
WSCHODNI ROCZNIK HUMANISTYCZNY
TOM XVII (2020), Nr 4
s. 27-42
doi: 10.36121/akukula.17.2020.4.027

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The scale and scope of the support of the PHARE programme of the European Communities for systemic reforms of the Polish economy (1990-1993)

Annotation: Free-market reforms of the Polish economy which started at the turn of the 1980s and 1990s, were the foundation for Poland's political system transformation that began after the fall of communism. The system transformation and systemic reforms of the economy were carried out successfully thanks to the considerable support of democratic Western countries, especially the Member States of the European Communities and the European Union. The author of the study analyses the amount and scope of this assistance in the form of the special support tool of the European Communities which was the PHARE programme, proving that it was of key importance for the success of the Polish economy transformation in its initial phase (1990-1993).

Keywords: European Funds, PHARE Programme, economic transformation, free market reforms in Poland

Skala oraz zakres wsparcia programu PHARE Wspólnot Europejskich dla systemowych reform polskiej gospodarki (1990-1993)

Streszczenie: Rynkowe reformy polskiej gospodarki rozpoczęte na przełomie lat 80. i 90. XX wieku były fundamentem dla zapoczątkowanej po upadku komunizmu transformacji ustrojowej Polski. Transformację ustrojową oraz systemowe reformy gospodarki przeprowadzono z powodzeniem dzięki wydatnemu wsparciu demokratycznych państw zachodnich, a zwłaszcza państw członkowskich Wspólnot Europejskich i Unii Europejskiej. Autor opracowania analizuje wielkość oraz zakres tej pomocy w ramach specjalnego narzędzia wsparcia Wspólnot Europejskich jakim był program PHARE dowodząc, że miał on kluczowe znaczenie dla powodzenia transformacji polskiej gospodarki w jej początkowej fazie (1990-1993).

Słowa kluczowe: Fundusze Europejskie, Program PHARE, transformacja gospodarcza, reformy wolnorynkowe w Polsce

Масштабы и объем поддержки со стороны программы PHARE Европейских Сообществ для системных реформ польской экономики (1990-1993 гг.)

Аннотация: Свободно-рыночные реформы польской экономики, начатые на рубеже 1980-х и 1990-х годов, стали основой для системной трансформации Польши, начавшейся после падения коммунизма. Системная трансформация и системные реформы экономики были успешно осуществлены благодаря значительной поддержке западных демократических стран, особенно государств-членов Европейского сообщества и Европейского Союза. Автор исследования анализирует масштабы и объем этой помощи в рамках специального инструмента поддержки Европейских сообществ, которым была программа PHARE, доказывая, что она имела ключевое значение для успеха трансформации польской экономики на ее начальном этапе (1990-1993 гг.).

Ключевые слова: Европейские фонды, программа PHARE, экономическая трансформация, реформы свободного рынка в Польше

Introduction

This year marks the 30th anniversary since the historic parliamentary elections conducted on 4th and 18th June 1989. These elections along with the government formed by Prime Minister Tadeusz Mazowiecki on 12 September 1989 turned a new page in the modern history of Poland, giving us the end to the Polish People's Republic (PRL). This 50-year experiment of building a country with a socialist political system as well as the centrally planned economy failed miserably, pushing the country to the verge of an economic and social disaster. The political transformation was initiated in the beginning of 1980s and 1990s, also from the economic prospective, and was designed to lead the country from the depths of the severe economic depression on the pathway to democratic and free-market growth, proved to be quite a challenge for the new authorities and especially Polish society who paid an exorbitant price for those systemic reforms.

The political and economic transformation of Poland, due to its character and the scale of the trouble as a result of the enforced Soviet socialist system after the Second World War, would never be possible without foreign support. Without the help of the West, including especially sympathetic and involved in Poland's support Member States of the European Economic Community (EEC) and the European Union (EU) along with their most prominent institutions – the European Commission and the European Parliament, Polish reforms would never amount to anything. In fact, not having the support would send Poland on a downward spiral to a bleak future of desperately trying to hold on while serious economic, social and political issues accumulate endlessly in the complex European reality at the turn of the 20th and 21st century.

