

The multilevel governance of financial instruments in regional development policy: the case of Poland

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Abstract

Purpose – The aim of this article is to investigate how the use of financial instruments influences the development of Regional Development Funds (RFR) in Poland and to assess the maturity and coherence of the regional development financing system in this country.

Design/methodology/approach – The methodology is based on the multilevel governance literature and on data collected during 26 in-depth interviews in regional, national and international institutions.

Findings – The authors demonstrate that the use of financial instruments stimulates new kinds of cooperation between several institutions and contributes to the establishment of RFR. The authors also show that the Polish regional financing system is still developing and formulate recommendations about necessary improvements.

Originality/value – The main contribution of this article, in addition to taking up a new, relevant topic for the regional development policy in countries benefiting from European Union (EU) cohesion policy, is the application of the multilevel governance (MLG) concept to explain the development of the Polish regional development financing system. Moreover, the significant added value of this study comes from the use of data collected during 26 in-depth interviews (IDI) in regional, national and international institutions on the use of repayable instruments in regional development policy.

Keywords Multilevel governance, Financial instruments, EU regional policy, Regional development financing, Regional development institutions

Paper type Research paper

Introduction

Cohesion policy and its implementation have always constituted a source of institutional change in the beneficiary countries (e.g. [Lackowska-Madurowicz & Swianiewicz, 2013](#)). It required learning and creating new institutions ([Kovács, 2016](#)). In particular, the growing role of repayable instruments in the European Union (EU) cohesion policy became a catalyst for changes in the approach to the implementation of regional development strategies.

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This research was funded by the National Centre for Research and Development (NCBR), grant number Gospostrateg1/388207/9/NCBR/2018.

Edition of that article was financed under Agreement Nr RCN/SN/0330/2021/11 with funds from the Ministry of Education and Science, allocated to the “Rozwój czasopism naukowych” programme.



This process was especially visible in Poland, which has been the largest beneficiary of EU structural funds European Structural and Investment Funds (ESIF) since 2007, and the country where the value of funds allocated to repayable instruments under the cohesion policy has been the highest (European Commission, 2021). Hence, Poland offers an interesting and instructive case study concerning the establishment of a regional development financing system in a catching-up economy. The use of repayable financial instruments and the establishment of Regional Development Funds (Regionalne Fundusze Rozwoju; RFR) in Poland required the involvement of regional administration, financial institutions and private actors in development policy and several institutions on the regional, national and international level. Hence, we can analyze these processes in the context of the multilevel governance (MLG) concept, which is well-established in the literature concerning European integration (Marks, 1992, 1996; In Hooghe, 1996; Bailey & De Propris, 2002; Piattoni, 2009; Stephenson, 2013; Potluka & Liddle, 2014; Dąbrowski, 2014).

Thus, this article investigates how the use of financial instruments has influenced the development of regional financial institutions in Poland after its accession to the EU in 2004. Moreover, the article assesses the maturity and coherence of the regional development financing system in light of the MLG concept.

The article contributes to the field by exploring a new topic relevant to the regional development policy in countries benefiting from EU cohesion policy and applying the MLG concept to explain the establishment of the Polish regional development financing system. It enriches the research on intra-regional financial institutions implementing development policy within individual NUTS2 regions. However, in a broader context, it fits into the discussion on regions' autonomy in the implementation of development policy and the relationship of regional institutions with national and supranational institutions.

The described study addressed the challenges related to the growing budget constraints in many EU countries, which make the cohesion policy increasingly based on repayable instruments. Finally, the significant added value of this study lies in its use of data collected through 26 in-depth interviews (IDI) in regional, national and international institutions, which focused on the use of repayable instruments in regional development policy.

The article is structured as follows. Section two will present a review of the relevant literature and basic stylized facts about the role of financial instruments in the EU cohesion policy. Section three will provide an overview of the regional development financing system in Poland. Section four will describe the methodology and empirical approach. Section five will present the results and the discussion. Section six will conclude the text and provide recommendations concerning the further evolution of the Polish regional development financing system.

Literature review and stylized facts

The shift from grants to financial instruments in the EU cohesion policy requires the member countries to adjust regional development financing systems, which consists of the development of regional financial institutions that would offer repayable instruments (Brunazzo, 2016). The establishment of institutions supporting the implementation of regional policy can be analyzed in the context of the MLG concept, which explains the distribution of power both vertically, between the respective levels of government (international, national, regional, local) and horizontally, between multiple public and private stakeholders involved in the policymaking process.

