The MFF as a Tool Supporting the Implementation of the Development Policy of Local Government Units on the Example of Self-Governed Provinces

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Abstract:

Purpose: The article points out the essence and the role of the multiannual financial framework (MFF) in the implementation of the development policy of a given local government unit (LSGU). It was investigated whether the possibilities of this instrument are actually used in practice. The article compares the main financial volumes of individual Polish provinces in 2018-2020, i.e., the level of income, expenditure, debt, as determinants enabling the relative implementation of development policy.

Design/Methodology/Approach: The construction of the MFF makes it possible to assess the financial situation of a given region and to identify the resources earmarked for the implementation of investment tasks aimed at stimulating this development. The set tasks and the defined objective determined the research procedure in which empirical data were analysed, measured and evaluated. The source of data were long-term financial forecasts for self-governed provinces in Poland, data provided by the CSO, the Ministry of Finance and Regional Chambers of Accounts. The research covered the period 2017 - 2020 and was based on, desk research method, quantitative methods, in particular statistical methods as well as comparative methods, and praxeological methods.

Findings: The results of the research carried out indicate that, unfortunately, the possibilities of the MFF and, above all, its reality are not always used in local government practice. Very often (on the example of the analysed provinces) it was changed and property (investment) expenditures were transferred to the next budget year.

Practical Implications: Actual and realistic planning of investment expenditures stimulating development and pro-innovative actions in a perspective exceeding a given budget year, using a multiannual financial framework, is a key and necessary condition for achieving long-term development of a given region. The MFF is also a very important instrument for the banking sector, councillors and residents of the region.

Originality/Value: The results of the study reflect the applicability and effectiveness of the multiannual financial framework in terms of stimulating and supporting the implementation of development policy.

Keywords: Regional development, development policy, multiannual financial framework.

JEL classification: H72, H76, O4.

Paper Type: Research article.

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1. Introduction

The creation of appropriate conditions for both local and regional development is the basis for strengthening opportunities for entrepreneurship, social development, increasing the level of education and civic awareness in the areas concerned (Gabriel-Woźniak 2004; Jakóbik 2000; Ćwikliński 2004). In the modern world economy, a significant increase in the importance of regions in economic development can be observed. It is the regions that are responsible for creating development strategies and decide on the direction of the use of their public resources, and thus have a decisive influence on the development of their territory.

Regionalism and development have always been intertwined but the rationale and the actual nature of the link between the two concepts have been incessantly contested (Bruszt and Palestini 2016). Taking into account the place where development phenomena arise and their nature, as well as the conditions and factors shaping (influencing) these phenomena, we can speak of development on a global, regional or local scale (Kogut-Jaworska 2008). Each region seeks solutions for the well-being of its inhabitants (Pike, Rodríguez-Pose, and Tomaney 2016; Sotarauta, Horlings, and Liddle, 2012).

Regional development is the process of all changes occurring in a region (Kosiedowski, 2005). Regional development is a multidimensional category and usually means a process of positive changes in terms of quantitative and qualitative transformations brought about by spontaneous mechanisms and/or deliberate actions of public entities (Piórkowska, 2015). Regional development can be seen in terms of changes in the coexisting and interdependent economic, social, technical, technological and ecological systems of a given space (e.g., the highest units in the administrative division of the country), which consist in permanent replacement of the existing states of affairs with their better counterparts, i.e., evaluated positively from the point of view of the adopted criteria (Głuszczuk, 2011). Regional development consists of implementing the tasks of regional policy and, more broadly, of economic policy and, indirectly, of general state policy. Regional policy therefore faces the difficult task of aggregating individual preferences (of local government units) into social decisions that are of strategic importance locally (Szewczuk, Kogut-Jaworska, and Ziolo, 2011).

