

**No 31**



**INSTYTUT SPRAW PUBLICZNYCH**  
THE INSTITUTE OF PUBLIC AFFAIRS

# Analyses & Opinions

Analizy i Opinie

## **Assessment of the National Development Plan for 2007-2013**

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# Assessment of the National Development Plan for 2007-2013

By Tomasz Grzegorz Grosse

- The National Development Plan (NDP) should be founded primarily on a cohesive vision of the development of Poland. That vision is not evident at all in the draft of the NDP for 2007-2013. The draft is a collection of diverse sectoral projects, often overlapping, and not a clear action plan involving the entire government. It lacks reflection needed to streamline the proposed initiatives. When analyzed individually, each initiative seems suitable and necessary to national development. What the draft misses, however, is a clear indication which initiatives constitute a priority and which are supplementary or secondary.
- For example, nurturing an economy based on knowledge would constitute a good vision of national development. It would imply development focused on economic and scientific innovativeness, investment in the human capital and creation of new jobs linked to advanced services and industry. Of course, building this type of economy would be a lengthy and thorny task, especially in a country located on the peripheries of the European Union. But it can be done and the example of the Scandinavian countries proves that. Although the draft of the NDP does contain certain priorities linked to innovativeness and development of knowledge, they are not the prevalent ones.
- The government is attempting to further regionalize NDP initiatives, hence its proposal to establish 16 regional operating programs. But, ultimately, decisions in this area will be made at the European level and forcing the government proposal through will be a difficult task. The draft also includes a new government program meant to improve cohesion and competitiveness at the voivodship level. However, there is a serious danger of it becoming yet another sectoral program (this one managed by the Department of Economy) rather than a program designed to integrate regional initiatives carried out by diverse government departments. It is also possible that the program will serve the purpose of centralizing the management of regional projects.
- The dominance of European money in backing the effectuation of NDP objectives has very serious planning and organizational consequences. It implies priority of EU objectives over domestic ones and gives the European Commission a great deal of say in selecting developmental priorities and projects conducted in Poland. This also applies to organizational undertakings. The disengagement of rural area development projects from regional programs is a good example. A fundamental overhaul of government spending is an absolute prerequisite for raising the amount of funds available to EU-independent domestic developmental initiatives.

The government has been working on the second edition of the National Development Plan (NDP) since the beginning of 2004. The first edition covered the period of 2004-2006; the current work spans the years 2007-2013. Both are strategic documents containing key directions for the economic and social development of Poland. The first National Development Program was seriously flawed in this respect. Efforts should be made to ensure that the latest NDP edition avoids these flaws.

We are today at a crucial moment of drawing up strategic blueprints for the development of Poland in the next dozen years or so. The National Development Plan and the National Strategy for Regional Development are the two most important ones. Strategies they contain need to be closely synchronized and focused on solving Poland's fundamental economic problems. Establishing appropriate institutions responsible for an effective implementation of both strategies and securing

financial instruments needed to accomplish that task is of utmost importance. The more so because the inability of the Polish administration to translate strategic objectives into operating programs and build uncomplicated and effective implementation structures is one of its most pervasive deficiencies.

Finally, our ability to negotiate with the European Commission most advantageous terms of spending EU resources on the achievement of NDP objectives may be of key importance as well. In addition, our government should make a sustained effort to adapt both Polish economic strategies to principal directions of the EU economic policy. This will require flexibility when shaping Polish operating guidelines for pursuing these strategies, but may also require the Polish government to request changes in the EU policy favorable to the needs of our economy.