The concept of multilevel governance emerged in the 1990s to explain decision-making processes in the EU. It indicated that the structural policy of the European Community is not implemented between the EU and a member state but involves a much larger number of actors, including subnational governments (Marks, 1992, 1996). Since then, the way we apply the MLG concept has evolved and has been used in various ways to analyze diverse EU policy

dimensions, including center vs periphery, state vs society or national vs international, or supranational vs national and regional (Grosse, 2010; Piattoni, 2009). As the complexity of EU policymaking increased, the MLG concept began to serve as a tool for analyzing the interdependence between the EU and global institutions (Stephenson, 2013).

Multilevel governance has been widely used to analyze changes in national policies, especially when different aspects of this policy relate to the distribution of power between different levels of management and different types of stakeholders. Such a cooperation network involves partners at European, national, regional and even local levels. Within this network, mutual relations are characterized by interdependence and the sharing of competencies, rather than competition for limited resources (In Hooghe, 1996). A specific dimension of these considerations was the development of a territorial approach to development policy, thus opposing a territorial approach to regional or sectoral ones (Szlachta & Zaucha, 2014; Gorzelak, 2018; Churski, Herodowicz, Konecka-Szydłowska, & Perdał, 2020). The discussed research trends are supplemented by analyses of the level of local autonomy in the implementation of development policies (Swianiewicz & Lackowska, 2018; Ladner *et al.*, 2019).

The above-described approach has already been applied to the analysis of policies using the EU structural funds (Potluka & Liddle, 2014) and including initiatives using repayable instruments under the cohesion policy (Dąbrowski, 2014; Dąbrowski, Bachtler, & Bafoil, 2014). Hence, we may use MLG to explain how the use of repayable instruments initiated institutional adaptations at the regional level and fostered the involvement of regional governments in national development policies Swenden & Bolleyer (2014). These changes have occurred in various EU countries and regions and non-member countries benefiting from EU programs. Multidirectional changes took place in the countries of Central and Eastern Europe (Bailey & De Propriis, 2002; Bruszt, 2008). The participation of these countries in the pre-accession programs stimulated the development of multilevel governance. Researchers observed similar processes in Southern Europe (Bache, 2010; Bache & Tomšić, 2010). However, they also occurred in non-EU countries that benefited from EU programs (Ertugal, 2010).

The MLG development brings many challenges because its high complexity level may overload the policy-making process due to a large number of actors, levels and institutional conditions. Based on comparative empirical studies of different types of regions in France and Germany, it has been shown that the adaptations of intergovernmental and regional structures lead to the development of a multilevel framework in which these risks can be mitigated. In practice, however, structuring multilevel governance depends on national institutional frameworks that may or may not favor necessary adaptations (Benz & Eberlein, 1999). These challenges are even greater in the case of financial instruments and institutions. The complexity associated with the use of financial engineering instruments in EU cohesion policy is high. This results particularly from the need to understand the regulations concerning the implementation of EU programs, state aid and national legislation and from the necessity to deal with the market challenges, given the risk of financial instruments (Michie & Wishlade, 2011).

To investigate how the use of financial instruments has influenced the development of regional financial institutions in Poland and to assess the maturity and coherence of the regional development financing system in this country, the study focused on all levels of the vertical MLG analysis, including regional, national, international and supranational dimensions. Moreover, it considered the horizontal dimension, because private financial intermediaries, local governments and financial institutions belonging to them are involved in the Polish system of regional development.

Regional development financing system in Poland

In this section, we will present the use of financial instruments in Poland to provide a context of multilevel governance. Polish regions (voivodeships) vary in terms of financing patterns because

of their economic situation, traditions and cultural factors; they have various capacities regarding repayable instruments. The current regional policy is in development; it still lacks valid solutions on the national level. Moreover, there is insufficient coordination of the development financing system on the national and regional levels. Local governments remain responsible for the decision-making processes, although their budgets have been recently substantially limited. They were also deprived of their competencies to create their own financial resources. Currently, a two-tier, hybrid system of regional financing institutions operates on the national and regional levels. Notably, the regional authorities were free to decide whether to allocate funds from the cohesion policy to grants or financial instruments. Repayable instruments are used in all Regional Operational Programs (ROP) in Poland, albeit the amount of funds that a given region allocated to financial instruments varies between individual programs. In total, it accounts for ca. 5% of the allocation under 16 ROP. Furthermore, the regions differ in terms of the types of financial instruments offered within their ROP.

A characteristic feature of the Polish regional development system is the substantial heterogeneity of financing patterns in the respective regions (voivodeships). If the regional authorities chose to allocate funds from the cohesion policy to financial instruments instead of grants, they had to create appropriate institutions to manage the funds, since, after the initial turnover, these resources returned to the regions and – already as regional funds – may have been reinvested through subsequent financial instruments.