It is the EEC and the EU's help in the initial phases we have to thank for the spectacular success of the Polish political transformation, especially the economic aspect, which is appreciated and, even nowadays, considered a role model for other countries. The time that has passed since the events pertaining to this article led to the collective memory of the Polish nation to slowly fade away regarding the complexity and difficulty of reaching this achievement as well as how crucial the European support was. It is not an uncommon phenomenon that the opponents of an integrated Europe, organisations such as the EEC and the EU or even Polish membership in those organisations distort that part of history to fulfil certain purposes. According to the author, such situa-

tions not only diminish the proud images of the Polish reforms and the Western organisations' support but also do not improve the grounds for current discussions on both domestic and foreign policies as well as the place of Poland in the European family and the EU membership. The author's recommendation would be to remind of these facts from the contemporary history, especially to the younger generations, concerning the economic transformation and how crucial it was and how it unfolded. One of the most vital aspects for that reflection is demonstrating the potential and the significance of the generous and diverse help received by Poland as well as its outcomes.

Therefore, it is justified to formulate a thesis that the scale and the vast scope of the PHARE programme, invaluable to the systemic economic reforms in Poland from the beginning of 1990s, was a substantial agent for change towards the free-market economy. A detailed analysis of the EEC support offered to Poland in the initial phases of the transformation (1990-1993) provided by the author should prove this thesis. In this analysis, the author will focus not only on the objectives and priorities of the PHARE programme but also on related actions and decisions of Polish authorities and institutions involved in the transformation. The aspects of the PHARE structures and functioning as well as its implementation in the indicated time frames are vital complementary aids.

The sources for the research were documents produced by the key state institution of the Third Republic of Poland, most notably by: the Council of Ministers Office (URM or RM), the office of Poland's Aid Coordinator (1989-1990), the Government Plenipotentiary for European Integration and Foreign Aid with the support of the Office of Foreign Aid which was a part of URM in 1989-1993 and partially in 1994 regarding matters for the EEC aid for Poland and its administration. An additional source of data was provided by the European Union documents as well as vast, highly informative materials on the EEC and the EU including aspects such as: integration, funds and aid programmes during the analysed time period as well published literature on the subject. Obtaining the aforementioned materials proved to be a great struggle, in particular to government documents with various levels of confidentiality as it is almost always confidential, and sometimes even top secret. In most cases however, it was made available after obtaining an approval to look into the aforementioned documents and due to the recent legal regulation changes concerning sharing secret documents. Collecting source material involved raising lengthy queries in the Council of Ministers Office (for documents relating to the former URM), the archive of the Ministry for Foreign Affairs (the EU Department, the European Information Department, the EU Economy Department), the College of Europe Natolin Campus Library, the Library and European Documentation Centre by the University of Warsaw as well as the EU Information Point at the European Commission Representation Office in Poland.

The aim of this article is demonstrating the factual scale and scope for the European aid with regards to the transformation of Polish economy in its initial phase on the example of the most prominent and most significant aid of them all, the PHARE programme. Additionally, the goal is to highlight the importance of this aid in the systemic economic changes in Poland of 1990-1993. The character of the source material, the types of the phenomena analysed and the various time frames for their occurrence influenced the decision to utilise three research methods, i.e. the quantitative method, study of law and institutions as well as the comparative study.