2. The Role and Importance of Development Policy

Pursuant to Article 2 of the Act of 6 December on the Principles of Development Policy, development policy is understood as a set of interrelated activities undertaken and implemented to ensure sustainable and balanced national development, social-economic, regional and spatial cohesion, increasing the competitiveness of the economy and creating new jobs on the national, regional or local scale. This definition can also be applied to regional policy which defines the directions and ways of influencing the process of regional development of the
country, allows the transition from general arrangements concerning the objectives, means and ways of shaping the entire social economic process by the state to guidelines on this subject addressed to individual regions, taking into account their diverse and often specific conditions of the natural and socio-economic environment and the needs of their population. It should be confirmed that development policy is closely linked to social policy. The components of these policies, in the form of economic and social development, enter into interactions, dependencies, interdependencies (Budziewicz-Guźlecka, 2019).

Regional policy is a component of general socio-economic policy. In countries where development management is based on planning, regional policy defines the principles and proportions of the distribution of tasks included in national economic development plans on a territorial basis and provides important information in this respect for the planning of the development and management of regions and smaller spatial units. Determining at the central level in which proportions the objectives and means of development of the national economy are to be distributed in the regions is also a condition for the internal compatibility of the entire system of spatial plans.

The functions of regional policy are therefore bidirectional. This policy serves firstly to treat the regions comprehensively as an object of influence of individual fields of socio-economic policy and to coordinate these influences with respect to individual regions and secondly to take into account the heterogeneity of natural, economic, demographic and social conditions in individual areas of the country in the socio-economic policy of the state. The main objectives of regional policy (Development policy was first mentioned as early as 1957 in the Treaty of Rome) can be identified as:

- increase in production, income and employment through better use of natural and man-made resources,
- a more even distribution of economic, social, cultural and political activity,
- integration of spatial structure factors on a regional and national scale,
- more efficient distribution of manufacturing activity,
- improving the urban and rural settlement structure,
- development of technical, economic and social infrastructure while preserving natural values.

In Poland, the basic and strategic document is the “National Strategy for Regional Development 2030” adopted by the Council of Ministers, which points to a new model of regional development in Poland. It foresees the development of Poland as socially and territorially balanced, allowing for effective development and use of local resources and potentials of all regions. The aim of such a model is to support in particular the areas which cannot fully develop their development potential since they have lost their socio-economic functions (e.g., ceased to be provincial cities) and thus have become less resistant to various crisis phenomena (e.g., negative effects of demographic processes).
The main objective of the regional policy contained in the National Strategy for Regional Development is the effective use of endogenic potentials of the territories and their specialisations for the achievement of a sustainable development of the country, which will create conditions for the growth of the income of the inhabitants of Poland with a simultaneous achievement of cohesion in the social, economic, environmental and spatial dimension.

The deepening disproportions in the level of socio-economic development of the sub-regions on the one hand and the unevenly distributed opportunities and challenges resulting from the globalisation processes, European integration or the impact of demographic processes - on the other hand - imply that the role of the regional policy is to influence the development of all territories, including cities of different sizes and different types of rural areas (Krajowa Strategia Rozwoju Regionalnego 2030; 2019). These actions will take into account the obstacles and problems faced in particular by economically weaker areas, but also the potential of all territories which, if properly identified and supported, will contribute to the development of the regions and the country as a whole.

Despite many years of economic growth in Poland, a process of growing developmental inequalities can be observed - some regions or sub-regions and the largest agglomerations, more attractive for locating new, pro-export investments, develop even faster. Poorer areas, medium-sized and small cities, although also developing, relatively lose their economic position and functions and become unattractive places to live and do business. This causes an increase in disparities, above all in the social and economic spheres, which entails an increase in migration in the long term. In addition, some regions are much more vulnerable to economic downturns due to their specialisation, labour costs or the educational level of their workers. A failure to take active and territorially integrated action at all levels of development governance may mean that the overlapping effects of globalisation and technological progress will exacerbate inequalities and polarise society and regions. For these reasons, proactive action on the part of regional decision-makers is necessary and much needed.

