

## Domestic and Foreign Aid for Sectors of Polish Economy

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**Abstract.** *This paper will analyse the state aid rules and policies, regarding both domestic and foreign aid, addressed to the sectors of the Polish economy after the country's accession to the EU. This includes support for investors – both domestic and foreign, but in the second case, especially foreign direct investment (FDI). For this purpose, the following will be argued: tools as government grant, foreign financial aid (foreign aid may also have a material form) and other forms of support by the government on the example of the sector of renewable energy sources (RES). This will be done mainly on the basis of materials available from government institutions, especially the Ministry of Economy.*

**Key words:** aid, government grants, foreign aid.

**Reikšminiai žodžiai:** viešoji pagalba, vyriausybės subsidijos, užsienio pagalba.

### Introduction

The Polish government has a policy of encouraging innovation focused on the innovation growth and competitiveness of the economy. Among others, this is intended to improve the attractiveness of the investment, and thus growth and economic development.

The sectors of the Polish economy are covered by the above mentioned policy. The government's policy promotes not only domestic investors but foreign investors as well. They are treated as key partners in the process of modernisation and rationalisation of various types of businesses, especially manufacturing industry

(including high-tech, which uses advanced technology and the latest scientific discoveries), transport, information technology, banking sectors and activities related to environmental protection.

The ultimate aim of this article is to analyse principles of granting national aid and complementary foreign aid, addressed to sectors of the Polish economy after the country's accession to the EU, which took place in 2004.

The sub-objectives of article are: identification and analysis of tools of domestic and foreign aid for the sectors of the Polish economy. Achieving the stated goals will be based on the analysis of materials from governmental institutions, mainly the Ministry of Economy.

The author argues that the support of sectors of the Polish economy by providing them with public aid, should contribute to increasing innovation and competitiveness, thereby improving investment attractiveness, and ultimately lead to economic growth and development. This means that this support should thus be included in the policy of the Polish government, focused on growth of innovation and competitiveness of the economy. This is a particularly important issue in the face of fierce competitive struggle in contemporary reality.

### **1. Availability of government grants**

An important incentive for investors is to provide financial support for investment in various sectors and industries in order to ensure the growth of innovation and competitiveness of the Polish economy. Polish government is up taking tasks concerning creating regulations relating to the promotion of investments, including foreign sources, in priority sectors, qualified by the OECD as sectors that use advanced technology and scientific discoveries, thus generating the highest added value [7].

The process of granting state aid to foreign investors is coordinated by the Foreign Investment Transversal Team. Procedures and policies of providing financial support from the state budget has so far been defined in four main perfected documents characterized below.

The first was: Financial system of supporting large investment projects, accepted by the government on 14.12.2004. Specified in the document, the upper limits of the amount of support did not allow to construct investment incentives packages that would meet the expectations of strategic investors. Overall, the system was not competitive enough in comparison with the solutions in countries that are direct competitors of Poland, in attracting FDI (Czech Republic, Slovakia, Hungary) [7; 5, p. 20].

The second system of financial support for direct investment has been identified in the document entitled: The financial support for large investment projects, accepted by the government on 29.06.2005. Modification of the system (as compared to the previous) concerned the increase of upper limits of financial support

for the creation of more jobs with increasing sums for additional new jobs in areas of increased unemployment and R & D sectors, including the aviation and biotechnology, information technology and engineering services sectors, and the introduction of an investment grant (support due to the amount of investment). These amendments add more attractiveness to the system and increase amount of investor interest in investing FDI in Poland. Unfortunately, the system did not contain specific criteria for evaluation of investment projects, which led to discrepancies regarding the amount of financial support for comparable Project [7; 5, p. 20].

The third step in the analysed issue is the document: System of supporting investments of high importance to the Polish economy, adopted by the government in September 2008. It replaced the previous document but is being based on previous document solutions [7; 12, p. 4-12].

