

## THE SUPPORT FOR THE INVESTMENT EXPENDITURE FROM THE EU STRUCTURAL POLICY ON THE BASIS OF COMMUNES IN LUBELSKIE VOIVODESHIP

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**Key words:** investment expenditure, local government, the EU Structural Funds, rural areas

### Abstract

The study analyzed the structure and level of investment expenditure incurred in support of local government funding from the European Union (EU). It focuses on making comparisons of investment expenditure of urban-rural (22 units) and rural (171 units), Lubelskie voivodeship. The subject of analysis was also activity in obtaining EU funding of urban-rural and rural areas in the 2007–2013 programming period. The investigation period was including year 2015 which ends the possibility of spending the assistance in the programming period 2007–2013. It also shows the degree and areas obtained support of investment activities of communes by assistance funds.

## WSPARCIE WYDATKÓW INWESTYCYJNYCH ZE ŚRODKÓW POLITYKI STRUKTURALNEJ UE NA PRZYKŁADZIE GMIN WOJEWÓDZTWA LUBELSKIEGO

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**Słowa kluczowe:** wydatki inwestycyjne, samorząd terytorialny, fundusze strukturalne UE, obszary wiejskie.

### Abstrakt

W opracowaniu przeanalizowano struktury i poziom wydatków inwestycyjnych poniesionych przez jednostki samorządu terytorialnego ze wsparciem z funduszy Unii Europejskiej (UE). Skupiono się na porównaniu wydatków inwestycyjnych wszystkich gmin miejsko-wiejskich (22 jednostek)

i wiejskich (171 jednostek) województwa lubelskiego. Ukazano zróżnicowanie, w jakim pozyskane środki pomocowe wspierały działania inwestycyjne gmin poszczególnych typów. Przedmiotem badań była także liczba i wartość projektów współfinansowanych z funduszy UE zrealizowanych w latach 2007–2013 przez gminy z województwa lubelskiego. Rozważania obejmowały lata 2007–2013 oraz rok 2015 kończący możliwość wydatkowania środków pomocowych z tego okresu programowania.

## Introduction

EU cohesion policy aims to bring reducing of disparities in the regional development and European Funds purpose is especially improving social, economic and territorial cohesion. It is also worth emphasizing that the most important issue of this policy is to contribute to greater involvement of public and private capital in development projects and UE budget resources. They accelerate structural change and consequently, reduce the distance to more developed regions (PALUCH 2008, p. 169). Despite 12 years of Poland's membership in the EU, our regions are still suffering from backlogs and not everyone use benefits from the opportunities offered by structural funds (MURZY 2010, p. 203). They represent an alternative to the traditional financial system that offers public investment, private equity in the form of debt financing, which negative effects enlarging of debt (GIŁOWSKA, MISIĄG 2000, KOPAŃSKA, WITKOWSKI 2003, ZAWORA 2015). Therefore this group of instruments can be used by the commune only conditionally, with respect to the regulating law in case of the possibility of units indebtedness in the public finance sector. An important condition of local government finance destabilization is the fact that recently the state has charged the territorial self-governments with additional own tasks, despite the obligatory legal regulations for financial compensation (PONIATOWICZ 2016, p. 13). The system of financial support from EU funds is based on independent decisions of investors and financial institutions, which makes it possible to reach attractive and relatively cheap sources of capital to finance development investments. However, it should be borne in mind that the allocation of EU funds is strictly targeted and that access to them in different way influences varies scale, manner and structure of financing investment by different categories of investors, including public sector (NURZYŃSKA 2011, p. 104). The aim of the study is to get to know and show the size and scale of co-financing in the programming period 2007–2013 and to diversify the level and category of investment expenditures made with the assistance of the EU by urban-rural and rural communes in Lublin voivodeship.