## First attempt at the NDP: 2004-2006

The Institute of Public Affairs issued a negative assessment of the NDP for 2004-2006 (see Analyses and Opinions No. 3/2003). Although the NDP is meant as a strategic document, it only deals with a short period of time necessarily limited by the EU budget preparation cycle. A program document of this rank should also include a strategic vision for Poland. Meanwhile, the first NDP is entirely subordinate to the issue of spending European resources and to the hierarchy of EU development priorities. For that precise reason it is mostly a procedural document

needed to obtain European financial assistance. It should be kept in mind that Poland is at a different stage of development than other EU countries: our development problems are peculiar to our situation, which is marked by the recent past and unfinished economic transformations. Consequently, strategic plans demarcating the development of our country must take into particular account those peculiar internal conditions and use them as a base for building a strategic *modus operandi*.

The National Development Plan for 2004-2006 is also weak by virtue of failing to deal with economic

development in a comprehensive manner. For example, it does not suggest any domestic small- and medium-size enterprise assistance programs. It does not provide any instruments for creating a climate propitious to entrepreneurship development such as investment allowances, tax rate reductions, loan guarantees or regional credit funds. Nor does it indicate any sources that would stimulate domestic investment into the achievement of NDP objectives. And yet national development cannot rely only on foreign savings. On the contrary, in accordance with the principles of basic economy their role should be limited to supplementing savings achieved inside the country.

A closer look at the current National Development Plan shows a nearly 60% of all expenditures going into the development of basic infrastructure, mainly roads and environmental protection projects. Only a dozen or so percent of the money has been left for entrepreneurship promotion programs and not more than nine percent for the development of advanced economy. There is a sad possibility that the authors

of the NDP assumed road building to be a much easier undertaking for the public administration than bringing innovative programs into effect. As a result Poland will be indeed in a better position to spend more European money. But we should be careful not to ignore the experience gained by other countries, which shows that investing in infrastructure has only a limited impact on economic development. On the other hand, investing in production based on high technology has a huge effect.

The NDP for 2004-2006 also proposes an excessively sectorized system of priorities and operating paths. The result is a series of sectoral efforts poorly coordinated with each other, which have a limited effect on development because of the absence of synergy, organizational difficulties and a power struggle between various level of administration. What is more, the NDP is extraordinarily vague about the extent to which sectoral programs and the Regional Development Operating Program complement one another.

## Assessment of the priorities of the National Development Plan for 2007-2013

**T**he mission of the National Development Plan for 2007-2013 is to take steps to ensure that the economy stays on the path of rapid growth as a result of a reinforced corporate and regional ability to compete, increased employment and a higher level of economic, social and territorial cohesion (p. 28).

This seems to be a correct way of achieving NDP objectives. A steady economic growth is indispensable to improving the competitiveness of Polish economy and, particularly, to reducing the civilization gap between Poland and other EU states. At the same time, the NDP names the regional and spatial policies as important instruments in achieving domestic economic objectives. They are key to

improving economic competitiveness and evening out territorial and social development opportunities. The high level of structural unemployment is the main obstacle to Poland's development and that too was taken into account in the NDP mission and expressed in proposed priorities and initiatives.

However, that lucid presentation of NDP objectives does not seem to have been translated correctly into an action plan. The structure of these provisions does not seem to have been thoroughly thought out for it does not constitute a cohesive system. The National Development Plan should be founded primarily on a cohesive vision of Poland's development. That vision is not evident. The NDP

draft is a collection of diverse sectoral projects, often overlapping, and not a clear action plan involving the entire government. It lacks reflection needed to streamline the proposed initiatives. When analyzed individually, each initiative seems suitable and necessary to national development. But the draft lacks a hierarchy of objectives and an indication which initiatives constitute a priority and which are supplementary or secondary. Consequently, the entire document ends up being a somewhat chaotic catalog difficult to follow, which attempts to satisfy too many expectations and accommodate too many incompatible development models.