The fourth – based on previous – document accepted by the government on 05.07.2011 is: The program of promoting the investment of significant importance for the Polish economy for years 2011-2020, in which the period of grant support as a form determined by the end of 2015 or until the end of the National Development Strategy (NDS) 2007-2015 (grants may be paid in instalments over a period of up to 5 years, so it is necessary that the program will function until the end of 2020). It should be noted that changing the rules for granting regional investment aid in the EU after 2013 or material change in the economic situation in Poland will involve changes to the program. It is estimated that the program was directed especially to the foreign direct investors, since the time of its adoption - about 90% of all strategic investments in Poland were carried out by large foreign companies [7].

Public support offered by the program is in line with the state aid rules in the EU. It is ad hoc regional aid, therefore, before granting it is subject to a mandatory notification to the European Commission. If the ad hoc aid is only used to supplement aid granted under regional investment aid and employment aid (e.g. Income tax exemption in the Special Economic Zones – SEZ) that does not exceed 50% of the total amount of aid granted for the investment, then it is not subject to the notification [9].

The implementation of the program is controlled by the Minister responsible for the economy. As part of the funds allocated to the program the minister provides support in the form of grants for the new investments, which have received the recommendation of the Transversal Team of Investments of High Importance for Polish Economy – this is a simplification of the previously existing scheme [2, p. 3]. The principle of payment of the grant is the proportion to the degree of fulfilment of obligations of the investor. The program is aimed essentially at the domestic and foreign investors who, due to formal considerations, cannot benefit from assistance from other programs or because of economy where income tax relief activities in the SEZ is not attractive enough to support the instrument. It is assumed that the value of the investments and the creation of new jobs should be significantly higher than the support granted. Initially, the support provided under

the program could not be independently combined with other regional aid in the form of direct subsidies from the state budget, the programs co-financed from EU funds or tax exemptions in the SEZ. Entrepreneurs who wanted to take advantage of the program and other sources of aid had to obtain government permission every time. However, there were no criteria for granting such consent, which in terms of transparency and the attractiveness of the program, support the package, raised reservations of investors and obtained the government consent, prolonged the grant support procedure. However, the government has made changes to the program, through which investors applying for funds will be able to – in certain cases – without the consent of the government – combine it with aid from other sources, e.g. from EU funds, tax exemptions in SEZ (these are the exceptions to the rule of incompatibility of various forms of support) [9; 11, p. 26; 13; 2, p. 3–4]. It should be emphasized that, in comparison to the support under the operational programs of the EU funds, the formal requirements are not very extensive, and control is not too excessive. Despite the recent amendment though, investors complain about the long grant award procedure, on which they do not have any real influence on. In this way, the effectiveness of aid to the investor who meets the conditions for receiving it – is assessed as low [2, p. 4–5].

The amount of support, accepted in the final program is the total of 727 million. The basis for the decision was the amount of support for 39 multi-annual programs adopted in 2005–2009 versions of the original, because it was assumed that in 2011–2015 the level of new investment projects supported under the program will achieve the predicted values for 2005–2009 [7].

As in the previous program, the beneficiaries of support can be entrepreneurs planning investments in the following priority sectors [11, p. 27–34]:

- Automotive – in particular, the production of motor vehicles, bodies, trailers and semi-trailers, parts and accessories for motor vehicles and their engines,
- Electronics – especially production of computers, equipment, and radio, television and telecommunications, systems and components (especially for automotive, energy, manufacturing household items, military needs),
- Aviation – mainly manufacture of aircraft, parts and accessories for aircraft and their engines, services of repair and maintenance of aircraft and aircraft engines,
- Biotechnology – especially the production of white biotechnology applicable in industrial processes and red associated with medicine and health (e.g. The creation of new medicinal products),
- modern innovative services,
- R & D (research and development).

In addition to the above mentioned, beneficiaries could be those planning significant investments (projects of at least 1 billion zlotys in value, which would result in the creation of at least 500 jobs) in other sectors [11, p. 27].

