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THE COHESION FUND AS AN INSTRUMENT FOR FINANCING SUSTAINABLE DEVELOPMENT

According to the provisions of the European Union Treaty and the Treaty of Amsterdam, one of the fundamental objectives of the Community is its balanced and sustainable development. In order to achieve this objective, it is necessary to carry out and support activities increasing its economic, social and environmental unity which have a decisive impact on encouraging the process of integration. Sustainable development is a priority of the Union and the basic instruments of the principle of sustainable development are its regional and cohesion policy and their tools: the European Fund for Regional Development, the European Social Fund, the European Orientation and Agricultural Guarantee Fund, the Fishery Orientation Financial Instrument and the Cohesion Fund.

The Cohesion Fund is one of the essential instruments of sustainable development policy. For this reason the considerations below will be restricted to projects implemented and financed with the aid of the Fund in Poland, in particular the Opole region.

The Cohesion Fund was set up in 1994. The principles of its operation and regulations were defined in resolution 1164/94/WE of the Council dated May 16th, 1994. The fund initially served as a co-financing instrument supporting activities in environmental protection and the development of transport infrastructure undertaken by EU member states, the candidate states (at that time) of Central and Eastern Europe, as well as by countries situated on the coasts of the Baltic and Mediterranean Seas. It is the main tool for the implementation of economic and social cohesion policy and its resources are allocated to large infrastructure projects, especially in the field of environmental protection and the development of trans-European, international and national transport networks.

The Cohesion Fund is a long-term program, thus the scale of resources allocated by the European Commission is determined by financial planning and

exclusively for the first year of a project. Successive installments are allocated depending on the project design or the progress in its implementation. Projects approved as ISPA projects which had not been completed between 2000 and 2003 were continued as of May 1st 2004 as Cohesion Fund projects according to an appendix to the Accession Treaty.

The chief objective of projects carried out within the framework of the Cohesion Fund and ISPA between 2000 and 2006 was to support activities promoting the competitiveness of the Polish economy. Another aim was to put into place an intelligent, evaluated, planned, durable and rigorous cohesion policy in the enlarged union. These activities were compliant with the strategic objective of the Polish National Development Plan, which is "the development of a competitive economy based upon knowledge and entrepreneurship capable of giving impetus to harmonious development, ensuring the growth of employment and economic and social cohesion at regional and national level" [*Strategia...*, 2003].

In 2004 the value of funds allocated to Poland amounted to €1.4 bln. This amount consisted of resources allocated by the European Commission to Poland in the period of 2000 – 2003 (ISPA Projects) and the Cohesion Fund approved in 2004 (see Table 1).

Table 1. The value of funds allocated to Poland in 2004

	Projects	Value of funds from EU	Projects in 2004
Environment	35	698 528	512 935
Total	45	1 414 638	1 061 856

Source: based on information from the Ministry for Regional Development.

In 2004 Poland submitted 45 projects to the European Commission, including 35 from the environmental protection sector and 10 from the transport sector. 31 projects were approved. Together, these projects and the other 69 approved in 2000–2003 were allocated the total amount of funds available to Poland.

In the transport sector the Cohesion Fund co-financed the construction projects for the A-1, A-2 and A-4 motorways and the restoration of national roads (2004). Some restoration work was also done on the Wrocław–Poznań and Warsaw–Gdynia sections of the railway network. The funds allocated to the transport sector amounted to € 1.2 billion. Grants from the Cohesion Fund were also used to improve the management of the water supply and sewage disposal (95%) in the environmental protection sector. The remaining 5% was assigned to solid waste management and technical assistance.

The value of work concluded and carried out within the framework of the Cohesion Fund in the first quarter of 2005 was €2.3 billion, exceeding the value from the preceding quarter by €189.7 million. The activities in the environmental protection sector were again focused on the management of the water supply and sewage disposal and a small proportion included solid waste management and technical assistance. Projects related to the construction and restoration of motorways, expressways and national roads predominated in the transport sector.

