to errors and multiplies organizational problems. Wiser by experience, some institutions assume a waiting attitude and refrain from doing work in anticipation of binding decisions. In some cases this has a de-motivating effect on the regional administration.

Provincial-level institutions have limited resources for hiring additional personnel, for professional training and for other organizational initiatives. Meanwhile, the development of instruments to provide financial assistance to the regional administration, particularly of instruments under the so-called technical assistance scheme¹, is being delayed. Although eligible institutions were in the position to file applications for technical assistance until 1 January 2004, basic information about it was still not available as late as in December 2003.

Problems with the financing system

One of the main threats to an effective implementation of the Integrated Regional Development Operating Program lies in the poor condition of the Polish system of public finances. The Ministry of Economy expects difficulties in finding funds for co-financing projects in the poorest and most indebted localities.

The Community Investment Development Fund is a financial instrument meant to support territorial self-government activities under IRDOP. It will be managed by Bank Gospodarstwa Krajowego (BGK). Fund resources will be earmarked for granting preferential credits to cover the costs of preparing investment projects, such as the

necessary documentation. It is indispensable to disseminate the knowledge of the availability of this assistance instrument among territorial self-governments in the shortest possible time. Regional self-government functionaries must be also reached with information on other available resources earmarked for organizational assistance to self-governments, including resources supporting preparation of appropriate project documentation. The first such instrument is the already mentioned technical assistance available within the framework of IRDOP, the second – *project pipeline* available through the PHARE 2002 program.

Absence of procedures and criteria for subsidizing projects from the State budget

One of the main problems facing some territorial self-government units will be finding project financing equity. The draft of the Law on the National Development Program speaks of the possibility to subsidize the beneficiary's equity with resources coming from the State budget (Art. 30). However, there is no statutory delegation specifying the criteria and terms of providing such support. Moreover, there is no draft of a relevant executive ordinance listing, for example, application procedures, required documentation, samples of application forms, terms of notifying potential beneficiaries, etc. The draft of the Law on Public Finances also speaks in Art.

197-201 of the possibility of supporting public-sector units with State budget resources by way of project pre-financing. This assistance would be provided in the form of loans granted by Bank Gospodarstwa Krajowego. However, the draft provides no details concerning this instrument. For example, it does not specify if such re-financing would cover subsidizing contributions by self-government units. In spite of advanced work done on the legislation in the parliament, there is still no project of the Finance Minister's ordinance specifying the pre-financing procedure. Also disturbing is the fact that units not present in the sector of public finances have been excluded from the pre-financing scheme. This will

keep NGOs, educational establishments and private enterprises away from using IRDOP. Furthermore, it will also prevent some project implementing bodies

(e.g. regional financing institutions) from applying for pre-financing.

Threats to the finance system

There exists a possibility of engaging international financing institution resources in project pre- and co-financing schemes. To this end, appropriate negotiations should be taken up with the European Investment Bank, European Bank of Reconstruction and Development, Council of Europe Development Bank and Polish banks which are to play the intermediary role. There is also a need to specify the terms of granting loans by the sources discussed above and provide relevant information to territorial self-governments as soon as possible.

When analyzing procedural issues it would be wise to give some thought to whether the discussed draft legislation contains enough flexibility as concerns transfers of State budget resources between various operating programs and various provinces within the IRDOP framework. It would be also wise to re-consider the issue of ensuring long-term planning and spending of domestic and EU resources. Moreover, the proposed procedure of putting in motion financial resources within the IRDOP framework seems too lengthy. The pace of the financing flow can also be improved, for example by obligating the Finance Ministry to adhere to specified deadlines for releasing financial installments to beneficiaries.

When analyzing systemic issues it would be wise to look at whether the future legislation on public finances should book EU resources in the category of disbursements, outside the State budget account of revenues and expenses. The present solution is liable to reduce the transparency of the sector of public finances and limit the openness of relevant information. It may contribute to using creative accounting when calculating the extent of the budget deficit and hinder decentralization of the system of public finances, which is an indispensable condition for the improved effectiveness of the absorption of EU funds.

Another important issue is the plan to eliminate the 60% debt-to-revenue threshold applicable to loans and credits drawn by territorial self-governments in connection with EU projects (Art. 161, Sec. 3). The proposed solution may provide an easier way for financing such projects by territorial self-governments but, in a long run, threatens to allow the amount of the public sector debt to grow out of control.

Problems with creation of organizational structures and recruitment of functionaries

The majority of regional institutions has completed or is in the process of completing appropriate organizational changes pursuant to the recommendations of the Ministry of Economy, Labor and Social Policy. However, as concerns personnel, regional institutions have not reached the ultimate employment objective by the end of 2003. For example, at Marshal's Offices, the employment level last December was at some 65% of the anticipated ceiling. Only two regional steering committees (headed by provincial Marshals) have been established as in November 2003. Other Marshal's Offices were still in the process of staffing these committees and working out their performance regulations. It is possible that these activities will extend as far as the second quarter of 2004. The work on appointing expert panels at Marshal's Offices is also running behind schedule. The main reason for organizational difficulties, apart from delays on the side of the Ministry of Economy, lie in the fact that Marshal's Offices lack money and office space. Some difficulties are also caused by the fact that the Marshal's Office personnel is not properly qualified and is overworked.