3. The Multiannual Financial Framework and its Role in Shaping Development Policy

In Poland, the obligation to prepare a multiannual financial framework is set out in the Public Finance Act of 27 August 2009 (Kaczurak-Kozak, 2019). Long-term planning is connected with forward thinking and making decisions which result in a long-term perspective as well as with determining the financial possibilities of a given territorial self-government unit which determine the realisation of investment tasks aimed at stimulating economic development in a given area.

The essence of a multiannual financial framework is to define priorities and strategic goals of the local government unit, which will result in targeted development at the
local and regional level. The multiannual financial framework has a rolling nature, which means that it is updated every year and extended for subsequent years (Owsiak, 2014). The budget periods set out in the framework are simplified models of the local authority's future financial plans (Grad, 2014). It aims to increase transparency, efficiency and rationality in the management of public funds. An important issue in a multiannual financial framework is its realism which is reflected in its inclusion of projects that have or may have an impact on the financial economy and in particular stimulate economic and social development beyond the current financial year (Owsiak, 2014).

It should be added that a multiannual financial framework promotes the efficient allocation of resources and stability, which is extremely important for shaping development (Patrzalek, 2011). A reliable specification of future projects may also contribute to increased opportunities to obtain funds from the European Union, as local government units are obliged to ensure that they have the resources to co-finance a given investment. Long-term financial forecasts also allow for the detection of negative conditions and timely remedial action that could minimise additional expenditure (Jastrzębska, 2012). The possibilities offered by a multiannual financial framework are extremely important for the pursuit of effective development policy at regional level. Indeed, the very determination of the amount of future funds and the directions in which they are to be used makes it possible to achieve long-term goals and objectives.

Multiannual financial planning can contribute to shaping development and making better use of public funds, provided that it is implemented correctly and that the obstacles that limit the practical use of this tool are removed. The increasing role of financial planning in the context of development planning is connected with the objectively occurring factors: demographic, economic, social and globalisation, which may have a negative impact on the functioning of many territorial self-government units, especially their financial condition and development opportunities, and which are subject to constant changes (Czekaj, 2015).

A multiannual financial framework is created as a result of multiannual financial planning and analysis of different variants of financing the tasks that serve to implement the objectives defined in the development strategy of a given territorial self-government unit. The MFF is a tool for the rational management of public funds, and its integral part is debt management. Cichocki (2001) defines the characteristics of an MFF, which include:

- a multiannual perspective in the planning of investment and operational tasks,
- the completeness of the implementation plans of the budget and of all entities providing services to residents, regardless of their organisational form,
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➢ management efficiency, as the guiding principle in preparing an MFF is efficient planning and management of own resources and debt,
➢ the participation of residents in the management of the territorial self-government unit, the implementation of tasks and their objectives are subject to dialogue and evaluation by the residents.

The literature additionally emphasises that the MFF should be an important tool for improving the allocation of budgetary resources and an integral element of the territorial self-government units' development strategy (Piszczek 2017). This is because multiannual financial planning combines strategic planning and annual budget preparation. It is considered a model for actively influencing future events. It is about identifying long-term problems and directing funds and resources to solve them, focusing on the long-term effects of decisions to create and stimulate development.

Multiannual financial planning can be equated with strategic planning in companies and other organisations and should be an integral part of the management of a public entity, therefore it must take into account, among other things, financial constraints, other resource limitations, conflicting interests of different groups influencing the operation of the entity, the scarcity of information at the stage of preparation of plans or anticipated changes in the environment. It must also link other planning documents prepared by the territorial self-government unit in a coherent manner (internal coherence and consistency) (Wyszkowska and Wyszkowski, 2016).

4. Analysis of Research Results

The abolition of the debt level limit for territorial self-government units and the introduction from 2014 of only a limit on debt service disbursements in individual years covered by the forecast (individual debt ratio – IDR) started to encourage territorial self-government units to effectively manage debt (its level and service costs). Somewhat enforced, inter alia, by changes in legislation, local government debt management promotes the development of local government and better meets the needs of local and regional communities (Jastrzębska, 2009).