The program – as previously – provides support for investments with two objectives: the creation of new jobs (employment grant) and the cost of eligible investment (investment grant). The amount of support for the costs of creating new jobs for productive projects depends, among others, on: the number of new jobs, the percentage of jobs for workers with higher education, location, amount of investment, sector, attractiveness of products in international markets, and for projects in the sector of modern services – the number of new jobs, the percentage of jobs for workers with higher education, location, type of processes carried out by the company. The amount of support for the eligible costs of the new investment depends, among others, on: the number of new jobs, the amount of investment per job, location [11, p. 27–34].

It is considered reasonable to give some aspects of the results of the evaluation report prepared for the last program. This report complies with the requirements of the Act on the principles of development policy and can be the basis for the evaluation of support for the investment of considerable importance for the Polish economy. The proposed selection of priority sectors were found to be justified, because it is consistent with previous experience of FDI in Poland and analysis of the sectors with the highest innovation and potential. What was positively rated, was the possibility of support for the investment of considerable importance to the economy, and not in priority sectors. In order to ensure greater policy coherence to improve the competitiveness of the Polish economy, it is proposed to consider the inclusion in the directory of supported sectors, some of those identified in the concept of horizontal industrial policy. In addition, there was no reference to other system components to support FDI, and the program should be a part of a larger totality (the offered support is only one of the instruments). Attention was also paid to the difficulties in managing the whole system of support, arising from the multiplicity of agencies involved, in the absence of specific coordination mechanisms [11, p. 12–14].

Implementation of referred programs affects such entities as businesses and local governments. We can estimate the impact of the programs on the state budget revenues and local governments under various taxes, in addition to other areas of the economy. It has been estimated that as a result of the investment supported by the last of them, in the newly formed companies will ultimately create 32 174 new jobs. Generating additional secondary jobs at the suppliers is estimated at 8000. What was pointed at was the impact of the program on the competitiveness of the economy and entrepreneurship, including the functioning of the company, as it gives the opportunity for investment desirable for economic development of the country, and so innovative, and as such have a significant impact on the increase the competitiveness of the economy. In addition, the impact of new investment on regional development was taken into account. Because the new investments generate employment growth in the immediate vicinity, as it stimulates the development of many sectors of the economy – increased employment in construction and services, increasing demand for educational services, infrastructural investments raise the

standard of living of the local community, the businesses already operating in the region benefit from potential partners and service providers, thanks to the increase in income of the population employed in the newly established enterprises as well as increased consumer demand and [7].

## **2. Opportunities for the foreign aid**

Since the start of the market reforms, foreign aid sectors of the economy were involved, and the bulk of the aid programs were directed to the rural areas.

The restructuring of agriculture, done during system transformation, resulted in the occurrence of many problems that require outside support, including the financial one. There is no experience in the solutions used in the countries with established market economies and insufficient funds from the national budget contributed to the exploration and use of foreign aid. In the first years of transformation, the diverse agriculture field received the help from various foreign sources – in the framework of bilateral agreements between groups of countries and international institutions. Foreign assistance was provided in the material and financial form. The funds were provided in the form of non-repayable donations or loans. The aim of the initiative was to strengthen the sector assistance to prevent the threat of collapse, and to facilitate the transition from a centrally planned economy to a market economy [8, p. 4–201].

After all, Polish agriculture has benefited from the EU pre-accession funds through PHARE (since 1990) and SAPARD (launched in July 2002). In addition to the transformation of the sector to meet the additional important function – its preparation for the use of structural funds after accession to the EU [8, p. 4].

Just after the accession, the EU budget means (supplemented by national funds from the state budget [1]) have largely been and are earmarked for agriculture (its modernization, development of rural areas), forestry and fishing.

The basis of obtaining financing are the Rural Development Programmes for subsequent years (as shown by the EU budget programming periods). Those programs contain money for Polish farmers, agricultural processors and rural communities and small towns. Just as in other programs, funding for which farmers may apply – though come from other sources – is transmitted in the form of grants. They are not only intended for the poorest regions, but for farmers across the EU [3; 6].