1. The PHARE Programme in Poland

The decision to fund the states of the Central and Eastern Europe (CEE) originated from the most industrialised world countries, i.e. G7 group. During the G7 summit in Paris 14-16th July 1989, it was decided that the reforms started in the post-communist countries will be challenging to continue due to these countries' difficult socio-economic situation. The Western leaders were impressed with the reformatory achievements of Poland and Hungary. So much so, that it was agreed that both these countries would be prioritised for any aids in order to further improve their democracy and build a free-market economy. During the aforementioned summit, there was a decision that the European Commission will be the appropriate institution to initiate and manage the aids for the transformation of the selected states. On 1 August 1989, the Commission held a coordination meeting of 24 Western states who are members of the Organisation for Economic Cooperation and Development (OECD) and constitute the so-called G24 group, including the European Twelve, aiming at financially supporting the reforms of Eastern European countries. The subsequent meeting of G24, on 26 September 1989, the Commission put forward another proposition for support of the analysed region. Its basic assumption was a non-repayable aid, initially dedicated to countries who are more advanced in their reforms, i.e. Poland and Hungary as the programme was named PHARE – Poland and Hungary: Assistance for Restructuring their Economies¹.

PHARE Programme was launched when Poland found itself in a challenging position in all economic, social and financial aspects due to the debt inherited after the Polish People's Republic (PRL): "the economy was ruined, empty shelves in shops, rampaging inflation and a complete chaos in public funds combined with a disastrous foreign debt"². The newly formed government of Prime Minister Tadeusz Mazowiecki was forced to face numerous challenges of that period. During the harsh economic and social realities of the final hours of PRL, it was impossible to implement any transformation, let alone the economic one, without the aids provided by the foreign states. Even formalities such as accepting the already offered aids was no easy feat due to the severe limitations of the state apparatus representing the remains of a socialist regime. Poland, despite forming a new government after the June elections of 1989 as well as being considered a state on the path of democracy and free market, was in reality still a socialist country. Poland was standing out compared to Western organisations and their standards nearly in every aspect. Accepting such a diverse help from the West during the beginning of the transformation, including humanitarian, financial, structural or advisory proved to be a struggle for completely unprepared institutions, public administration and personnel trying to deal with the socialist status quo. The government of PM Mazowiecki had to face all issues resulting from conflicting standards and administrative ineptitude head on in

¹ Council Regulation (EEC) No 3906/89 of 18 December 1989 on economic aid to the Republic of Hungary and the Polish People's Republic. Apart from Poland and Hungary, the PHARE programme extended to other socialist states such as Chechia, Romania, Bulgaria, Lithuania, Latvia, Estonia, Slovenia as well as for a short period of time Croatia, Albania, Bosnia, Herzegovina, Macedonia or even the East Germany (DDR, only in 1990 until it united with the Federal Republic of Germany - BRD). Extending the list of beneficiaries meant that the abbreviation "PHARE" was no longer expanded into its full meaning. The initial usage of "PHARE" in capital letters was replaced with "Phare". However, both are universally accepted.

² D. K. Rosati, *Polska droga do rynku*, Warszawa: PWE 1998, p. 15.

order to begin a close cooperation with the West. What is more, it was needed to ensure an effective communication with the Western partners, including financial and European integration institutions, as well as rebuild Polish institutional structures to make the most of all aids sent to the state. Donors intended the support be a long-term activity, spread over numerous key domains and adapted to the everchanging needs of the state, its economy and society.

The structure and control over the absorption of European aids began a burning issue for Polish authorities. On 12th September 1989, professor Witold Trzeciakowski, the then Economic Council Chairman by the Council of Ministers (RM), a renown economist recognised internationally was appointed Poland's Aid Coordinator. He embarked upon an enormous and significant challenge of coordinating and managing the incoming help from the West. Trzeciakowski began this journey starting from scratch with unfavourable circumstances of institutional incompetence to receive anything from countries with developed processes and legal maturity combined with different culture, organisation styles and administration. With the advantage of having an established position in the Academy and international contacts combined with a talent for self-organisation, he achieved a basis for the aids' acceptance in a fairly short time. The general rules considered key for the political and economic transformation of Poland were agreed in the PHARE Framework Agreement of 31 May 1990.³