## EU Funds as Investments Expenditure Funding Source

Local government units can be financed from different sources in implementing investment activities. The main source is the current surplus, so a part of remaining current revenues at the disposal of the self-government after the financing of current expenditures, including debt servicing (WEŃCŁAWSKI, MISTEREK 2011, p. 64). In recent years, there has been a reduction of local government units financial capacity. Own funds are usually insufficient to full realization of the investment needs. There are several reasons for this phenomenon. Delegation of local government tasks without sufficient financial resources causes increasing of the debt costs, rising of current service costs and errors in financial management. Providing territorial self-government units with sufficiently efficient sources of financing for their activities is a very important condition for the investment tasks financing. Each of the financing forms has its own characteristics and should be applied according to the existing conditions or based on carried out cost-benefit analysis (SIERAK, MAŚLOCH 2013, p. 149–208). Figure 1 shows the division of investment sources.

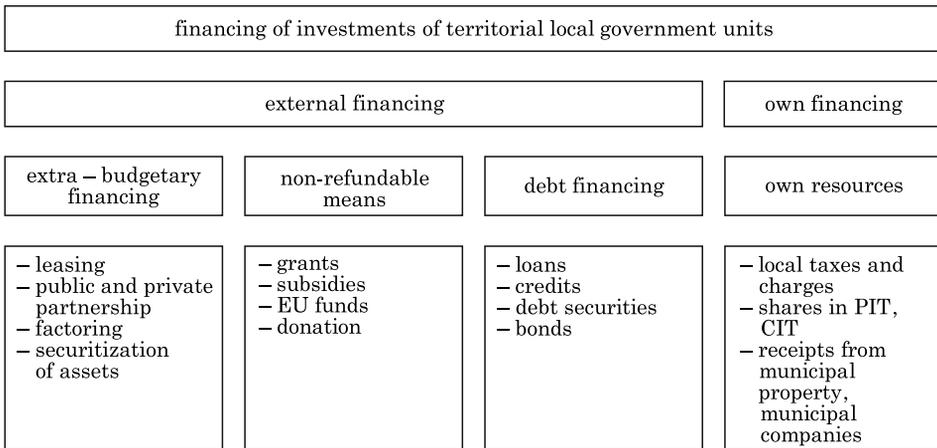


Fig. 1. Sources of financing of investments of local government units

Source: own study based on SIERAK (2016).

External sources of funding are an important support of limited budgetary resources of communes and allow the continuity of their tasks. However, further consideration has been focused on the analysis of external non-repayable sources of funding, including EU funds. The funds raised in this way are treated not as income, but the revenues of the communes, which enable the realization of serious economic projects and the necessary investment tasks (CICHOŃ 2007, p. 157). Regarding the law rules in the public finance, investment expenditures

of communes, districts and voivodships can be considered on a yearly and multi-annual basis. In the current plans of expenditure are used two types of current and investment expenses article 236 of the Public Finance Act (DzU z 2009 r., nr 157, poz. 1240). Capital expenditures include investment expenditure and targeted subsidies for financing or co-financing of the investment costs.

It should be emphasized that EU funds significantly improve the investment potential of local government units, and due to the extensive process of qualifying projects and competing with other actors, they can reduce the risk of ineffective investments (MICHALIK 2012, p. 73). Efficient and effective investment requires skillful preparation of projects. By developing an investment strategy, local authorities must take into account costs, time and organizational capacity, and try to predict potential problems. Improperly prepared investment projects may have a negative impact on the local government unit financial situation in the future.

Individual projects should be coherent and adapted to the budget financial ability in planned period of their implementation, especially if the local government unit is not only an investor but also a later user who suffers from its upkeep costs. Therefore during planning of the investment implementation it should be considered not only the construction costs but also later costs of its activity.