## **We should take example of the Scandinavian countries**

**F**or example, nurturing an economy based on knowledge would constitute a good vision of national development. It would imply development focused on economic and scientific innovativeness, investment in the human capital and creation of new jobs linked to advanced services and industry. Of course, building this type of economy would be a lengthy and thorny task, especially in a country located on the peripheries of the European Union. But it can be done and the example of the Scandinavian countries proves that. Not longer back than a few dozen years ago these countries were undeveloped agricultural peripheries of the world and Europe alike. Today they keep topping the rankings of the most competitive countries in the global economy. The national long-term strategy of investing in a knowledge-based economic system was of key importance to that advancement. It was

based on investments in education and science, and on creation of public institutions promoting corporate development in advanced sectors of high technology. In addition, that national policy had a clearly stated regional dimension which supported endeavors such as promotion of science and business in sparsely populated parts of the country. Funding universities and technical academies in peripheral regions was one of its instruments.

## We must get our priorities straight

**W**e admit that the draft of the National Development Plan does in fact contain certain priorities linked to promoting innovativeness and knowledge. However, it is not they that seem to dominate. According to preliminary financial estimates provided in the draft, not more than a dozen or so percent of funds under the NDP will go toward effectuation of these priorities (p. 85). Moreover, instead of constituting a single cohesive priority, these endeavors are broken up for some incomprehensible reason into at least two: the “innovativeness” priority and the “knowledge & competence” priority. And there are other examples of this sort, such as a separate priority to increase exports and another to promote entrepreneurship. Are export promoting activities not related mainly to enterprises? In turn, the “investment” priority covers several types of programs directly related to promoting entrepreneurship as well as innovative economy and science. Why are these endeavors dispersed among different priorities rather than grouped in cohesive and clearly stated development objectives?

The “activation & mobility” priority, in turn, covers two types of activities. One is linked to the objectives of the “social integration” priority and, consequently, should be a part of it. And most activities under the “activation & mobility” priority are linked to investments into infrastructure. The same goes for the “spatial management” priority. Should they not jointly constitute a single, consolidated priority where investments in infrastructure would aim at developing a competitive economy and economic, social and spatial cohesion?

We wish to point out that we do not charge the NDP with containing too many priorities and tasks which overlap and make it disorderly only because we are fond of clear and logical planning. We believe that it demonstrates flaws in strategic thinking and absence of an intrinsic vision of development. It is possible that when the draft was being drawn up, its authors had diverse concepts of development or that individual government departments had different aspirations and were protecting the sectoral system of national development in anticipation of the power struggle that would arise when development resources became available for distribution. However, the NDP should constitute an attempt to overcome such tendencies. Indeed, a reinforcement of sectoral development strategies will be a natural tendency at the level of operating documents.

## We should learn from experience linked to putting the Lisbon Strategy into effect

**T**he NDP aspires to being a Polish version of the Lisbon Strategy. But we should note that putting the Lisbon Strategy into effect is proving to be a difficult task. One reason for that is the insufficient number of instruments available for that purpose. The other, however, is the presence of diverse, sometimes contradictory, objectives and priorities. The Lisbon Strategy is a collection of different development concepts and national strategies, which at times compete with each other. That should be kept in mind when working on the final version of the NDP.

There is one priority in the National Development Plan that refers directly to certain objectives of the Lisbon Strategy. It is the “market protection” priority. It seems that programs spelled out in that proposal, for example those about establishing transparent rules of public assistance or opening up the energy market, should be part of a description of endeavors accompanying NDP’s effectuation. Following the logic of that priority, a separate priority should be added to the NDP, namely a reform of government spending. Unfortunately

this did not happen. Is an open energy market more important to the development of Poland than a reform of public spending? Consequently, copying certain Lisbon objectives straight into the priorities of the NDP seems unnecessary. Which does not mean that the NDP should not be proposing political and institutional (also legislative) undertakings to accompany investment projects.

The chapter devoted to the ways of carrying the NDP into effect deserves criticism. It was drafted in a very superficial manner, which indicates that it has not been properly thought through and polished up. It lacks a clear translation of the listed principles into development priorities and objectives. It also lacks a justification of the reasons why certain principles have been selected over others. The role they play is more “decorative” than programmatic. And yet they should be conditioning the selection and hierarchy of individual development objectives and, in the second part of the document, justify the selection of organizational and legislative undertakings as well as decisions relative to the proportionate financing of individual objectives.