A situation in which there is a visible lack of development factors or it is impossible to use them effectively for development is interpreted as the existence of constraints (obstacles) to development. The association of development factors and constraints offers the advantage in that there may quite often be situations in which it is impossible (for a variety of reasons) to activate and exploit existing development factors (Parysek, 2001) (Table 1).

The analysis of obstacles should be related to the specific development goals or tasks of the local government and above all on their level they should be quantified and assessed. Development objectives are universal and, as with factors, their embodiment and prioritisation takes place in specific local conditions.
### Table 1. Main categories of obstacles to implementation of the development policy of a territorial self-government unit.

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<th>Type of obstacle</th>
<th>Examples</th>
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| Financial        | - limited financial resources to implement investment and development-oriented tasks,  
|                  | - the need to include an own contribution in some development projects (lack of resources to provide it),  
|                  | - the lack of financial liquidity.  |
| Macroeconomic    | - the situation on world markets,  
|                  | - the impact of the crisis on the implementation of pro-development tasks (e.g. delays in their implementation),  
|                  | - the rate of economic growth.  |
| Institutional    | - limited human resources (many TSUs suffer from a deficit of well-prepared employees),  
|                  | - dispersal of information and decisions,  
|                  | - the lack of organisational solutions to motivate staff to seek additional resources to stimulate development.  |
| Organisational  | - procedural difficulties in the organisation,  
|                  | - difficult opportunities to recruit highly qualified staff for development projects,  
|                  | - low involvement of the organisation's authorities in obtaining and implementing innovative projects.  |
| Legal            | - unfavourable legislation, e.g. labour law,  
|                  | - complex tender guidelines,  
|                  | - misinterpretation of legislation by organisations,  
|                  | - frequent amendments of legal acts and numerous changes in implementing provisions.  |
| Informative      | - the lack of information gathering and management skills,  
|                  | - the technical barrier to obtaining information,  
|                  | - low level of accessibility to various forms of information,  
|                  | - the lack of reliable information on contractors.  |


In addition, significant constraints include:

- too limited competences in day-to-day and strategic management (limited autonomy, limited responsibility),
- the lack of substantive competence, experience and knowledge of local government activity in Poland and abroad,
- the lack of efficient and effective management of the economic environment,
- inefficient management and incompetent pro-investment (pro-economic) activities.

Regional development, on the one hand, depends on the quantity and quality of public investment, the implementation of pro-investment tasks, which de facto directly affect the size of the public deficit and debt. On the other hand, a shortage of development investments combined with a lack of rational management may lead to the generation of a deficit and the continual increase of public debt. This makes it extremely important and crucial to pursue an appropriate investment policy of a
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given territorial self-government unit and to select those tasks for implementation which, both in the short and long term, will contribute to stimulating and maintaining a high level of both local and regional development. These premises clearly indicate that investment projects should result from a multiannual financial framework, which will make it possible to plan these investments appropriately in time and space and will also indicate the demand for financial resources necessary for their implementation.

As it was mentioned, the implementation of pro-investment, pro-development and innovative tasks stimulating regional development influences the level of indebtedness of individual territorial self-government units. Figures 1 and 2 indicate the debt levels of individual provinces for the period 2017-2020.

**Figure 1. Debt level of individual provinces in 2017-2020**

![Debt levels of provinces](image)

*Source: Own elaboration based on the reports on the implementation of multi-annual financial frameworks.*

The Mazowieckie and Śląskie provinces are nominally the most indebted, while the Opolskie and Świętokrzyskie provinces are the least. The highest debt dynamics can be observed in the Podlaskie province, which is increasing its debt from year to year in order to raise its level of development. The decision to incur debt should be preceded by a number of analyses demonstrating the legal and economic creditworthiness of the territorial self-government unit. It should be understood as the ability to repay all obligations and interest due, while meeting all cash commitments arising from current and capital expenditures. It is very important to select those tasks which will have a real impact on the development of a given region. Figures 3 and 4 present data on debt per capita in each province.
Figure 2. Debt level of individual provinces in 2017-2020

Source: Own elaboration based on the reports on the implementation of multi-annual financial frameworks.