Regions' involvement in the EU initiatives created an impulse for the development of regional financial institutions that specialize in the management of these funds, namely RFR. Establishing RFR became possible with the introduction of the Act of 11 July 2014 on the principles of implementing cohesion policy programs financed under the 2014–2020 financial perspective, the so-called Implementation Act and the Act on the Voivodeship Self-Government. Until June 2021, RFRs have been created in 12 out of 16 voivodeships; they differ in terms of accumulated funds and organizational models. The remaining voivodeships have based their development policies mainly on non-repayable grants and hence have maintained the incumbent regional support system. An important factor weighing on the current shape of the RFR is the adapted model of the distribution of the funds in the 2007–2013 EU budget perspective. This model was either direct, meaning the funds were handed over to the regional loan and guarantee funds, or indirect, namely through the JEREMIE or JESSICA program. Regions that applied the indirect model accumulated returnable funds from the initiatives and had the potential to create RFR.

In this article, we also investigate how the use of financial instruments influences RFR development. Therefore, we compared the dates of access of selected regions to the EU initiatives involving repayable instruments and the dates of RFR establishment (Table 1). We could expect that the regions which have used financial instruments the longest may be well prepared for the RFR development and have accumulated substantial funds for their financing. Surprisingly, the regions that decided to participate in the JESSICA and JEREMIE initiatives did not always establish RFR. Moreover, RFRs have been also established in regions where there was little use of financial instruments, (Podkarpackie, Podlaskie) and it has not been established in the Mazowieckie region, which manages substantially larger funds.

We observed a correlation neither between the starting dates of the initiatives nor the amount of funds and the RFR launch, so we can hypothesize that the RFR establishment is a spontaneous process that is independent of the dates of access to JESSICA and JEREMIE initiatives and the pools of funds allocated under ROP dedicated to financial instruments. The system goes through bottom-up development at the regional level and it is based on political willingness, rather than solely economic factors. We will address the more detailed determinants of RFR establishment in the article's empirical section.

Methods and materials

We based the research methodology on semi-structured in-depth interviews (IDI) conducted between December 2019 and January 2021 in 26 supranational/international, national and regional institutions (Table 2). The questions were adjusted to the respondents and conformed to the MLG concept. The interviewees included representatives of EU institutions and European international financial organizations, CEOs, managing directors and senior personnel of financial intermediaries specialized in financial instruments and EU cohesion

Table 1.
Dates of access to EU initiatives and creation of RDF in the selected Polish regions

Region	JEREMIE starting date	JESSICA starting date	RDF launch
Wielkopolskie	2009	2009	2016
Pomorskie	2009	2010	2015
Dolnośląskie	2009	–	2012
Łódzkie	2009	–	2020
Zachodniopomorskie	2009	2009	2017
Mazowieckie	2012	2011	–
Śląskie	–	2010	2019

Source(s): Own elaboration based on the BGK data

Name of the institution and the scope of its activity

International/Supranational

European Commission – Directorate-General for Economic and Financial Affairs
 European Commission – Directorate-General Regional and Urban Policy
 European Association of Public Banks
 European Investment Bank – Headquarters in Luxemburg
 European Investment Bank – Warsaw Representative Office
 European Bank for Reconstruction and Development
 Wirtschafts- und Infrastrukturbank Hessen
 Bundesverband Öffentlicher Banken Deutschlands

National

Polish Association of Regional Development Funds
 Polish Bank Association
 Bank Gospodarstwa Krajowego – Department of EU Funds
 Bank Gospodarstwa Krajowego – Department of Guarantees
 Social and Economic Investment Company TISE
 Polish Association of Lending Institutions (Polski Związek Funduszy Pożyczkowych)
 Polish Association of Guarantee Funds (Krajowe Stowarzyszenie Funduszy Poręczeniaowych)
 Foundation for the Development of Polish Agriculture

Regional

Mazovian Credit Fund
 Mazovian Guarantee Fund
 Mazovia Development Agency (Agencja Rozwoju Mazowsza S.A.)
 Mazovia Unit for the implementation of EU-programmes
 Mazovian Government Treasury Department
 Mazovian Government Budget and Finance Department
 The Mazovian Government Financial Instruments Department
 Development and Promotion Fund of the Wielkopolskie Voivodeship (Fundusz Rozwoju i Promocji Województwa Wielkopolskiego S.A.)
 Wielkopolska Region Development Fund
 Dolnośląskie Region Development Fund

Table 2.
The respondents of the IDI

Source(s): Own elaboration

policy, representatives of the regional authorities and representatives of national and regional financial institutions supporting cohesion policy projects. We transcribed the interviews for the analysis purpose and supplemented them with desk research methods including the analysis of policy reports and statistical data.