### **Commune – an Investor Using EU Structural Funds Support**

After Polish accession in the EU, fundamentally got changed both the value of public funds for development (the principle of additionality and co-financing aid schemes) and the way of investment financing. In spending structural funds, special attention is directed to less developed regions, peripheral areas, rural areas, as these which are the primary objectives of cohesion policy assistance. The 2007–2013 period is the first EU financial perspective in which Poland and its regions fully participated in cohesion policy and Polish voivodships were the biggest beneficiaries. Available EU funds have increased in few supported areas: construction of environmental infrastructure, development of rural areas and agriculture, promotion of the competitiveness of businesses and regions (NURZYŃSKA 2011, p. 93). The selection of the type of local governments was also purposeful choice because it included the result of the evaluation of the activity in obtaining EU structural funds for investment activities. It indicated that the communes is the largest group of beneficiaries of aid programs. In addition, the given in the decentralization process powers for local governments conferred on relate to the gaining of funds and their expenditure (WALCZAK, KOWALCZYK 2010, p. 28). The decentralization of self-government income should be considered as the delegation of power to make autonomous decisions on sources of financing and expenditure as a decision-making autonomy in case of their spending way.

In the period 2004–2013, the most important beneficiary of structural assistance were local self-government units. They and their subordinate units have accounted for more than 34% of the value of all projects. Lublin region as a research area was selected for several reasons. Conducted by the level of activity in gaining EU funds per capita it should be highlighted that the greatest value is achieved by self-government units in south-eastern Poland including the following voivodeships: Lubelskie, Swietokrzyskie, Podkarpacie, Warmińsko-Mazurskie. Local governments from the Lubelskie Voivodeship made about 1.4 thousand projects and received over 4.4 billion PLN from EU funding).

It is also an area of accumulation of development barriers, located peripherally and dominated by rural areas, which occupied 53% of the region's population. This region is also characterized by high levels of employment in agriculture, and significantly higher share of rural communes (79.8%), than the national average (63%). The region is characterized by a very low level of economic, social and territorial cohesion, poorly developed services market and disadvantageous spatial accessibility.

Within the framework of the National Strategic Reference Framework (a document constituting the basis for the implementation of cohesion policy in our country), it was planned that in the period 2007–2013 to Lubelskie Voivodeship it would be transferred over 2.2 billion EUR from EU funds. The funds granted to the voivodeship included the allocation for the implementation of the Regional Operational Program of the Lubelskie Voivodeship (ROP) (EUR 1,192.84 million) and the regional component of the Operational Program Human Capital (OP) (EUR 547.43 million). In addition, Lubelskie was included in the functional problem area of "Eastern Poland" and provided support (508.57 million EUR) under the Operational Program Development of Eastern Poland. As a consequence, the resources from the above sources per capita in the voivodeship were 1,041 EUR, but it was significantly higher than the national average (EUR 713) but lower than the average for the voivodeships of Eastern Poland (EUR 1,143) (WOJTOWICZ, KUPIEC 2012, p. 8).

## **Materials and Methods**

A meta-evaluation approach was adopted, so analysis considered available databases of institutions implementing individual operational programs, evaluation reports, research reports related to the programming period 2007–2013. The method of comparative study of the two types of communes of Lublin voivodeship: urban-rural and rural – was used in terms of the structure and value of investment expenditures. The study covered all rural and urban-rural communes in the Lublin Voivodeship, a total amount of 193 communes, including 171 rural communes and 22 urban-rural communes.

The data for verification was obtained from the budgetary reports of local government units for 2015 and Regional Chamber of Auditors (RIO), Lublin for the analysis of numerous implemented projects and the value of the support received from the EU funds. In researches all operational programs from the 2007–2013 programming period, namely: Infrastructure and Environment (POI), Innovative Economy (POIG), Human Capital Development of Eastern Poland (PORPW), Rural Development Program (RDP) and Regional Operational Program of Lubelskie Voivodeship (ROP) based on data of Ministry of Development (1,337 completed projects) were analyzed. An analysis of the structure of investment expenditures which were financed by the EU budget and allocated a contribution from public funds were taken into account with two paragraphs of budget classification (605 and 661) with the fourth digit 7 or 9. Paragraph 605 means investment expenditure of budgetary units but 661 transferred grants to the communes for investment and investment purchases carried out on the basis of agreements (contracts) between local government units. The fourth digit of paragraph (7) shows payments from the budget of EU funds. This symbol applies to expenditures made as part of the payment of European funds. Co-financing of programs and projects funded by European funds is indicated by the fourth digit 9, which shows expenditures incurred in the implementation of projects financed by the EU budget, forming a national public input (own input).