In the second quarter of 2005 the level of funds utilized was similar. A small increase of 1.5% in comparison to the first quarter was noted. This mainly resulted from the continuation of the largest projects initiated in preceding periods. Certain problems stemming from a disputable interpretation of the procedures imposed by the Public Procurement Act were among the reasons for this. Nevertheless, the allocations increased by ca. € 77 million and this may be interpreted as an expansion of the Cohesion Fund. The structure of projects carried out in the environment and transport sectors also remained similar to the previous quarter.

The third quarter of 2005 may be characterized by the unaltered structure of the projects implemented in the transport (see Fig. 1) and environment sectors. Projects related to the construction and restoration of motorways, expressways, national roads, railways and water and sewage management still played a principal role. The growth of the allocations received from the EU amounted to ca. €35 million and was half as large as in the preceding quarter. This meager growth resulted from a slower rate of contracting projects in the environment sector.

The number of projects related to transport infrastructure increased from 67 to 88 during the last three months of 2005. This upward tendency was also perceptible in the total value of the funds assigned to projects. This value increased by 30% in comparison with the first quarter of 2005. The aggregate amount financed by the Cohesion Fund grew to over € 1.3 million. The increase in the number of projects number in the transport sector was caused by an increase in the approval rate (from 27% to 35%) of new projects related to the restoration of the railway network, mainly on the Warsaw – Gdynia line.

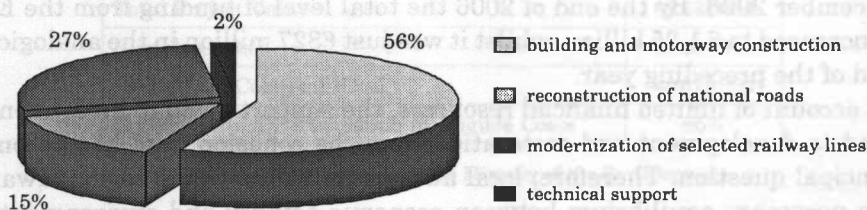


Fig. 1. Funding of projects in the transport sector in the third quarter of 2005

Source: Based on information from the Ministry for Regional Development.

As in the fourth quarter of 2005, at the beginning of 2006 there was a significant increase in the number of projects funded, to 122. Again, water and sewage projects were preponderant in the environment protection sector (94% of total). New projects related to solid waste management (3.7% of total) and air protection (1.8% of total) were approved.

85% of all investment expenditure was concentrated on projects related to transport infrastructure, especially the construction and restoration of motorways and railways. The value allocated to such projects amounted to € 243.3 million, which was an increase of 10% in comparison to the last quarter of 2005. It was not satisfying however, because there was a fear of receiving less funds in the coming years. In the first quarter of 2006 the level of expenditure increased by €118.8 million, but this increase was half of the increase obtained in the fourth quarter of 2005. A considerably higher level of funding in the transport sector could be observed in the first quarter of 2006.

The numbers of projects carried out and co-financed from the Cohesion Fund remained unaltered until the end of 2006. The number of concluded projects increased at a similar rate to the preceding period and the increase in funding amounted to €223.8 million. Over this year there was a relatively small increase in the sums paid out to carry out investments and EU funds in comparison with the first quarter of 2006.

The third quarter of 2006 was characterized by an unaltered number of projects carried out within the framework of the Cohesion Fund. There was a considerably greater increase in the sums allocated in relation to the preceding period amounting to €392.7 million. This increase arose mainly from the projects concluded in the environment sector such as a water supply and sewage management system in Sieradz and an integrated system of water supply and sewage management for the town of Niepolomice and the eastern part of the Niepolomice municipality. In the examined period an increase in expenditure (by 10%) could be observed and a considerably higher (by 30%) increase in allocations from the EU.