2. The PHARE Programme structure & operating.

PHARE was an aid programme dedicated to the governments of Eastern European countries, initially only Poland and Hungary. These funds were not supposed to be joined to the country's domestic budget. Hence, they were not part of the budget at all. As a result, the aid offered by the EEC, previously negotiated between through the Commission with the authorities, could have been used only through state administration and state agencies. In cases when the state administration cannot do, it could be utilised by other institutions but always designated by the government. In reality however, PHARE funds were an addition to the budget of beneficiaries of the fund by reducing the cost of endeavours which in any case would prove to be necessary for the transformations, the economic one in particular. PHARE funds were allocated from the EEC budget managed by the Commission which is appointed yearly along the European Community budget by the European Parliament. Through recommendations for the Commission, the Parliament may indirectly influence the aid programmes and its scope.

PHARE programme was fairly complex from the operational perspective. The Commission managing the programme adopted dividing PHARE into smaller programmes obtained from the Commission's budget and intended to support the various aspects of running a country and economy during a specified time frame (programmes planned for 1-4 years). The allocation of the funds, pertaining to the respective programme, was pre-empted by negotiations including not only the European Commission and PHARE Civil Operations but many others such as state-specific Aid Coordinators or experts. PHARE programmes were implemented by appropriate ministries in each beneficiary state or in some cases by their central offices or designated subjects. Apart from public institutions, the final recipient of PHARE funds could have been non-government organisations or even

³ Unpublished.

a natural person. The funds were transferred in instalments, depending on the progress of each programme. Deadlines were previously agreed related to specific budgets. All the aforementioned funds were rigorously inspected by the Commission and all projects involving PHARE funding for public procurement had to follow all tender procedures to the letter⁴. The nature of the programme forced the beneficiary states to establish new institutional structures for processing all necessary elements.

The PHARE programme included a yearly negotiation of all indicative programmes which specified the ones considered a priority in the most pressing areas of growth from the beneficiary's perspective. Further negotiations related to specific programmes as part of PHARE, concerning various key areas within the aforementioned indicative programmes. After having negotiated final conditions, the programme had to be approved by Member States of the EEC. Moreover, the execution of approved PHARE programmes required a signed contract between ministries of beneficiary governments concerned by each programme respectively and the European Commission. Such a contract contained specific financial agreements and the budget, the so-called "Financing memoranda".

3. The scale and scope of the PHARE programme for Poland 1990-1993

During the analysed period, EEC granted collectively ECU⁵ 823.8 million which helped to fund 58 programmes, planned from 1 to 4 years spread over multiple areas of economy.

Year 1990. In the initial phases, the EEC aid (referred to also as the humanitarian aid) was focused on agriculture receiving ECU 100 million⁶. This number accounted for 50 million's worth of crop preservation agents, 20 million's worth of feed as well as 30 million's worth of credit line. In sum, the profit from selling the purchased items would be then collected in the so-called "Counterpart Funds" managed by the Polish State Treasury Foundation - the Cooperation Fund.⁷ These means were then utilised to support advances in the agriculture sector. Considerable funds were dedicated to support the environment preservation policies as well as the development of small and medium-sized businesses (SMBs)⁸. The humanitarian aid also included the procurement of medicine and selected food items to help cover the shortage of the most basic of products.

⁴ Contracts worth more than ECU 50.000 were intended to be signed after completing tender procedures for potential vendors from EU Member States or Central and Eastern European countries.

⁵ ECU (*ang.* *European Currency Unit*) was a unit of account, a reserve unit, which never became a circulating currency. It was used in 1979-1998 e.g. as accounting or payment obligation in international transfers as well as the instrument allowing for repayments between central banks as a part of the European Currency System. On 1 January 1999, it was replaced by euro (1 ECU = 1 EUR).

⁶ See more on the agriculture support: *Programy pomocy dla rolnictwa 1990-2002. Wsparcie UE dla przemian w sektorze rolno-żywnościowym i w obszarach wiejskich w Polsce w okresie przedakcesyjnym*, Warszawa: Fundacja Programów Pomocy dla Rolnictwa 2002.

