

mgr Marek Długozima

“AVAILABILITY AND USE OF EU FUNDS IN COMMUNES IN POLAND AND GERMANY BETWEEN 2014-2017 (COMPARATIVE STUDY)”

Summary of the doctoral dissertation

The European Union has been implementing the Europe 2020 Regional Development Strategy for many years in partnership with the national and regional authorities of all EU Member States. In the next budget perspective 2014-2020, financial resources for this purpose were allocated from five funds, including two most important ones for the analysed communes, namely: the European Regional Development Fund and the European Agricultural Fund for Rural Development. The availability of aid resources is an unquestionable opportunity for the reconstruction and development of communes in Poland, as evidenced by the changes observed in many communes, including the commune of Trzebnica. The commune of Trzebnica and its steward have been honoured many times for the dynamic development of the commune. For example, in 2020, the commune of Trzebnica was recognized as one of the thirty communes that had the greatest impact on the development of Lower Silesia. The commune was able to implement a significant number of investments thanks to securing the required own contribution and obtaining funds from many sources, including the Operational Programme of the Lower Silesian Voivodeship for 2014-2020. The selection of the research area and the preparation of this study were influenced by visits to the partner commune in Germany, Bavaria, and the possibility of comparing the level of development of partner communes.

The objective of the study is to indicate solutions that could increase the absorption of EU funds by Polish communes, and to compare the normative, financial and social conditions in a typical commune in Poland and Germany.

The following main research hypotheses have been formulated, which will be verified using scientific methods:

1. Demographic, social and economic characteristics affect the demand of the local community and municipal authorities for activities pertaining to the entire society and EU funds.
2. Despite precise and enforced European and national guidelines for awarding and settling EU subsidies, we can still present solutions that will increase the efficiency of spending EU funds, simplify settlements and increase absorption in Polish communes.

The first chapter discusses the historical and legal conditions of self-governance in Poland and Germany. The organizational and territorial foundations of the functioning of communes are indicated. The idea and principles of local self-government set out in the European Charter of Local Self-Government drawn up in Strasbourg, which Poland ratified and adopted on March 1, 1994, are recalled. The scope of activities and tasks of communes in Poland and Germany are compared. The division of powers, responsibilities and tasks between commune authorities and commune units is analysed. Attention is also paid to the participation of the local community in the management of a particular commune. Principles and sources of financing the activities of communes and legal regulations in this field are presented. The budget rules and procedures, reporting obligations of communes on budget implementation and the principles of supervision over the activities of communes in Poland and Germany are compared.

The second chapter is devoted to the analysis of the European funds available to communes and the principles for their award and settlement. The chapter also discusses the Europe 2020 Development Strategy in the financing perspective 2014-2020. Particular attention is paid to those funds, programmes and instruments that could be used by the studied communes, in particular: regional operational programmes, Integrated Territorial Investments (ITI) and the Community Led-Local Development (CLLD) instrument - modelled on the LEADER approach from the budget perspective 2007-2013. In this chapter, in addition to presenting the assumptions and legal foundations of ITI and CLLD, their implementation is discussed both in the analysed communes and in the administrative units to which these communes belong, i.e. the Lower Silesian Voivodeship and the Land of Bavaria. The documentation required by Local Action Groups is compared, which significantly affects the level of co-financing obtained and settled by communes.

The third chapter presents a statistical comparative analysis of the studied communes against the regions in which they are located. The size of the communes, the number of inhabitants, the demographic characteristics of the population, the level of unemployment, the level of securing welfare needs of the local community, the level of public utility services provided, housing conditions, access to educational and cultural institutions, development of road infrastructure, the attractiveness of communes for inhabitants and tourists and the level of economic development are diagnosed.

The investment plans of the communes and the tasks implemented with the participation of EU funding are compared in chapter four. Budgets of the communes and their debts are also discussed in this chapter.

The funds obtained from EU aid programmes are referred to the amount of income, expenditure and debt of the communes. The effectiveness of the funds spent is also assessed. The approach and methods allowing to evaluate the effectiveness in an entity not conducting business activity are selected. The concept of New Public Management (NPM) is referred to.