On the other hand, in the case of aid to fisheries and the environment, before the Polish accession to the EU for operators in the fisheries sector national aid was granted [10, p. 8]. However, after the accession to the EU assistance can be obtained within the framework of the operational programs for the sector (Fisheries and Fish Processing 2004–2006, Sustainable Development of Fisheries and Coastal Fishing Areas 2007–2013, Fishing and sea for the period 2014–2020) [1; 6; 4]. The above mentioned funds have been designed to achieve the objectives of Polish Fishery Policy, and those are: sensible management of living aquatic resources and improv-

ing the efficiency of the fishing sector, improving the competitiveness of Polish marine fisheries, inland fisheries and fish processing, improving the quality of life in areas dependent on fisheries [6].

### **3. Other forms of assistance**

To all of the above mentioned supported economic activities, others should be added too, having priority features, especially the RES.

The development of the renewable energy sources sector has justifiably become the priority for the Polish government. According to the EU Directive of 2009 member states should increase the share of renewable energy in total energy consumption and in the transport sector. This means you need to invest in new energy generation capacities. To date, the most rapidly developing have been the wind energy and the biomass energy. Consequently, Poland has slowly become an attractive country for investment in equipment used for energy production. The prerequisites for the development of renewable energy sector are: to stimulate the demand for energy through economic growth and the number of the population; increasing demand for green energy due to the energy policy objectives (increase in the share of renewables in final energy consumption to a level of 15,5% in 2020.); reduction by 2020 of the amount of biodegradable municipal waste landfilled to 35%, and the construction of waste thermal treatment plant; construction of agricultural biogas plants in each Polish municipality scheduled for 2020; natural conditions (favourable wind conditions, a large potential for the extraction of biomass and biogas); available forms of assistance. These forms of government support of energy production from renewable energy sources are: investment incentives for renewable energy producers (colour system certification), an obligation by law to purchase the energy from renewable sources by enterprises selling renewable energy, priority access to the grid for renewable energy producers, exemption from excise duty for producers of electricity from a renewable source, discounts for small installations (reduced fee for connection to the network, the exemption from the license fee and the annual fee paid by the license holders), the possibility of co-investments in clean energy funds financed by the Fund for Environmental Protection and Water Management [9].

### **Conclusions**

1. Although the aid is in principle incompatible with the internal market, as it threatens competition, it could facilitate the implementation of some of the economic goals.

2. After the Polish accession to the EU, the government created and perfected regulations for the promotion of investment (including foreign investment), which is related to investments referred to as large or significant for the Polish economy.

3. The idea is about investments that contribute to the increase in the number of new jobs (especially in the areas of increased unemployment) and priority sectors, including research and development. The selection of priority sectors was not random, since those sectors are characterized by the greatest innovation and potential. It should be emphasized that not only investments in priority sectors are the ones that are important to the economy. In Poland the possibility of support for investments of high importance for the economy, but not implemented in priority sectors was positively rated.

4. Positive effects of aid to investors were observed – including generating additional jobs at suppliers, a positive impact on the competitiveness of the economy and entrepreneurship and regional development, as well as providing revenues to the state budget and local government units.

5. The analysed aid was selective because it was earmarked to support major economic projects.

6. The issue of public support is important in the context of European funds. Most of the projects co-financed from EU funds, should be subject to the rules of granting state aid in the EU. Overall public support in Poland (also that not funded by the EU) was compatible with state aid rules in the EU.

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### Šalies ir užsienio socialinė pagalba Lenkijos ekonomikos sektoriui

Anotacija

Straipsnyje analizuojamos šalies bei užsienio socialinės pagalbos teikimo sąlygos įstojus Lenkijai į ES. Analizuojama buvo šalies ir užsienio investuotojų parama. Daugiausia dėmesio skirta tiesioginėms užsienio investicijoms (TUI). Siekiant minėto tikslo buvo aptartos tokios socialinės pagalbos priemonės, kaip valstybės dotacijos, užsienio finansinė pagalba bei kitos vyriausybės paramos formos kaip atsinaujinančių energijos šaltinių sektorius (AEŠ). Tikslui pasiekti buvo atlikta vyriausybinių institucijų, ypatingai Ūkio ministerijos, sukauptos medžiagos analizė.

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