

POLAND AND THE NEW EUROPE: EUROPEAN UNION ENLARGEMENT AND WESTERN AID

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The development of contacts and close cooperation between Poland and the Communities, which was crowned with signature of the Association Agreement in 1991, took place during a lively debate concerning further integration in Europe. It was proved in Maastricht, that Europe (or European Union) strives not only to its deepening but widening as well.

It was realized that prosperity and stability of Union requires inclusion to its federation not only rich countries of EFTA but also those of Central and Eastern Europe. Being economically integrated by one foreign policy and the same currency, Union can have a positive impact on changes in countries of Central-Eastern Europe. Yet, it is a challenge both for Europe and Poland alike.

A challenge for Europe, since being plunged in economic, social and financial crisis, Union has neither an eventual conception nor vision of its own "architecture". Both political and institutional - legislative systems, as well as decisive process need being reformed. Particularly, decisive mechanism should be more clear and precise when facing a possibility of widening¹.

Union can be labelled a hybrid, that is something between a federal country and a federation of countries. It is still involved in the process of formation and is unprecedented in the world.

Maastricht is essentially a treaty born in a divided Europe. A major problem for Poland in planning its entry into the Community is that this new agenda is not yet clear. The goalpost for integration are being constantly moved and it is certain that the Community at the end of this century will be very different from that which exists today².

New European Architecture is not clear

It is worth mentioning that the European Union is not an ideal example of political and economic harmony and the Maastricht Treaty is far from playing a role of the Decalog.

A new challenge for the Union is caused by an eventual end of a conflict between East and West, which fact has changed the political map of Europe. Before 1989 Europe did not have any politically significant Centre, and thus did not experience any problems connected with a constellation grouped round such Centre.

All attempts of opposition of the continent's national structure and an idea of its integration are fated to fail. Europe is facing challenges which are being brought by international democracy.

Nowadays Europe is going through a transition stage and it cannot be neither widened nor deepened taking into consideration both logical as well as geographical point of view. It should be instead changed and shaped in a manner which would not disturb interests of inhabiting nations as well as principles of democracy.

A tactics of "balanced powers" which proved to be effective in Europe in the past is not sufficient any longer.

An idea of widening and deepening is seen in different ways in various Member States. This is a result of different economic and political situation in these countries.

In context of differentiated visions of United Europe the integration process should be designed in the form conclusive to national interests and general principles of democracy.

The Maastricht Treaty was formed for the conditions of the past periods which had been based on an idea of balance of powers.

This architecture is, however, not sufficient to meet the present challenges. This calls for a modernization of the Union towards an efficient and transparent structure and clearly defined presidency. The democratic credibility should be increased. The Maastricht Treaty should be revised in the following directions.

- a) The Centre should be comprised of two-chamber system including European Parliament and Union Council - the chamber of member states - in which all decisions concerning Union will be adopted according to the principle of legal equality of both chambers. It should result in a link between principles of federalism and democracy.
- b) The Commission should be transformed into a Union government formed by a president, according to the rule of ministerial responsibility and omitting the procedure of quantitative representation.
- c) The influence of member states on the role of European Council should be preserved. Thus, it should lay out, as a "collective head of the state", main political directions.
- d) Union's sphere of activity should be agreed upon by specifically laid down obligations as well as a catalogue of elementary rights.

Such an architecture of Union would be reasonable as well as clear. Moreover, it would remain in agreement with democratic constitutions of member states. Besides, alike principles and sphere of subsidiarity application need more precise definition. Presently, it is being interpreted in 15 different ways.

Independently of the Maastricht Treaty amendment, an expansion of decentralizing tendencies and probability of forming blocs (e.g. bloc of countries more advanced in integration, bloc of poor countries or net payers bloc) can be expected to appear.

Especially a division into two blocs is likely to take place:

- a bloc of South-West Europe countries (with France as a leader)
- a bloc of North-East Europe countries (with Germany as a leader)

In presented situation these two countries will have to provide help in negotiating common interests as well as preserving Union consensus.

The leaders (Germany, France) should engage themselves in providing possibility for different levels of integration in case the intended scenario should be endangered.