The fifth chapter presents the most important conclusions drawn after the comparisons and problem analyses in the previous chapters. Two groups of eligible expenses that limit the effectiveness of the use of EU funds are indicated, namely: investment expenses and value added tax. Moreover, the accounting principles for the settlement of investment expenditure are discussed, taking into account the International Accounting Standards and the National Accounting Standards. The problems of VAT settlement resulting from the necessity to use division relations and non-uniform legal interpretations are presented. The structures of tax revenues of the surveyed communes are compared. The chapter presents solutions to the identified problems.

For the purposes of the study, research was carried out in the commune of Trzebnica and the partner commune of Kitzingen and the LAG Z.I.E.L. Kitzingen e. V. The financial documentation of the analysed communes for the years 2014-2018 and the documentation of projects co-financed from EU funds implemented in this period are analysed. Thus, the period covered by the study was extended by one year compared to the one declared in the title of the dissertation due to the completion of most of the projects covered by the study in the commune of Trzebnica in 2018. After the completion of the project, all necessary information and data about the project were made available. The statistical research required browsing the Local Database of Statistics Poland and non-structured German databases.

The dissertation mainly uses the comparative method. While exploring the issues raised, literature in the field of finance, accounting and self-governance was studied, and observations and interviews were carried out with people involved in the preparation of project documentation, project settlement and supervision of these processes. The study also covered the normative foundations of communes' operations in Poland and Germany and the award of financial resources from the European Union funds in the budget perspective 2014-2020. The

inference was made mainly using the deductive method. The following analyses were carried out: statistical analysis, economic analysis and analysis of cause-and-effect relationships.

The objective of the study was achieved and the research hypotheses were positively verified.

Three final conclusions were formulated in the course of research. The expenditure eligibility rules focus mainly on formal and documentation requirements. For the measurement of expenditure, reference was made to national law. In the commune of Trzebnica, most of the implemented projects consisted in the construction, modernization and comprehensive renovation (improvement) of buildings. Thus, the correct determination of the production costs of fixed assets was the basis for determining the reimbursed costs. Pursuant to the guidelines, the beneficiary was obliged to carry out construction works in accordance with the construction law and to comply with the balance sheet regulations as part of the records of expenditure. Thus, determining the cost of construction works should result in the identification of expenses for fixed assets under construction in accordance with the National Accounting Standard No. 11 (KSR 11), i.e. excluding the costs of temporary stoppage of construction and renovation works. The retention costs were not included in the settlement of the construction costs. Thus, the investment costs, including eligible ones, were overstated. The application of KSR 11 would result in the improvement of the effectiveness in using EU funds, which the EU is constantly striving for.

Another problem with regard to the eligibility of expenses is the settlement of value added tax (VAT). The EU allows for the financing from subsidies of the part of VAT that refers to purchases not related to the business activity conducted. In communes, a business activity is considered as such when it is carried out on the basis of civil law contracts. In order to correctly determine the VAT for reimbursement, communes are required to determine the proportion of the deduction of tax on purchases used for mixed purposes. Additionally, communes have problems with determining whether the subsidies received from the EU are eligible costs or whether they should increase the tax base with the tax on the sale of goods and services. Interpretations and jurisprudence in this regard has been shaped for many years and there is still no uniform position in this regard.

According to the author of the dissertation, the solution facilitating the settlement of subsidies in communes would be the rule adopted under the LEADER program in Bavaria,

namely excluding VAT in full from eligible expenses. Of course, the proposed solution will require financing of VAT non-deductible from the commune's own budget revenues.

On the other hand, it will allow some funds to be released from aid programmes and allocated to further projects.

The proposed solutions for changing the rules of eligibility of expenditure will require an increased involvement of the beneficiaries' own funds. In the case of public finance sector entities, such as communes, it means the need to increase own contribution in implemented projects with limited budget funds. In order to implement investment plans, communes would have to generate additional income. The analysis of the income of German communes allowed for the formulation of another conclusion, which is a solution complementary to the two previous ones. The author proposes a change in the tax system in Poland so that local government units, especially communes that constitute the core of self-governance and meet most of the needs of local communities, can more fully use the taxes generated by local communities, e.g. by increasing the participation of communes in revenues from income tax from legal entities.