Respondents were chosen so that they cover regional, national and supranational/international institutions responsible for shaping regional financing policies (vertical MLG), as well as public institutions which collaborate with the private sector to ensure compliance with horizontal MLG. The list of respondents is presented in [Table 2](#) below.

Each of the 26 semi-structured interviews encompassed 20 questions, adjusted to the respective respondents, which amounts to 520 questions overall. The questions concerned the existing and prospective financing system and the existing and prospective instruments financing regional development. The baseline questions founding all interviews are detailed in the [Appendix](#). The IDI allowed us to build a unique database encompassing a broad set of otherwise unavailable data.

Results and discussion

To investigate how the use of financial instruments by regional authorities influenced the development of regional financial institutions in Poland and to assess the maturity and coherence of the regional development financing system in the light of the MLG concept, we divided the interview questions into two parts: questions on the current and prospective (desirable/necessary) instruments and questions on the institutional framework, including interviewees' assessment.

Current and prospective instruments

Based on the IDI, it is evident that there is a large demand for repayable instruments in Poland, particularly given the depletion of non-repayable instruments for supporting regional development projects in the EU budget perspectives 2014–2020 and 2021–2027. This finding confirms Brunazzo's results (2016), particularly given the fact that RFR provides finance to small and medium enterprises that are exposed to investment gap problems. According to the respondent's answers, the main instruments used currently in regional development projects are loans and guarantees offered by national and regional intermediaries. This is also in line with the literature (Brunazzo, 2016). The areas financed by these instruments conform to the cohesion policy goals for each EU budget perspective and the ROP. The main benefits of these instruments include the low credit cost and the access to otherwise inaccessible instruments for many beneficiaries (particularly start-ups or companies with risky and very innovative business concepts or without credit history). Other advantages for the beneficiaries include project monitoring through the intermediary and guidance and assistance in running the project. Noteworthy, financing via loans and guarantees can be conveniently combined. In the context of MLG, the use of these instruments requires the involvement and cooperation of several actors, namely EU institutions providing the funds, the national development bank (BGK) administering the funds, RFR, commercial and cooperative banks and regional loan and guarantee funds. Moreover, the use of such instruments strengthens regions' autonomy in financing development policy. This autonomy concerns both the international dimension (reducing the dependence on EU funds) and the national dimension (reducing the dependence on national funds). In this sense, our results supplement the discussions by Dąbrowski (2014), Grosse (2010) and Ladner *et al.* (2019). Furthermore, we deepened the analyses of MLG patterns on the regional level provided by Dąbrowski (2014) and Michie and Wishlade (2011) by focusing on the relationship between the self-government, RFR and regional financial intermediaries, as well as their various interactions in the indirect and direct model.

The respondents listed several barriers to the use of loans and guarantees and their limitations. Above all, many potential beneficiaries are not aware of the funding opportunities, they also lack general knowledge about the financial instruments. Both small and medium-sized enterprises (SMEs) and local government entities are sometimes reluctant to use repayable instruments mainly due to their weak financial condition, the risk associated with these instruments and the availability of less risky grants. So far, a discouraging factor to use financial instruments for regional development projects has been the fact that the administrative requirements in the settlement of more risky repayable instruments and less risky grants have been very similar. Moreover, the regional and national intermediaries have very limited advertisement possibilities, because they use public funds. The interviewees also indicated legal limitations to reusing the funds. They can be only applied to the same objective specified in the ROP, which means that the reuse possibility depends on the flexibility of the ROP design. Not all the voivodeships designed their ROP in this manner. Hence, our results show that the management of financial instruments is related to several difficulties and requires supporting customer awareness. According to our findings, the use of repayable instruments is complex and may lead to an overload of local authorities, hence RFR manages the risk on behalf of the self-governments by distributing the repayable instruments among beneficiaries and by monitoring their use. These findings contribute to the analyses of [Benz and Eberlein \(1999\)](#) and [Michie and Wislade \(2011\)](#), which point to challenges in the uptake of repayable instruments.