Integration of Poland with the European Union makes a double challenge for us since provisions of the agreement must be fulfilled within the period of internal transformation of the Polish economy.

The apparent choice between transformation and integration for Poland was answered in the same way as the deepening/widening issue in the Community; both have to occur simultaneously.

EU must support the reform efforts of CEE (Central and Eastern Europe) and the most effective way for the Community would be to involve itself in the building of institutions and to provide access to markets.

The combination of transformation and integration objectives presents a challenge for Polish decision-makers.

This challenge concerns a reasonable and politically acceptable balance between internal process and external developments.

It refers to all areas of economic and political life. The difficulty is that we have to adjust not only to what already exists, but also to what will be found in the Community at the end of present decade.

Which type of membership for Poland

The Union should remember that the transformation process in Poland is related to high economic and social costs, lack of political stability as well as frustration.

Poland, like other countries of CEC (Central European Countries) needs political perspective to continue the reform process, to maintain peace and internal stability.

We have done much progress so we can't be satisfied by an abstract idea of united Europe. It is concrete concept of integration and cooperation that we expect from Bonn, Brussels, London, Paris.

The Union should develop the European Agreement into the concept of early "premature" membership. It would allow the participation in the evolution of the Union. What is extremely

necessary, is an opening of the internal market for Poland and other CEC in the more consequent way, also for sensitive products.

However this "early membership" is differently stated by London, Paris, Bonn and Brussels.

- London (supported by Rome and Madrid) suggests a gradual (step by step) unification of countries of central Europe, leaving economic integration for the future.
- Paris is afraid of fast integration of eastern countries with the Union, due to fears that it will strengthen the position of Germany. France opts for integration with "two speeds", (in this concept we belong to the second speed).
- Bonn stresses on quick membership in the economic and political field. Rapid expansion to the East is very important. They feel tired funding the development of Greece, Spain, Portugal and Ireland. They would rather increase the assistance for the countries of eastern Europe. The planned financial assistance for these countries in the following 5 years will be 11 bln ECU comparing to 140 bln ECU assistance for the purest member countries of the Union. There is an obvious conflict between Bonn and Paris.
- As far as Brussels is concerned the European Commission tries to find a "modus vivendi" in this respect.

The strategy of the Commission is to create a European Integration Area which would include Poland (and other Central European Countries) into the Union structure except for economic membership in the EC. As a result we would be included into the political cooperation, common foreign policy and common security policy. After some time we could become a member of European Economic Area, which however does not cover integration of agriculture products.

There is a danger that this strategy would turn out to be a substitute of a normal membership. As we know provisional arrangements are always long lasting. Poland should try to find another alternative, based on more promising conditions for our membership. We need clear definition of accession criteria in the economic and institutional fields and a transition timetable before and after joining. It will make our vision more realistic.

Poland's membership in the European Union is likely to be achieved in two main ways which in practice may become a "hybrid".

a) realization of formal criteria set out in Article 237 of R. Treaty and Article 0 of Treaty on European Union, which constitute that "each European country may apply for a membership in the Union/Community".

As requirements of admission the Union Treaty enforces so called criteria of convergence concerning inflation, budget deficit, public debt as well as a long-term bank rate⁴.

b) arising of extraordinary political circumstances, as happened in case of Greece, Spain or Portugal when a political decision concerning the need to strengthen and stabilize democratic systems of these countries allowed to formulate special conditions of admission, including relatively long preliminary term as well as grant of considerable financial support.

Since the first variant appears to be more difficult for Poland we should therefore apply for application of a more mild criterium for instance, macroeconomic stability instead of those indicated by the Union Treaty. The second variant is found to be more advantageous one, but still it includes a factor of uncertainty!

External support for transition

After the World War II the countries of Central and Eastern Europe rejected - on the initiative of the USSR - the Marshall Plan. However in 1989 these countries anticipated the second round of that Plan. But it did not occur. There will not be the second round of the Marshall Plan for many reasons. First of all, there is no country with surplus in the balance of payments large enough to replicate the model of US Marshall Plan. Japan, country which has been recording surplus in the balance of payments, is not so much interested in the countries of Central and Eastern Europe.

Moreover, Central and Eastern Europe is becoming larger, and as it turns out — more absorbent to foreign financial assistance.