## Results

During the 2007–2013 programming period, Poland gained access to a large value of EU support. 67.3 billion EUR was allocated to the regional policy itself, and nearly 14 billion EUR to agriculture and fisheries. Together with the national co-financing was allocated about 108 billion EUR for the development of Poland and its regions (*Polska i jej fundusze* 2009). A detailed division of the EU support amounts allocated in the Lubelskie Voivodeship in the framework of individual operational programs is presented in Figure 2.

Over the period 2007–2013 Lubelskie voivodeship received the largest pool of EU aid provided under two operational programs: implemented at central level (PO IS) and regional level (RPOWL). The research also focused on determining the number of communes of both types in the different ranges of the value of EU support. Use of EU funds for investments implemented by urban-rural and rural communes in 2015 is displayed in Figure 3.

In both types of communes, the value of EU support for investment expenditures oscillated between 1 and 5 million PLN. A significant feature of urban-rural communes was significantly higher percentage of individuals (23%) who have received an amount over 10 million PLN, which indicates that they carry out higher value investments.

The next area of research was the size of capital expenditures incurred by urban-rural and rural communes. That was determined by the share of investment expenditures with EU co-financing in total expenditures (Fig. 4).

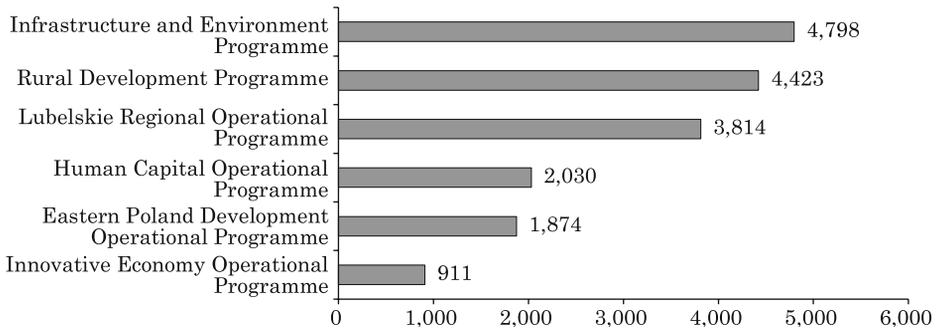


Fig. 2. The support for Lubelskie Voivodeship within each operational program in 2007–2013 (mln PLN)

Source: own elaboration based on data from KSI and ARiMR.

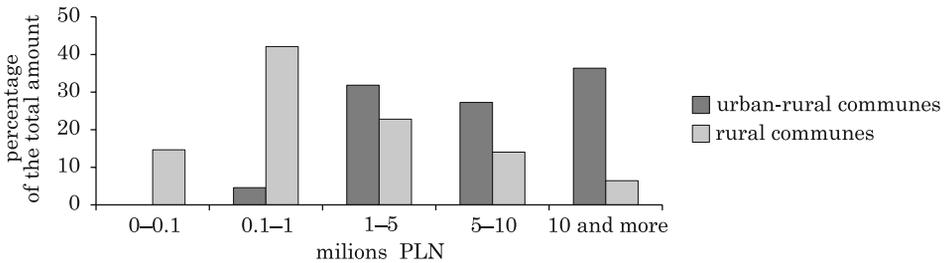


Fig. 3. Percentage of communes in Lublin voivodeship according to the value of used financing from Operational Programs in the period 2007–2013 (PLN)

Source: own study based on Ministry of Development data, [www.mapadotacji.gov.pl](http://www.mapadotacji.gov.pl) (access 10.08.2016).