By the end of 2006 the total value of projects concluded within the Cohesion Fund amounted to € 4.2 billion. The sum of funds paid to contractors by beneficiaries increased by €450 million and amounted to €1.67 billion by the end of December 2006. By the end of 2006 the total level of funding from the EU had increased to € 1.35 billion, whilst it was just €827 million in the analogical period of the preceding year.

On account of limited financial resources, the support given to investments related to development and restoration from the cohesion fund has become a principal question. Therefore, local authorities in the Opole region, aware of the necessary equilibrium between economic activity and environmental protection, have encouraged endeavors to gain the means to achieve the objectives of sustainable development. There are presently four projects in the

Opole region being financed by the Cohesion Fund. Two projects, improvement of water quality in the town of Opole and construction of a wastewater treatment facility in Brzeg started at the beginning of 2002. The project being carried out in the capital of the Opole region is worth €62 337 000 and accounts for more than 20% of funding for all projects carried out in the environment sector, whereas the financing of the Brzeg project is of value €28 865 415 and accounted for about 10% of the value of all such projects carried out nationwide. The total value of the projects carried out in the Opole region accounted for 30% of all investments financed by the Cohesion Fund in Poland, which speaks volumes for the effectiveness of local authorities in gaining funds for sustainable development in the initial stage of the fund's operation.

The major objective of the project to improve water quality in the town of Opole is to protect the underground water resources of the Opole – Zawadzkie basin, one of the most abundant and extensive underground water basins in Poland. The completion of this investment will enable the supply of potable water satisfying European quality standards. This project is not only aimed at the fulfillment of environmental and social objectives, but is also a significant economic enterprise for Opole and the neighboring communities. The range of the project includes 4 tasks: the construction of sewage systems in various parts of the town of Opole and other localities in the municipality, the construction of the main water supply line "South", a wastewater collector in Opole, water intakes and retention reservoirs. As a result, 450 km of sewage pipes and 13.5 km of water supply pipes will be constructed. 26.19% of all the funds allocated to the project, whose completion was envisioned for the end of 2007 was spent by November 30th 2006. Hence, the remaining resources must be expended in the course of less than a year. This is possible, because according to information made available by the units responsible for the realization of the project, most stages in the investment process will be carried out between February and April 2007. The value of this project and the amount of funds obtained from the Cohesion Fund are presented in Table 2.

Table 2. The project "to improve water quality in the town of Opole"

Total Project Value	62 337 000
Eligible Costs	62 337 000
Grant from Cohesion Fund	40 519 050
Cohesion Fund Participation in Eligible Costs	65%

Source: based on information from the Ministry of the Environment.

The principal objective of the Cohesion Fund in the area of environmental protection is cutting the distance between Poland and the Western countries mea-

sured in terms of the quality of the environment and technical and institutional infrastructure. In accordance with this, the EU allocated funds for the restoration of the sewage system and wastewater treatment in Brzeg. This investment is aimed at developing full and complex wastewater management in the county of Brzeg and in part of the county of Olawa. The construction of a modern sewage network for localities in the counties of Olawa and Brzeg and the modernization of the existing wastewater treatment plant in Brzeg is planned within the framework of this project according to the directives of the EU. This project will contribute to reducing pollution and will positively affect surface waters. It will also reduce the pollution of soil and underground waters. In carrying out this project, € 6.7 million had been spent by the end of 2006, which accounted for 23.24% of the total value of the project. The value of the project and the funds obtained from the Cohesion Fund are presented in Table 3.

Table 3. Wastewater Treatment Facility in Brzeg

Total Project Value	28 865 415
Eligible Costs	28 605 000
Grant from Cohesion Fund	17 163 000
Cohesion Fund Participation in Eligible Costs	60%

Source: based on information from the Ministry of the Environment.