On the other hand, the European Union carries out its own integration programs and there always is the trade-off between "widening and deepening". Assistance for countries of Central and Eastern Europe is obviously associated with the idea of deepening, as it weakens the Union's capability to strengthen the integration processes. Problem of "deepening first or widening first" is question of money.

During the past years, there has been some improvement in the access to international finance. However the gains are still limited. To a large extent access hinges on the commitment of the national authorities to meaningful economic reform and sound macroeconomic policy. Such policy pave the way first to multilateral and eventually private source of finance.

Due to general concerns about creditworthiness, access to private medium- and long-term funds is available to only a few countries in transition. The Czech republic is the most creditworthy of the transition economies, Hungary also made further progress. Poland will probably be able to re-enter the financial markets following the debt reduction agreement with its commercial debt creditors.

As far as access to guaranteed bank and non-bank credits is concerned, Poland, like other economies in transition, has managed to obtain broader insurance coverage from western export credit agencies. However conditions of this coverage remain expensive and restrictive.

Given the difficulties in obtaining finance from such sources, Poland (as other transition economies) is virtually dependent on the multilateral financial institutions and international initiatives by the G-24 and G-7.

In 1994, after some years of negotiations, Poland normalized its relations with the London and Paris Clubs. Poland reached Brady-style agreement with creditor banks to reduce its commercial debts. Earlier Poland obtained the reduction of foreign debt with official creditors. As a result, it should attract more private capital.

As far as the credit ratings and borrowing conditions are concerned, perception of Poland's financial standing has improved as a result of the debt reduction agreement. Poland till the end of 1994, unlike Hungary, Czech Republic and Slovakia did not received a credit rating. However, it is possible, that in the near future Poland "will receive a rating of around Ba1/BB- (sub-investment grade) which will help its re-entry into the international capital markets" — as this was stated by the UN Economic Commission for Europe.

FDI in Poland still remains below expectations. In April 1995, FDI in Poland is estimated at USD 5 bln (USD 10 bln with investment commitments). Portfolio investment, after the institutional framework has been created, has been growing to significant proportions.

In 1994 Poland continued to make little use of guaranteed and official credits. The limited use of these credits is due to the high cost and the restrictive conditions applying to credit insurance. At present export credit insurance is available form the following agencies: ECGD (Export Credit Guarantee Department), EXIM (Export-Import bank of the US), Hermes, NCM (Nederlandssche Creditverzekering Maatschappij), FGB (Finnish Guarantee Department).

Given the general lack of access to private markets and the stringent conditions associated with guaranteed credits, multilateral facilities are of crucial importance.

Between 1992 and 1994 IMF arrangement for Poland totalled SDR 1,1 bln.

Commitments of the World Bank and other development institutions for all transition economies are not relevant to the needs of countries in question. These figures, compared to the Marshal Plan, are virtually low.

Table : Gross disbursement of the development banks to the transition economies in 1991 - 1993, (mln USD)

Institution	³ 1991	³ 1992	³ 1993
World Bank	³ 167	³ 1151	³ 1400
EBRD	³ -	³ 166	³ 489
EIB ³ 30	³ 143	³ 179	
	³	³	³
Total	³ 197	³ 1460	³ 2068

Source, UN Economic Commission for Europe, 1994.

Growing EIB role in Central and Eastern Europe

On 13 September 1993 the Council of Ministers of the European Community took a position of principle in favor of new EIB lending of up to ECU 3 mld over the next three years in ten Central and Eastern European countries: Albania, Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania and Slovakia.

The EIB started lending in Central and Eastern Europe in 1990 following an authorization by its Board of Governors in 1989 to provide ECU 1 bln in Hungary and Poland. The EIB financing was then extended for projects in other countries.

From 1990 till the end of 1994, the EIB lending in Poland totalled 886 mln ECU (1/3 of all EIB lending to countries of Central and Eastern Europe) of which 333 mln ECU was lended in 1994.

Projects mainly concerned the modernization and extension of energy generation and distribution, telecommunications, transport projects (roads, railways, airports, traffic systems etc.).