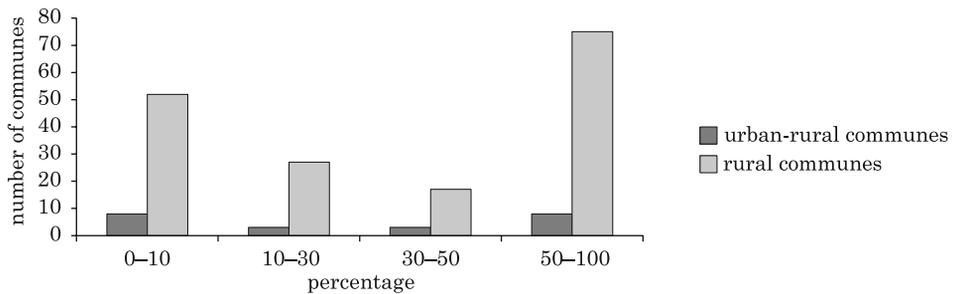


Fig. 4. The number of communes by the share of EU funds in total investment expenditures in 2015

Source: own study based on budget reports of JST, RIO Lublin.

From the obtained results, it can be concluded that in the case of rural communes (43% of the total), indicated share of EU co-financing in total investment expenditures was between 50% to 100% . In the case of urban-rural communes, this share was more equal distributed and could not be indicate a significant advantage of the specified value of the share. Another feature of investment expenditures of communes supported by EU funds per capita value (Fig. 5).

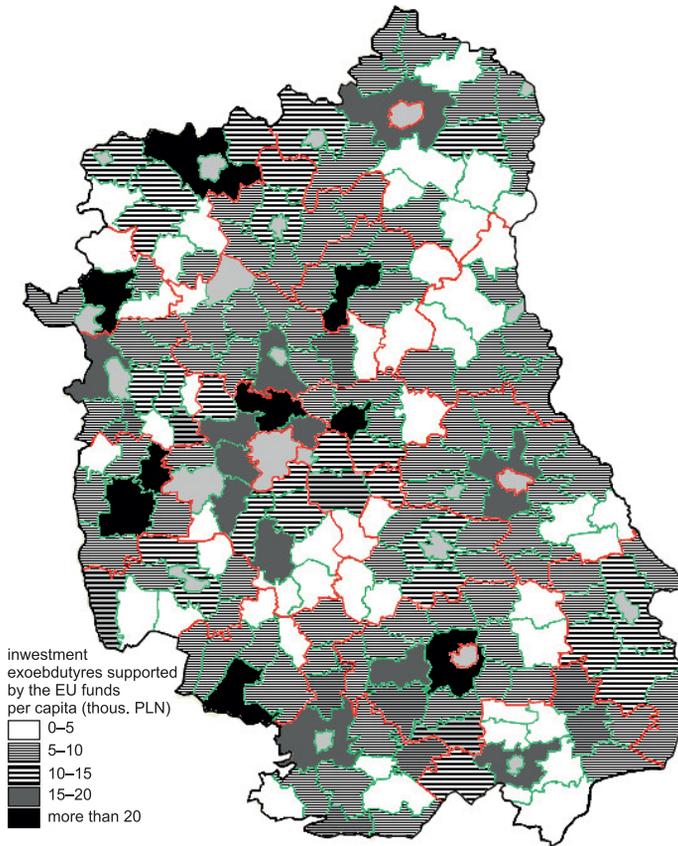


Fig. 5. Investment expenditures involving EU funds per capita in the urban-rural and rural communes (PLN)

Source: own study based on RIO data in Lublin.

Nearly half of the rural communes (49.1%) have spent investment expenditures with EU funds per capita ranging from 5 to 10 thousand PLN. Among urban-rural communes, a higher percentage of units (27.2%) that had a higher investment expenditure per capita over 20 thousand PLN. When analyzing the spatial variations of incurred investment expenditure supported by EU

aid funds, it should be pointed out that the highest value of these expenditures was concerned in urban-rural communes and areas in their close neighborhood. The lowest value of capital expenditures per capita was achieved by communes located in the eastern part of the voivodeship. Local government units' capital expenditures were categorized according to budget classification divisions. An analysis of the investment expenditures allocations of both types of communes is presented in Table 1.