## Sectoral thinking still dominates

**T**he draft of the National Development Plan clearly points out the difficulties of developing an institutional system that would ensure an effective implementation of strategic

programs. It speaks of current dominant government department and business structures which fiercely protect their domains and aim at expanding them. This is conducive to the administration becoming



penetrated by political party interests, appropriation of the State, dispersion of public funds, centralization of management, etc. (see pp. 4 and 5). In this respect, the authors of the NDP draft are correct. The Polish administration is naturally inclined to operate in a departmental manner. This gets in the way of proper coordination and synergy of government endeavors. At times it creates competition for power and money between various branches of the administration. It also leads to the reassignment of public funds from pro-development objectives to current projects aimed at patching up budgetary deficits at individual institutions. The experience acquired to date with handling EU resources clearly points out the presence of that precise phenomenon.

The problem of domination of government political actions by sectoral thinking emerged already at the stage of planning the priorities and initiatives of the new NDP. Its draft calls for establishing a dozen or so sectoral programs (12 or 13). The stated overall reason for that proposal is the need to clearly separate the responsibilities and decision-making powers of diverse government departments. This may indeed simplify putting these programs into effect but, at the same time, it may hinder their coordination. For example, there are three programs related to infrastructure (roads, railways,

power supply) which can as easily be implemented as a single program. Considering that the Polish administration is generally not good at cooperating and coordinating specific projects, the proposed solutions may contribute to the reinforcement of the sectoral manner of implementing the NDP.

There is also a new government program meant to deal with voivodship-level cohesion and competitiveness. However, there exists a serious threat that instead of it becoming a tool for integration of regional projects carried out by diverse government departments it will end up being yet another sectoral program (this one managed by the Department of Economy). The program will be managed centrally and the role of voivodship governments in its instituting is not totally clear. Its existence seems rational only under two types of circumstances. Firstly, if it is executed on the basis of contracts concluded with voivodships and by voivodship governments. Secondly, if its formula covers a wide spectrum of diverse sectoral projects contracted out by voivodship governments. Otherwise the program will become an instrument for centralizing the management of regional activities.

## Problems with regionalizing the NDP

**N**umerous government documents advocate the need to strengthen the regional approach and move away from sectoral policies in the work on the National Development Plan for 2007-2013. In the government

view, there should be 16 EU-subsidized regional development operating programs. In Polish conditions, this is a correct political direction to take. Instituting a dozen or so separate regional programs will require a further decentralization



and, particularly, a reform of government spending. We must stress that the advantage of the regional approach lies not only in a more effective resource allocation and spending, but also in the necessity to coordinate diverse sectoral initiatives inherent to regional programs.

The government has been thinking about regionalizing the management of EU resources at par with sectoral programs (p. 84). This would not only necessitate major changes in the public administration but also appropriate arrangements with the European Commission. Moreover, it would require a higher level of regionalizing the activities conducted within the framework of sectoral programs and government administration structures. However, it can be safely assumed that regionalizing 50% of EU funds or even all NDP resources will be very difficult to achieve. According to the draft of the National Development Plan, the estimated amount of funds allocated to regional programs equals some 36% of all available resources (p. 85). This means that regional programs will be functioning in a more modest realm than that announced in preliminary government declarations.

The administration of the European Commission can be reasonably expected to oppose the Polish proposal of 16 operating programs and instead promote the current single Integrated Regional Operating Program (IROP). After 2006, the EC plans to introduce a principle whereby operating programs, especially regional ones, would be financed out of a single fund. This may seriously hinder the possibility of bringing 16 regional operating programs into effect since the EC is proposing a 5% ceiling on the transfer of resources from another fund to a given program. In practice that would necessitate putting in place at least 32 regional

programs (16 for infrastructure development and 16 for social development). In addition, there is a plan for a total of eight trans-border programs operating in some voivodships. It is difficult to imagine the EC agreeing to so many regional programs. And managing them all would be a very problematic organizational undertaking indeed.