Provincial Administration Offices are also too slow in hiring new personnel. At the end of 2003, they were at some 70% of the planned employment ceiling. That was caused by the lack of budgetary resources and exhaustion of the employment limit for 2003. The disturbing issue is that the employment limit for 2004 is to be reduced by 5%, which practically precludes hiring new functionaries. In this situation, the only additional

resources available for that purpose will come from technical assistance. At the same time, Provincial Administration Offices approach the possibility of restructuring their current personnel arrangements with a great deal of misgiving. It seems, meanwhile, that restructuring would be a relatively good source of finding additional positions.

One of the weakest elements in the preparations for the absorption of EU assistance funds lies in the appointment of subcommittees tasked with monitoring the provincial IRDOP component (and operating under the auspices of Provincial Administrators). By the end of last year, work was still in progress on preparing internal regulations for these subcommittees and selecting their members. However, that work is much farther behind than the work on steering committees done at Marshal's Offices. In addition, Provincial Administration Offices still have little knowledge of the duties of the monitoring subcommittees (and, more generally, of the Provincial Administration Offices themselves). Their employees complain about the absence of appropriate information coming from the central administration and a serious shortage of specialized training for Provincial Administration Office personnel. There is not enough relevant collaboration and coordination of tasks between the central government and self-government administration at the provincial level.

The worst situation exists in Provincial Employment Offices

It seems that organizational preparations are at their worst in Provincial Employment Offices. Not all offices have set up appropriate organizational structures suggested by the Ministry of Economy. There is also little progress in reaching the planned employment level. At the end of December, it amounted to only 37% of the anticipated number. Also, internal procedures for organizing the performance of new units are not there. In most provinces, there are no project evaluation commissions and their internal work regulations are not ready. Provincial Employment Offices draw attention to the absence of basic information about their new responsibilities and associated documentation and procedures, as well as an insufficient amount of specialized training. They are also in want of office space and equipment necessary to perform their forthcoming tasks.

It is not possible at times to transfer employees to new tasks from other organizational units. For

example, owing to the extension in time of rural region activation and PHARE programs, many employees familiar with assistance programs must continue their current tasks in 2004. The possibility of hiring personnel using Labor Fund resources exists but has a very limited potential of attracting qualified candidates. The serious shortage of financial resources also causes migration of qualified and trained employees to the private sector or to other administrative institutions.

It seems justified to state that particular attention when granting technical assistance should be given to provinces which face the greatest organizational problems in all three discussed types of administration. They are Lubuskie, Opolskie, Pomorskie, Świętokrzyskie and Warmińsko-Mazurskie Provinces.

Low quality of submitted projects

The absence of an appropriate number of well prepared projects may turn out to be a serious problem in the area of spending EU resources within the IRDOP framework. Provincial self-governments underline the poor quality of submitted projects. Many are nothing more than bare ideas, often unsuitable for implementation under IRDOP. Provincial self-governments also report that some local self-

governments are uncertain of their ability to co-finance projects. This is the main reason why many localities opt out of the program. There is a lack of an appropriate State budget financial support system for these beneficiaries, particularly in the area of subsidizing their co-financing of projects. Moreover, there is no national system of assisting future project contributors with training and professional expert consulting.

To obtain a higher effectiveness of EU resource spending, it might be helpful to properly plan the sequence of project execution in 2004-2006. Here the most important task is to take into account the N+2 method of accounting for European projects.

Owing to considerable organizational delays and the need for the Polish government to start settling EU subsidies several months prior to the three-year fund spending period, the first financial allocation for the year 2004 should not be excessively ambitious.

Problems with databases

There is a delay in the construction of the SIMIK software system allowing registration, monitoring and control of the implementation of EU projects. The Finance Ministry forecasts that the system will be put in place in April 2004 at the earliest.

The project database - Internetowy System Ewidencji Kart Projektów (Project File Recording Internet System) – ISEKP, is faulty. It was developed by the Ministry of Economy within the framework of the PHARE 2002 *project pipeline* mainly for Marshal's Offices, which coordinate project data entry. It should also be added that the ISEKP database will be soon duplicating the SIMIK base. Since these two systems differ from one another, all information stored in ISEKP will have to be

transferred to SIMIK. This will evidently lead to organizational problems and additional effort by functionaries.