Table 1  
The Investment expenditures financed EU funds in various sections of budget classification by type of communes in Lubelskie voivodeship in 2015

Name of the section in budget classification		Type of the commune		Type of the commune	
		urban-rural	rural	urban-rural	rural
		the total value of investment expenditures financed with EU funds (PLN)		the total value of investment expenditures financed from the EU funds per one commune (PLN)	
900	Municipal economy and environment protection	37,943,132	238,593,726	1,724,688	1,395,285
600	Transport and communication	3,147,462	62,302,437	143,066	364,342
010	Agriculture and hunting	3,236,449	57,159,181	147,111	334,264
630	Tourism	486,042	14,944,917	22,093	87,397
801	Education & Learning	152,373	11,436,143	6,926	66,878
921	Culture and national heritage protection	1,074,589	11,379,935	48,845	66,549
720	Informatics	0	10,334,129	0	60,434
700	Housing economy	3,239,809	5,837,351	147,264	34,137
400	Production and supply of electricity, gas and water	0	3,478,761	0	20,344
926	Physical Culture	199,965	1,500,876	9,089	8,777
750	Public Administration	102,016	686,079	4,637	4,012
851	Health Care	0	659,401	0	3,856
710	Service activities	0	434,516	0	2,541
854	Educational care	0	398,892	0	2,333
853	Other tasks in the field of social policy	0	217,426	0	1,271
754	Public safety and fire protection	0	167,385	0	979
150	Manufacturing	0	693	0	4

Source: own study based on RIO data in Lublin.

Analyzing the variation in the value of investment expenditure, it should be emphasized that in both types of communes' investment directions with the highest level of implemented expenditures supported by EU financial assistance are the same. The highest amount of investment expenditure was made in two main areas: municipal and environmental protection and transport and communications. That might indicate still existing need of investments in technical infrastructure. Moreover, considering the amount of total investment expenditure, it was noted that the value of rural investment was higher in rural communities, which was due to their greater numbers. Increasing the level of conducted investment expenditures analysis, there has been also calculated the value per unit of local government. The obtained results indicate that in the area of municipal economy and environmental protection, urban-rural communes have achieved a higher value of expenditure per unit. The author, conducting previous studies on the absorption of EU funds in rural communes of Lublin Voivodeship, analyzed the areas of EU support used in the programming period 2007–2013. The results of these analyzes are presented in Figure 6.

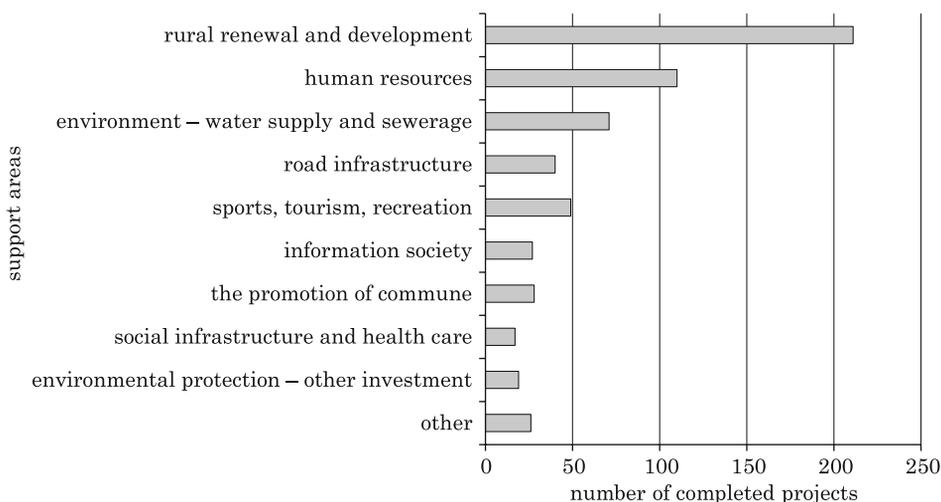


Fig. 6. Support areas used by Lubelskie voivodeship rural communes by the number of completed projects in the period 2007–2013

Source: own study based on data from survey questionnaire.