The EIB lending in Poland is coordinated with the EC Commission which is providing the funds from PHARE program. The EIB does not grant general purpose loans, its lending is closely tied to specific projects with priority given to:

- transport and telecommunications,
- the energy sector,
- industry and tourism.

The financial aid for Poland in the framework of the PHARE program

The PHARE (Poland, Hungary - Assistance for restructuring of their Economies) is the biggest source of the not repayable foreign aid supporting social and economic changes in Poland. The PHARE as the aid program of the European Union (EU) is treated by both, the European Commission and Poland, as the instrument in the process of integration of Poland with the European Union.

In the European Agreement (EA) on the Association of Poland and the European Union launched on 16th of December 1991, the EU declares providing Poland with further financial assistance in the form of grants and loans. Three types of assistance were set (see articles 95-100 of the EA):

- not repayable financial aid (in the framework of the PHARE program),
- loans from the European Investment Bank, and
- financial assistance in the exceptional cases to support stabilizing and restructuring activities in Poland.

The PHARE program is the assistance program of the EU which helps the process of restructuring the most important sectors the Polish economy. Every year the indicative program is negotiated with the European Commission, which defines priority areas in need of assistance. Afterwards the negotiations on the more detailed programmed follow. The signature of the indicative program PHARE 1994.

On 13th of October 1994 in Warsaw Mr Jacek Saryusz-Wolski - the Government Plenipotentiary for European Integration and Foreign Assistance and Mr Alan Mayhew - the Director of the I DG of the European Commission coordinating PHARE, signed the indicative PHARE 1994 program.

The signed document includes agreements made between the government of the Republic of Poland and the European Commission about use of the non-repayable funds given to Poland by the EU in the year 1994.

In 1994 the EU allocated to Poland altogether 208 million ECU. These funds were allocated to support the transformation process in Poland, as well as to the adjustment program concerned with the realization of the EA.

In the signed document, among others, it is said :

This assistance should be targeted to enhance the preparation of the integration process of Poland to the full membership, which is the common aim of both sides. The PHARE program is a very crucial instrument of both: that process, giving financial assistance for implementation of the EA, and sectoral, structural and institutional adjustments. These three dimensions of the EU assistance - development, transformation and integration - are going to contribute highly in the reform and modernization process in Poland.

Programming of the EU assistance, of which main receivers are particular resorts and departments, is connected with realization of tasks defined by the EA.

Both sides agreed on financing of nine programmed:

The Cross Border Cooperation (58 mln ECU). This program realizes decisions of the EA concerned with the development of the infrastructure (Articles 81-86) and investments in the borderline regions. In the framework of this program several investment projects are going to be financed, especially these on the transport and communication infrastructure on the Polish-German border and in the coastal regions.

Financial Sector Development (20 mln ECU). The aim of this program, according to the Article 83 of the European Treaty, is providing technical and educational assistance for the further development of the financial sector, especially the development of banking and insurance systems, with the particular attention for the banking in the rural areas.

Transport infrastructure (35 mln ECU). According to the decisions of the Edinburgh and Copenhagen summits of the European Council dealing with financing of the infrastructure development, and to the Article 91 of the EA concerned with the cooperation in the field of the restructuring and modernization of transport, the aim of this program is targeted at the co-financing of investment projects and modernization of the Polish transport infrastructure, particularly the motorways network in which the PHARE program is one of sources of funding. As the result of this program transit and internal roads connecting Poland with Member States of the EU should be modernized.

TEMPUS (35 mln ECU). The Article 76 of the EA defines the cooperation of Poland and the EU in the field of education which includes the teaching and education reforms, training programmed, supporting the European studies. The TEMPUS program contribute to the realization of the declaration included in the Article 76 through the interuniversity students teachers exchange. It should allow for undertaking common research programmed, further development of educational programmed, updating studies programmed and upgrading qualifications of University teachers in the fields which are of the special importance to continuation of social and economic reforms, such as: economics, management, new technology, ecology, foreign languages, European studies.

Development of local democracy and democratic society (10 mln ECU). The general aim of these two programmed is the assistance in development of local societies, help in the regional economic development, and institutional strengthening of the local democracy. The assistance will be directed to the social and economic development of communes (including newly created Agencja Rozwoju Komunalnego) and building of the democratic society.