The results of our study also deepen the discussion on the possibility of using various financial instruments in the development policy presented by [Michie and Wislade \(2011\)](#). Currently, although the scope of financial instruments which could be used for regional development projects is very broad, we can draw from the IDI that the existing framework lacks instruments other than loans and guarantees. Only a few voivodeships developed equity instruments, mainly venture capital (VC); administrative barriers are a substantial limitation for using equity instruments with the involvement of public partners. Favorable regulations and the subsequent expansion of the VC market would greatly facilitate regional development. The respondents indicated that there was a large demand for VC and other equity projects; potential beneficiaries are looking for risk-sharing opportunities and often view equity financing as safer instruments than loans. Besides the mentioned debt and equity instruments, an advantageous solution could be hybrid products (coupling equity and debt), such as mezzanine financing. Local projects which require smaller budgets would also benefit from business angels' funds. The respondents indicated that leasing is slowly gaining importance in regional development projects, but there is a limited scope of undertakings where it can be applied. However, it can support the main source of financing. Moreover, the interviewees stressed that the current instruments should be more tailored to restructuring the voivodeships' economies to explore the regions' potential and know-how of the SME. They could take the form of additional guarantees for undertakings in the promoted industries or purchase programs of securities issued by regional authorities.

We also asked the interviewees about prospective instruments concerning particularly the possibility to replace grants with financial instruments, potential synergies between repayable instruments and grants and the opportunities to use new instruments created for the new EU budget perspective.

According to the respondents, even though repayable instruments will replace to some extent grants in the 2021–2027 perspective, there are undertakings, which still have to be financed by non-repayable instruments. This concerns particularly projects financed by the European Social Fund (ESF) concerning social inclusion, education and partially labor market programs, which are areas that cannot use financial instruments, because there is no possibility to commercialize the effects and repay the funds. Grants should also serve in projects aimed at creating the basic social and economic infrastructure, for example, streets, driveways, roads, telecommunication

and information superhighways. In this case as well, one cannot use financial instruments due to the lack of possibility to commercialize the effects. Furthermore, it is difficult to introduce financial instruments for funding areas where grants are already offered (e.g. the labor market). Because the administrative duties are similar in the case of both types of instruments, the beneficiaries prefer to use non-repayable instruments. In this context, one should avoid the misuse of non-repayable instruments. If all potential beneficiaries expect this form of support, many investors will be reluctant to undertake an investment, unless they receive a grant. A desirable solution would be to apply repayable instruments in all undertakings where the effects can be commercialized and allow to generate profits. These findings supplement the mentioned strand of literature concerned with the potential scope of instruments that may be used in the respective areas of cohesion policy (Michie & Wishlade, 2011).

We also added a new element to this discussion as the respondents indicated that there were several potential synergies between repayable instruments and grants. A synergy combining a non-repayable and repayable instrument leads to a larger value added than the use of these two types of instruments separately. Such a situation can arise in areas of regional development, where it is necessary or recommended to partially use grants. The respondents named several examples of successful combinations of repayable and non-repayable instruments in past projects, which may also be applied in the budget perspective 2021–2027:

- (1) In the case of the ESF operational program “Human Capital,” beneficiaries with financial constraints may receive grants, while the remaining beneficiaries may obtain credit;
- (2) Partial debt cancellation in the case of loans for unemployed persons who aim to start their business, conditional on the achievement of the declared result (performance of the company);
- (3) Bridge financing instruments provided by various intermediaries; the beneficiaries may receive a loan for the required own input when they apply for grants;
- (4) Innovative projects with implied high risk, in which the repayable instrument constitutes an additional burden. In this case, grants could be dedicated to the promotion of innovation, while the research and development phase could be financed by loans;
- (5) In R&D projects, non-repayable instruments may be granted to patents, while loans for the continuation of the project, namely commercialization and implementation;
- (6) The “technological premium” instrument, entailing the partial reimbursement of bank credit in the case of successful innovative projects implemented in SME (Smart Growth Operational Program);
- (7) Grants could be also used partially in the case of projects, in which it is difficult to assess, whether the objective has been achieved to settle the repayable instrument contract, e.g. in the IT industry, where the market develops very rapidly and the institutions supporting regional development lack the expertise in the field to assess the effects of the project.

Moreover, we supplemented the strand of literature concerned with shaping regional policy in Poland (Churski *et al.*, 2020; Gorzelak, 2018; Grosse, 2010; Ladner *et al.*, 2019; Swianiewicz & Lackowska, 2018; Szlachta & Zaucha, 2014) by formulating practical guidelines on the use of financial instruments. The IDI respondents indicated many opportunities related to the new instruments in the 2021–2027 EU budget perspective. They pointed mainly to the more favorable regulations implying new possibilities to settle contracts including both grants and

repayable instruments jointly, the possibility to obtain guarantees from the Invest-EU fund and the possibility to apply for the new EBI and EBRD instruments.