Figure 3. Debt level of individual provinces in 2017-2020

Source: Own elaboration based on the reports on the implementation of multi-annual financial frameworks.
From the data presented, it is clear that in the case of per capita debt conversion, the Lubelskie, Łódzkie, Warmińsko-Mazurskie and, in recent years, Podlaskie provinces are in the lead.

Very interesting data can be observed in Figures 5, 6, 7 and 8. Assets-related expenditures of the provinces were presented in three perspectives, i.e., as planned as of 1 January of a given year, as amended during the year as of 31 December of a given year and the actual implementation of these expenditures. Due to the limitations of the volume of the article, data for the two extreme years analysed, i.e. 2017 and 2020, are presented. In 2017, only one province, the Mazowieckie province, reported the implementation of assets-related expenditures on a higher level than the original assumptions, which should be assessed very positively. In all other units, it is clear that the actual implementation of assets-related expenditures (which is supposed to stimulate development) is significantly lower than the original plans. This improved in 2020 compared to 2017.

Although in the Mazowieckie province it was not possible to maintain the trend from the year 2027, the number of provinces in which the implementation of assets-related expenditures in relation to the original plan (as of 01.01) was similar or even slightly higher amounted to 5 units (i.e. Lubuskie, Łódzkie, Podlaskie, Śląskie and Warmińsko-Mazurskie provinces). In 2020, the lower implementation of assets-related expenditures was certainly influenced by the pandemic situation in Poland and worldwide and the resulting delays in the supply of raw materials, materials as well as the human factor due to sickness absence.

Source: Own elaboration based on the reports on the implementation of multi-annual financial frameworks.
In general, the so-called “roll-over”, i.e. the transfer of expenditures, especially assets-related expenditures, to the subsequent budget year should be assessed very negatively. This is a very negative phenomenon, firstly because of its prevalence and secondly because these expenditures are carried over from one year to the next or, in extreme cases, abandoned by decision-makers altogether. This may cause delays in the development of a given region as well as the implementation of certain tasks at higher prices (the postponement in years may result in price increases by contractors, due to increases in raw materials, labour costs, inflation levels, etc.).

**Figure 5. Assets-related expenditures by province in 2017**

![Diagram of assets-related expenditures by province in 2017](source)

*Source: Own elaboration based on the reports on the implementation of multi-annual financial frameworks.*

**Figure 6. Assets-related expenditures by province in 2017**

![Diagram of assets-related expenditures by province in 2017](source)

*Source: Own elaboration based on the reports on the implementation of multi-annual financial frameworks.*
Appropriate management of funds at the disposal of a given territorial self-government unit determines its development as well as other areas of self-government economy. The state of finances is a synthetic expression of the economic development potential of each entity. In other words, through the prism of finance it is possible to make an overall assessment of the functioning of a local government unit and its development potential. The financial condition of a local government unit is in fact not only a derivative of the public tasks and projects implemented (real sphere), but is itself a source of efficiency-oriented activities (Wojciechowski, 2012). A multiannual financial programme should be an important instrument that combines both effective management of public funds and the implementation of development-oriented tasks.
However, in order for it to be a truly effective instrument, it must be prepared realistically and, most importantly, the investment projects included in it should be implemented according to plan, within a specified timeframe and at a planned cost. Otherwise, the MFF will be yet another document that will only fulfil planning and information functions instead of stimulating development and increasing the effectiveness of public funds management in order to achieve the maximum development of a given region and, consequently, Poland as a whole.

The MFF should serve to maximise the satisfaction of the needs of the community as well as the implementation of such investments that will influence the level of satisfaction of social and economic needs in the future [Brzozowska, Kogut-Jaworska, Gorzalczyńska-Koczkodaj, Ziło 2013], while the financial system of territorial self-government units itself should make it possible to correct the effects of differentiated development and the level of socio-economic development.

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Ustawa z dnia 6 grudnia o zasadach prowadzenia polityki rozwoju. Dz. U. z 2021 r. poz. 1057.