In 2003 the EU decided to finance a project aimed at improving the water supply and wastewater treatment in Kędzierzyn-Koźle, since its implementation will significantly reduce the difference between the state of the environment in Poland and in Western Europe. The objective of this project is to solve the problem of supplying potable water and wastewater treatment by modernizing the existing wastewater facilities and bringing to an end the operation of those which were not able to comply with the mandatory standards. It is assumed that 96 km of sewage pipes and 76 km of pipes in a storm water drainage system will be laid. By May 31st, 2005 only 0.5% of the allocated funds had been expended.

Table 4. Water supply and sewage treatment in Kędzierzyn-Koźle

Total Project Value	45 900 685
Eligible Costs	44 472 857
Grant from Cohesion Fund	31 131 000
Cohesion Fund Participation in Eligible Costs	70%

Source: based on information from the Ministry of the Environment.

The continuation of activities leading to an improvement in systems of wastewater treatment and the quality of potable water is an obligation resulting from Polish law and European standards. In December 2005 the EU allocated funds to co-finance a project designed to solve the problem of wastewaters in the town of Nysa and neighboring villages. The objective is to improve wastewater management and the quality of underground and surface waters in the basin of the Nysa Klodzka River and Biala Glucholaska, which are the sources of potable water for 53 000 inhabitants of the Nysa municipality. The project is aimed at extending the existing system for collecting and transporting wastewater from 22 villages in the municipality and from 4 housing estates in the town of Nysa. It is envisaged that the project will not only improve the environment and living conditions of the locals, but will also increase the attractiveness of the area to investment and contribute to the development of local entrepreneurship. The planned date of completion is December 2009. The total value of the project and the amount of funds obtained from the Cohesion Fund are presented in Table 5.

Table 5. Improvement of the Disposal of Sanitary Sewage from the Town of Nysa and Villages in the Nysa Municipality

Total Project Value	18 749 000
Eligible Costs	18 105 000
Grant from Cohesion Fund	15 389 250
Cohesion Fund Participation in Eligible Costs	85%

Source: based on information from the Ministry of the Environment.

The above analysis leads us to conclusion that the number of projects implemented in the Opole region using grants from the Cohesion Fund is not satisfying. These investments covered only the vicinities of the 4 largest towns of the region: Opole, Brzeg, Nysa and Kedzierzyn-Kozle. The value of these projects accounts for only 2% of all the projects carried out in Poland between 2000 and 2006. Considering that only the provinces of Lubuskie, Lubelskie, Swietokrzyskie, Podkarpackie, Podlaskie and Warminski-Mazurskie are characterized by lower grants to projects implemented within the Cohesion Fund, it may be concluded that the activities undertaken in the region were ineffective. However, taken into consideration that the Opole province is inhabited by a little more than 2.5% of the Polish population, the position seems to be not so bad as it looks at first sight. However, the situation could be better when there would be not such large bureaucratic barriers, less complexity of procedures and no lack of employees' experience and competence. Other barriers to implementation, faced by all regions, were the indolence of inspection units, complicated procedures related to operation of the Public Procurement

Act and problems in interpreting the Act. When trying to gain funds, many significant problems of the region were overlooked, e.g. the pollution of the Turawa Lakes, which could be revitalized with the aid of the Cohesion Fund. The villages situated in the vicinity of these lakes should be provided with sewage systems, in order to improve the environmental state and raise the living standards of the inhabitants.

The Cohesion Fund has contributed to the modernization of the transport network, not only at national level, but also at local and regional level. The development of motorways and expressways has upgraded the road network and served as a tool for the implementation of other economic objectives: it has increased the demand for building materials and caused a rise in employment. Projects related to the environment have contributed to improving the quality of living standards, health care, state of the environment and increased employment.

Between 2000 and 2006 only 25% of the available funds were expended. In the course of the next few years major efforts should be focused on making the best of allocated funds, in order to implement as many projects as possible. In the future two programs will co-exist: the Cohesion Fund and the Infrastructure and Environment Operation Program. Therefore, this period will particularly significant from the point of view of allocating funds and making the most of them.

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