The IDI revealed that in terms of the scope and utility of the currently offered instruments, several improvements are required. To increase the use of repayable instruments, it is necessary to counter the problem of insufficient knowledge about those instruments and specific funding possibilities. Possibly, improved communication between regional institutions and potential beneficiaries, as well as the involvement of EU institutions in creating hubs for the popularization of projects with the use of financial instruments could mitigate this issue. The hubs' activity could aim to encourage SMEs to participate in EU programs, attempt to change their ways of thinking about financial instruments and perpetuate long-term planning perspectives among the beneficiaries. It would be particularly useful to conduct pilot projects as an example. Moreover, the hubs could focus also on the continuation of ongoing undertakings via project pipelines, leading to consecutive series of undertakings which proved successful during the first launch. In this case, the role of a regional networking institution like an RFR would be particularly substantial. An important intermediary between national institutions and the beneficiaries could be also cooperative banks because of their close relation to regional and local enterprises. However, so far researchers have not fully explored their role in financing regional development projects. The IDI also brought to attention problems related to the reuse of financial instruments resulting from inflexible ROP design. A solution to this issue could be closer cooperation between national entities responsible for administering EU funds and the regional entities in charge of ROP.

Moreover, it remains necessary to expand the range of repayable instruments and develop the market for other products than solely loans and guarantees. This requires the alleviation of the mentioned legal limitations concerning equity instruments entailing legislative changes and the involvement of institutions on the national governance level. Potential beneficiaries and regional authorities should be the ones to contribute proposals.

Furthermore, the combination of repayable instruments and grants and the achievement of synergy effects involve the cooperation of multiple actors, namely the EU and national and regional institutions responsible for an appropriate ROP design; institutions providing the financing (national and regional financing institutions, commercial and cooperative banks); and beneficiaries (companies, R&D entities, universities).

Therefore, the use of financial instruments and the reaping of the benefits related to their application – mentioned by the interviewees – contributes to the strengthening of horizontal and vertical MLG due to the necessity to involve multiple actors on several governance levels, as well as various institutions supporting regional development and beneficiaries.

Current and prospective institutional frameworks

As mentioned in “The Regional Development Financing System in Poland,” Polish regions (voivodeships) differ in terms of their regional development financing system. One of the key differences between the regions is whether they established an RFR. The IDI's results indicate that RFR's establishment, its development stage, the way of management and its activity scope depend on several factors; above all, the duration of the use of repayable instruments, which impacts the amount of gathered funds. A further important factor of RFR development is the number of initiatives (above all JEREMIE, JESSICA) implemented in the respective regions and the amount of funds managed under the respective initiatives. In the majority of the regions, where the allotted funds were small, there was sparse interest in developing new institutions or a system based on repayable instruments. Although, one should stress that some of the newly established RFRs manage small funds (Table 2), while the Mazowieckie voivodeship manages substantial funds without an RFR. Hence, the amount of funds is not the only determinant of RFR establishment.

These findings allowed us to elaborate on the papers of [Grosse \(2010\)](#) and [Piattoni \(2009\)](#) by analyzing EU funding as a factor influencing the development of regional financial institutions. As resources accumulate in the regions, the autonomy of development policy at the regional level increases. This is enabled by the flow of resources from the supranational level to the national and regional levels. Therefore, establishing RFR requires the involvement of institutions on various MLG levels.

An important factor of RFR development is the adapted model of funds distribution in the 2007–2013 EU budget perspective. This model was either direct, meaning the authorities granted the funds to the regional loan and guarantee funds, or indirect, e.g. through the JEREMIE or JESSICA program. Regions that applied the indirect model accumulated the returnable funds from the initiatives and had a larger potential to create RFR. Hence, the chosen funds distribution model impacts the region's capacity to establish RFR and its ability to use financial instruments, achieve economies of scale in funds management and accumulate knowledge in this area. The regions that extensively use repayable instruments have a greater capacity to accumulate financial resources for achieving regional policy goals. This result contributes to the strand of literature concerned with MLG development ([Potluka & Liddle, 2014](#); [Dąbrowski, 2014](#); [Dąbrowski *et al.*, 2014](#)), because we can observe the establishment of an additional regional policy management level; new financial intermediaries become an agency to mediate between regional authorities and final beneficiaries. In the direct model, authorities distribute financial instruments through the RFR among final beneficiaries; in the indirect model – through the RFR and other financial intermediaries. A very important factor that weighed on the RFR development was also the mentioned flexibility of the ROP design, delineating the possibility to reuse the funds.