The next problem lies in disengaging rural area development endeavors from the EU cohesion policy. Should these endeavors be regionalized, it would be necessary to establish 16 more regional rural area development programs. As concerns rural area development projects financed by the European Agricultural Fund for Rural Development, it is probable that they would be carried out under a single sectoral program. It will also be difficult to convince the European Commission (and the Polish administration) to entrust the management of that program to voivodship governments. What it means in consequence is that a very important instrument of regional policy would be in reality transferred to the sectoral policy and find itself out of the reach of voivodship government activities.

## Domination of European Union funding

European resources will be most likely the principal source of financing the NDP for 2007-2013. Preliminary estimates provided in its draft confirm that a lion's share of domestic resources will be allocated to co-financing European programs. It is a good thing that the government has at all thought of reserving some 14% of the total NDP funding for domestic initiatives (p. 85). In practice, however, that amount may be greatly reduced owing to the following reasons:

Firstly, without a comprehensive reform of government spending there may not be enough money for domestically funded investment projects. The main issue here is not only whether more equity will be left to territorial (particularly voivodship) governments. The central-government budget (and after decentralization also territorial government budgets) must earmark vastly greater investment resources to the decentralization of the financing system and to boosting the capabilities of the Polish regional policy. That implies changing the structure of the central-government budget and, consequently, also lower spending on social programs and administration. It also implies reconsidering the existence of specialized agencies and earmarked funds, and possibility of their decentralization. Without a structural reform of public finances the government will need to focus on finding sufficient resources for co-financing and re-financing European projects rather than on decentralizing the system of spending public funds.

Secondly, the drastic increase in the amount of European funds available to Poland after 2006 (as compared with the amount available during the

initial period of Poland's membership in the EU) will hinder finding domestic investment resources. The preliminary estimate of domestic funds available for projects financed jointly with the EU may amount to some 24,539 million EURO annually. This implies serious problems with generating additional financial resources for EU-independent domestic development projects.

Thirdly, an important factor that can further increase the Polish share of co-financing European projects may lie in changing the manner of calculating VAT. The European Commission suggested that VAT costs should not be taken into consideration in the years 2007-2013. This implies that the share of domestic money needed for projects executed, for example, under the European Regional Development Fund will rise from 33.3% of the European contribution to 62.7%, and in the case of the Cohesion Fund – from 17.6% to 43.5%. That represents a drastic increase in the Polish contribution to financing European projects. Serious problems may also occur with respect to entities that are VAT payers when VAT calculated will be lower than VAT due. It also implies an additional transfer of funds from poorer to richer countries when services associated with European funds will be provided by companies located in the latter.

The dominance of European money in backing the effectuation of NDP objectives has very serious planning and organizational consequences. It implies priority of EU objectives over domestic ones and gives the European Commission a great deal of say in selecting developmental priorities and projects conducted in Poland. This also applies

to endeavors conducted on the organizational level, which carry serious substantive implications. The disengagement of rural development projects from regional programs is a good example. Therefore, we should assume that operations linked to the NDP will be shaped by programming and organizational requirements of the EU cohesion policy and other EU policies financed with EU money. The dominance of EU resources over domestic ones also implies marginalizing the instrument of contracts concluded with voivodships as a mechanism of bringing the objectives of the domestic regional policy (not dependent on EU financial assistance) into effect. Should the current structure of contracts concluded with voivodships be maintained, they would end up being used mainly as means of transferring money from the state budget to territorial government budgets for the purpose of co-financing European projects.

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**Analyses & Opinions  
No 30, January 2005**

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