By the end of 2003, databases of projects co-financed by the European Social Fund were non-operational in most Provincial Employment Offices. These offices also report the serious threat associated with the acquisition of well prepared projects for IRDOP. It should be remembered that these programs require a great number of relatively small projects. Taking this into consideration jointly with the delays in the appointment of project evaluation commissions by Provincial Employment Offices, it is precisely an area of IRDOP where particular difficulties can be expected.

Is the adopted institutional system optimal?

The institutions managing the project selection procedure have been planned in an excessively centralized manner even for the needs of a single integrated regional

development program. Some tasks are being unnecessarily duplicated by various administrative structures, which raises administrative costs, causes delays and creates competency conflicts. In

addition, the proposed administrative procedures are overgrown and contain too many stages. There are also many bottlenecks, particularly at the Ministry of Economy.

The correct solution would be to establish expert institutions (expert panels and project evaluation commissions) which would conduct a formal assessment of the substance of a project at the initial stage of the procedure. Ultimately, they should be organized in a manner that, on one hand, would ensure a high quality of the project substance and, on the other, relevance of the selection with the priorities of IRDOP and regional development policy. Meanwhile, it seems that neither of these two conditions will be met. Pursuant to recommendations of the Ministry of Economy, four specialists delegated to the expert panel operating within the framework of the Marshal's Office will include a representative of the Provincial Administrator and an expert representing the Ministry of Economy. In addition, self-governments have been given no freedom in selecting experts from regional academic or scientific institutions, or consulting companies. Owing to the shortage of funds for expert panel activities, there is a realistic possibility that regional self-governments will be designating their own employees to represent them on such panels. As a result, expert panels will not be performing functions for which they have been established. Instead of providing intellectual support to functionaries at Marshal's Offices they may end up being nothing more than an additional burden. Moreover, there are no decisions as to the manner of financing these panels, including ways of accounting for the work put in by representatives of the government administration.

The correct solution would have been to establish regional steering committees as partner institutions

in the meaning of the European law. Ultimately, these committees should only play a consultative role in the project selection process. It seems totally useless to appoint two committees at the regional level, one subordinate to the Marshal, the other to the Provincial Administrator. Regional monitoring subcommittees have been also made to play an important role in the area of IRDOP planning, since they are allowed to propose changes in the manner of achieving program objectives, together with introducing new projects. This may weaken the ability of provincial self-governments to perform certain tasks, it lengthens procedures, and it introduces conflict-generating situations and the risk of rivalry between regional politicians and individual segments of the administration.

The successive step of the procedure lies in the selection of projects by provincial boards. The expediency of this solution is doubtful. Members of these boards will have practically no opportunity to become fully familiar with the substance of submitted projects, particularly since many such projects will be relatively small and without any direct reference to provincial development. The provincial board and parliament should be responsible for developing the provincial growth strategy and programs. They should be responsible for deciding specific priorities, activities and financial proportions in pursuing a regional growth program that uses EU assistance funds in the given province. They should also specify the criteria of project selection and monitor their application accuracy. But the task of selecting projects should be left to properly trained functionaries and experts acting within the Marshal's Office or self-government agency specially established for this purpose.

Charging the Ministry of Economy with the responsibility for ultimately accepting certain types of IRDOP projects is another troublesome institutional solution. It unnecessarily centralizes the procedure and may lead to additional delays or even stoppage of IRDOP operations. Moreover, the decision of the Ministry of Economy is associated with lengthening the selection procedure and duplicating work and organizational costs at the provincial and central level. It is also a successive

restriction of the freedom to make program decisions by regional self-governments.

The final stage in the procedure of evaluating applications for subsidies from the European Regional Development Fund within the IRDOP framework consists in the Provincial Administrator signing financial agreements with ultimate beneficiaries. Entrusting that task to provincial self-governments would have been a better solution.

Conclusion

The regional administration has taken upon itself the enormous task of preparing for the absorption of EU assistance funds through the regional development operating program. Some delays can be eliminated within the next few months – e.g. software system problems, the manner of sharing information between individual institutions, organization of project selection, introduction of changes in the finance system.

However, it is too late for some other changes. At this stage, it is not possible to perform fundamental institutional and competence-related changes, even though they would contribute to a more effective

utilization of assistance funds, or be fairer from the viewpoint of the competencies of provincial self-governments in the area of provincial development policy. Moreover, the adoption of a centralized IRDOP management model determines several specific organizational solutions. The practical performance of this system must be subject of a thorough monitoring so that conclusions can be drawn for a future use. The need to get on with overhauling the administrative system that will manage structural funds after 2006 is evident already today.

Footnotes

¹ Technical assistance is earmarked for supporting organizational preparations, including an effective spending of EU financial resources, compatible with legal regulations and expectations of EU politicians. Assistance is provided to covering limited expenditures (such as employing personnel, work of steering committees, monitoring subcommittees, expert panels and project evaluation commissions), unlimited expenditures (such as training, purchase of computer equipment, preparation of studies and expert opinions) as well as informational and promotional activities.

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**Analyses & Opinions
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