Moreover, we asked respondents to assess the current regional development financing system in Poland in terms of its coherence and effectiveness. In this context, they identified several areas requiring improvement. Above all, they emphasized the necessity of improved coordination of the national and regional institutions. As mentioned, the system develops bottom-up on the regional level and lacks coherence. As RFR are new institutions created in 2012–2020, the specific regulations concerning their activity are still under development and the discussion about the RFR's status is still ongoing. However, their national presence is growing, as exemplified by the recently established (January 2020) Association of Regional Development Funds.

Therefore, our results supplement the articles by [Swenden and Bolleyer \(2014\)](#) according to which we can apply MLG to explain how the use of repayable instruments initiated institutional adaptations at the regional level and fostered the involvement of regional governments in national development policies. We may view the creation of RFR as an institutional adaptation. Moreover, we contributed to the articles by [Bailey and De Propris \(2002\)](#) and [Bruszt \(2008\)](#), which focused on multidirectional changes in the countries of Central and Eastern Europe by deepening this analysis in the Polish case.

Moreover, the interviewees indicated some operational and networking problems, among others, the large dissemination of the current intermediaries in some voivodeships, ensuing a high dispersion of their financial power and know-how and leading to competition instead of cooperation between the incumbent financial institutions. Consequently, intermediaries' resources are not used to the fullest in some voivodeships; the ratio of the loans to available funds is below 50% in the case of some intermediaries. The interviewees also indicated the lack of a networker institution in some voivodeships. Cooperation with commercial financial intermediaries also requires improvement. At present, the involvement of banks in regional development projects is weak.

These findings contribute significantly to the strand of Polish literature on shaping regional development policy that is ([Grosse, 2010](#); [Szlachta & Zaucha, 2014](#); [Gorzalak, 2018](#); [Swianiewicz & Lackowska, 2018](#); [Ladner *et al.*, 2019](#); [Churski *et al.*, 2020](#)). Concluding, the Polish regional development system is still evolving; the mentioned improvements require

the involvement of several institutions on various governance levels in the context of MLG. Considering the high dispersion of the incumbent financial institutions and the lack of a networker institution in some voivodeships, the creation of RFR can be viewed as a necessary step. This requires cooperation between the local governments and the incumbent financial intermediaries to consolidate their financial power and know-how. Improving the RFR regulations and strengthening their status in the financial system will require the involvement of institutions on the national governance level, their cooperation with the local governments and the RFR themselves. Moreover, it would be useful to include the institutions representing potential beneficiaries, as well as researchers and academics in the discussion on RFR's role.

In this context, we asked the interviewees about the prospective institutional framework and the economic necessity of creating RFR in all voivodeships. These questions were salient, as the experience of the financial crisis from 2007–2009 and the Covid-19 pandemic contributed to a tendency to establish regional financial institutions in many EU countries. In light of the responses to the IDI, the main economic arguments in favor of creating RFR and strengthening their role are:

- (1) economies of scale in managing the regions' resources;
- (2) increased efficiency of using the regional funds, measured as the ratio of the loans to available funds provided by the intermediaries;
- (3) adjusted financing of regional development projects to the new, more market-oriented financing conditions in the 2021–2027 budget perspective;
- (4) improved image/recognizability of the intermediaries and of the knowledge about their role, products and services among potential beneficiaries;
- (5) strengthened bargaining power of the intermediaries in national/international cooperation;
- (6) possibility to apply good practices from regional development financing institutions from other countries; drawing on their experience;
- (7) augmented regions' autonomy in financing development projects (the possibility to gather own funds);
- (8) possibility to involve in VC financing and gain additional funds for supporting regional development;
- (9) pooling know-how and competencies of incumbent disseminated intermediaries.

Moreover, the respondents indicated that the main challenges in creating an RFR are the necessity to reform the incumbent system consisting of multiple intermediaries and the reluctance of some potential beneficiaries to use repayable instruments instead of grants.

According to the interviewees, the use of financial instruments stimulated the establishment of RFR and the cooperation between the regional administration, financial institutions and private actors in regional development policy, thus supporting the functioning of the MLG concept in the Polish regional development financing system.

Conclusion

The article aimed to investigate how the use of financial instruments influenced the development of regional financial institutions (RDF) in Poland and assess the maturity and coherence of the regional development financing system in this country in the light of the MLG concept.