The projects implemented with the help of EU funds by rural communities mainly concerned the area of renewal and rural development (211 projects), human resources and environmental protection. The first area was implemented under the RDP and two more within the framework of the EU structural policy and its instruments. Taking into account the essential distinguishing features of EU aid and the fact that these sources are category of complementary funding,

which need co-financing and forming an integrated financial installation with other own-source. Assumption of co-financing arises from the need to divide the risk and allocate it between the investor and the financing institution (ZIOŁO 2011, p. 288–290). Subsequently, the considerations were transferred to the received value of EU funds support and the incurred own input to investment expenditures by rural and urban-rural gminas (Fig. 7).

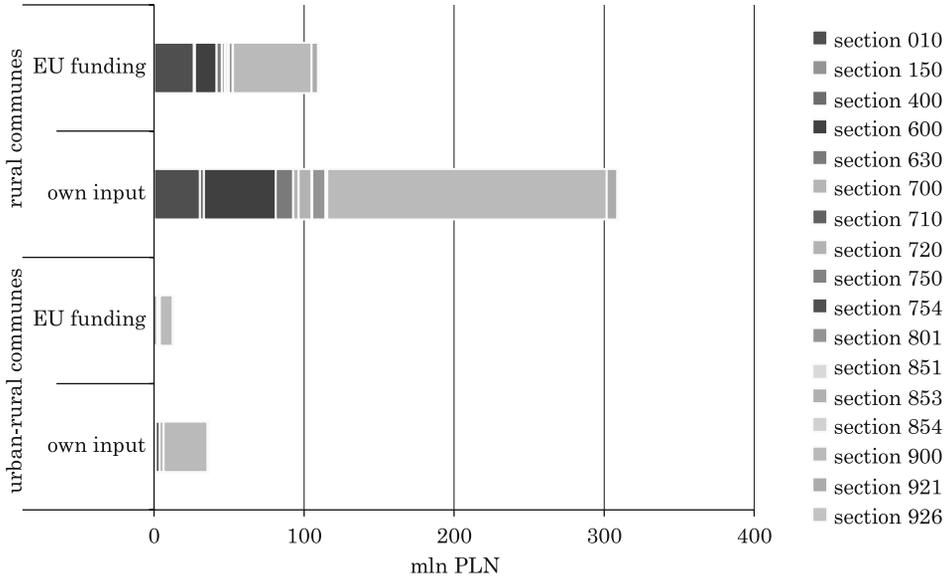


Fig. 7. The total own input and the EU funding allocated for Lubelskie Voivodeship communes' investment expenditures by budget classification in 2015 (PLN)  
 Source: own study based on data from RIO Lublin.

The analysis of the level of own input and EU funds aid in expenditures implemented in different investment areas showed that for both types of communes a higher share of own funds was observed. There is also a greater level of diversification in the scale of own input in the investment expenditure of rural communes.

### Summary

The analyses allowed to show that there are different levels and categories of investment expenditure carried out with the help of the EU funds for the urban-rural and rural areas. Rural communes implemented investments of higher value.

In case of rural communities, they can be seen as split into two groups. Those that have achieved relatively little investment support by the EU funds, or those whose over half of the investment expenditure has been conducted with the help of European funds. Such groups may not be isolated in urban-rural areas, because they are very homogeneous without the dominant group.

The results indicate territorial distribution of the a further increase in disparities in the level of investment between rural and urban-rural areas. Despite the fact that more investment projects have been implemented by rural communes, their value has been higher in urban-rural communes and rural communes neighboring with them. This leads to the formulation of further postulates to support activities stimulating development potential in rural areas.

Analysing the areas of application of the support with the EU funds for communes' urban-rural and rural investment expenditures, it should be noted that the greatest amount of expenses was related to technical and social infrastructure. Both types of communes implement investments primarily in the area of local economy, environmental protection and transport.

In the future the research should be complemented to the evaluation of the expenditure effectiveness aspect, which can be analyzed only in the long term. The research should also be continued in the direction of assessing the impact of investment expenditure supported by the EU funds for the development of local governments, but in this case it is necessary to use the dynamic approach.

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