The work protection (5 mln ECU). The article 87 of the European Treaty regulates cooperation in the social sector and give a help in the process adjustment of the Polish conditions to the European requirements. This program is targeted in acting concerning with the work environment improvement based on experiences of the EU in that field, as well as with supporting processes of adjusting law regulations applicable to the protection of employees in their work places.

The forestry protection (12 mln ECU). The financial support in the framework of this program will be employed on the restoration of damaged forests. These funds will be additional to the loan of the World Bank, and expected results should be beneficial not only to the environment but also to the agriculture, tourism and quality of life.

Restructuring (11 mln ECU). According to the Articles 72 and 78 of the EA, this program should give the financial support for medium size enterprises having problems with the short term liquidity, but being potentially profitable in long term. Additionally this program is going to finance further works concerned with updating energetic sectors and contribute to the program "Stabilization, Restructurization, Privatization" realizing in the cooperation with the EBRD.

FIESTA 3 (ECU 22 mln). Fiesta 3 is the continuation of earlier programmed of this type. It includes in its scope financing expenses connected with Polish participation in new open EU programmed for the CEECs (following decisions taken on the summit of the European Council in

Copenhagen), supporting development of the information infrastructure, continuation other PHARE programmed launched in earlier years, and also supporting research undertaken for development of the Polish economic strategy.

It is very likely that the indicative PHARE program is the last annual program. In accordance to the strategy preparing the associated countries to the membership, following PHARE programmed will be launched for five years. In that way it is expected to bring the element of the stability in the financial cooperation between the associated countries and the European Union institutions, as well as to let the associated countries for the long-term planning (e.g. assistance to the structural changes). The Commission proposed that on the following summit of Twelve in Essen the European Council took a decision to cancel 15% limitage of funds assign for the investment purposes, especially infrastructural. The above solutions concerning these matters would be adequate to proposals made by the Polish side.

Proposals and recommendations

Poland's earlier experiences connected with the non-repayable assistance from the European Communities as well as loans granted by the European Investment Bank are not sufficiently substantial to be discussed in terms of their results and effectiveness regardless of the fact that majority of the realized programs concerning both the non-repayable assistance and projects financed by the EIB are still not finished.

Unquestionably PHARE program assistance turns out to be the most significant source of the non-repayable foreign assistance supporting the process of socio-economic transformations. Being not included into the budgetary means of the recipient's government the means of assistance in certain measure supplement the budget permitting thus to increase the general expenses of the government connected with the transformation of economy. Though, it would be inordinately optimistic to expect that the assistance coming from the European Communities or even foreign assistance for Poland in general will profoundly change its the economic situation either in the short or longer term. The future success of economic reforms, economic development as well as the process of Poland's integration with the European Union depend mainly on the internal ability to create an efficient managing system and mobility of the original capital. Accordingly, the outer assistance may serve - adequately to its amount - to accelerate and to make easy the transformation aiming at the increase of these qualities. The construction of majority of assistance programs coming from the European Communities reflects the "philosophy" above. Yet unsatisfactory tempo of their realization demands to take certain steps leading to improvement and acceleration of the process of planning and introducing programs and projects which are financed from the foreign assistance.

Alan Mayhew, who is in charge of the Phare Program, identified three platforms that EU assistance for Poland should be based on:

- we are now in the new political framework. EU assistance should first of all finance the integration of Poland into the Union,
- support for investment is the second platform. EU assistance should be more than know-how, it ought to open the possibilities to develop into a more substantial financing instruments, to support Poland's structural development efforts,
- the third platform is the important role to render assistance more efficient and effective through coordination with other donors, particularly with the International Financial Institutions. The combination of EU grants with International Financial Institutions' loans can be a very potent mixture, enhancing the value of both institutions' financing.

Recommendations concerning particular forms of assistance and their connections:

- as far as the non-repayable assistance is concerned instead of providing general technical help it should be focused mainly on direct support given to investments. However the reforms are still in a need of technical support, being much better specified they require thus less expenditure. Facing difficult situation of public finances technical assistance as such should be first and foremost concentrated on:
 - short as well as long-term improvement of effectiveness in managing public companies - through their privatization and improvement of managing skills