We demonstrated that the use of financial instruments in Poland stimulates new kinds of cooperation between several institutions on the regional, national and international levels and contributes to the strengthening of vertical and horizontal MLG and subsequently to the establishment of RFR. The study found that the establishment of RFR, its development stage, the way its managed and its activity scope depend on several factors; above all on the duration of the use of repayable instruments, impacting the amount of gathered funds, as well as on the adapted model of the distribution of the funds in the 2007–2013 EU budget perspective. Regions that applied the indirect model, accumulated returnable funds from the JEREMIE and JESSICA initiatives and had a larger potential to create RFR.

Furthermore, we found that the establishment of RFR provides substantial benefits for regional development. One of the main advantages is the regions' strengthened autonomy in financing development policy. Nevertheless, the Polish regional development financing system as a whole is still developing and lacks coherence. To fully reap the advantages of financial instruments, it remains necessary to improve some of its elements.

Above all, the coordination of the development financing system on the national and regional levels is insufficient, which thus creates the necessity of closer cooperation between institutions supporting regional development on the respective governance levels. Another problem is the high dispersion of the incumbent financial institutions and the lack of a networker institution in some voivodeships. In such regions, the creation and strengthening of RFR's role might be a necessary step, which requires cooperation between the local governments and the incumbent financial intermediaries to consolidate their financial power and know-how.

Moreover, the area of the instruments used for supporting regional development also requires improvement. The study revealed that there is a large demand for repayable instruments in Poland, particularly given the depletion of non-repayable instruments for supporting regional development projects. Nevertheless, our results showed that the use of repayable instruments is complex and may lead to an overload of local authorities. Therefore, RFR manages the risk on behalf of the self-governments by distributing the repayable instruments among beneficiaries and monitoring their use. A further problem is the limited availability of financial instruments beyond loans and guarantees within the existing framework. A substantial limitation is administrative barriers to using equity instruments with the involvement of public partners. In the MLG context, the uptake of financial instruments requires the involvement and cooperation of several actors on the regional and national levels.

To increase the use of repayable instruments, authorities need to counter the problem of insufficient knowledge about those instruments and specific funding possibilities, expand the range of repayable instruments and develop the market for other products than solely loans and guarantees. Moreover, although repayable instruments will replace to some extent grants in the 2021–2027 perspective, there remain undertakings, which will have to be financed by non-repayable instruments. The combination of repayable instruments and grants and the achievement of synergy effects will involve the cooperation of EU, national and regional institutions responsible for appropriate ROP design and the institutions providing the financing (national and regional financing institutions, commercial and cooperative banks) and beneficiaries (companies, R&D entities and universities).

The mentioned improvements would substantially promote a more coherent system based on cooperation at the horizontal and vertical governance level and allow to fully reap the benefits of the financial instruments.

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Appendix

Baseline questions for the semi-structured interviews

Questions about the system:

- (1) What is the role of your institution in supporting regional development in the EU?
- (2) What is the structure of institutions supporting regional development in the EU? What are the relations between those institutions: competition, cooperation?
- (3) What are the differences between countries/regions in using EU regional development instruments?
- (4) How do you assess the ecosystem of regional development financing in the EU (e.g. the cooperation between the respective institutions)? Do these institutions fulfill the role of a networker?
- (5) How do you assess the role of the Invest-EU fund?
- (6) In countries that have not developed regional development banks – what other solution would you recommend?
- (7) Can regional development funds fulfill the same role as banks? Which solution is more advantageous for the region?

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- (8) What are the proposed solutions in EU regional financing policies in light of the Covid-19 economic downturn?

Questions about the instruments:

- (1) What is the role of the respective instruments in financing regional/subregional development projects – both SME- and infrastructure-wise in the EU?
- bank credit
 - syndicated loans
 - bond issuance
 - venture capital
- (2) What is the scope of projects financed by the respective instruments?
- (3) Is there a specific way of financing projects (e.g. infrastructure, innovation etc.)?
- (4) What are the rates of return on these instruments? Which instrument is best for the regions' development?
- (5) How do you assess the role of EU projects like JESSICA or JEREMIE?
- (6) Given the constraints of the new EU budget perspective 2021–2027- how can repayable instruments replace non-repayable instruments?
- (7) Which instruments would be the most suitable to replace non-repayable instruments?
- (8) What are the proposed solutions concerning financial instruments in light of the Covid-19 economic downturn?
- (9) How can potential synergies be achieved in the use of repayable and non-repayable instruments in regional development financing?
- (10) How are EU funds and other funding sources coordinated; is the coordination effective?
- (11) Are the instruments geared toward specific areas? What about financing less innovative projects in underdeveloped regions?
- (12) Are any other financial instruments available for supporting the development of the region/subregion? The role of crowdfunding, leasing, factoring, forfaiting?

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