⁷ Cooperation Fund Foundation was founded on 26 June 1990 by Minister - a Member of the Council of Ministers - Witold Trzeciakowski. The Foundation was tasked with an important for the transformation programme - Counterpart Funds (CPF). This programme was financed a non-payable foreign aid from reselling non-cash donations to Poland. The Foundation managed these contributions cooperating with the Plenipotentiary for European Integration and Foreign Aid's Office, and later on with the European Integration Committee's Office.

⁸ See: E. Kaliszuk, E. Kończyk, *Pomoc finansowa WE dla Polski*, „Wspólnoty Europejskie”, 10(26)1993, p. 11.

On 31 October 1990, the minister and coordinator, Witold Trzeciakowski presented the necessary priorities requiring the extension of aids to Poland in order to put in place the reforms to improve the economy. The Council of Ministers (RM) approved this proposal unanimously. These points became the basis for further "agreements with the donors in terms of distribution and fulfilment of subsequent aids"⁹ planned for the following year. Between 17th and 18th December 1990, there was a meeting of Trzeciakowski and the representative of EEC and the ambassador of the Commission of the European Communities, Alexandre H. Dijkmeester to discuss the future of the PHARE aids sent to Poland¹⁰. Beginning of 1991, they were distributed in a manner that would allow for a simultaneous support of all main areas in the economic sector during the transformation and heading for sustainable growth as per the course set in the reforms. The PHARE of 1991 contained support falling into one of the following categories: technical, educational or financial¹¹. In order to advance the mechanisms for absorption and utilising the community support in the beginning of 1991, a special Government Plenipotentiary for European Integration and Foreign Aid position was appointed¹². Jacek Saryusz-Wolski was chosen for that position heading the Plenipotentiary Office formed later on¹³.

Year 1991. The PHARE programme funds were focused to advance the Polish economic transformation even further. In comparison to the previous edition, the new one decreased the amount of funds dedicated to agriculture while concentrated to restructure and privatise Polish businesses. There were two key aspects where support actions were clearly crucial.

The first area of support of the 1991's PHARE programme related to helping the primary aspects of the economic transformation, macroeconomic stability with a special reference to the restructuring, demonopolising and privatising business. Moreover, it concerned reducing unemployment which was a serious issue for the authorities at the time, and it kept escalating. The ever-rising unemployment, caused by the numerous failing enterprises, became a key social problem in Poland in the first half of 1990s. It also became one of the most notorious factors to impede the transformation. It was a considerable economic, social and even political issue which the PHARE funds

⁹ *Protokół ustaleń Nr 41/90 posiedzenia Rady Ministrów w dn. 31 października 1990 r.*, Arch. RM (Council of Ministers), RM-031-41-90.

¹⁰ See. "*Założenia Programu PHARE 1991*", Minutes from the session of the Council of Ministers RM w/date 17.12.1990 (RM-129-156-90, Arch. RM, syg. 2283/156).

¹¹ *Ibid.* Since 1991, the PHARE programme was carried out in two directions, firstly as a National Phare Programme for specific Eastern European states as per the yearly Financing Memoranda and the management thereof (→ supporting democratisation, entrepreneurship, stabilising the free-market economy, primed for becoming a member of the EU and the EEC). The second direction was the Phare Multicountry, involving regions from many states (→ common projects, deeper integration between countries, making decisions regarding projects together such as transportation, telecommunication, border cooperation, environment preservation or human resources development, public administration and aid for the SMBs, including programmes such as: TEMPUS, JOPP, SIGMA or Distance Education). See: B. Mrówka, *PHARE w pierwszym okresie realizacji i inne programy Komisji Europejskiej*, [in:] PHARE w Polsce 1990-2007, T. Kołodziejka, B. Mrówka (eds.), Warszawa UKiE 2007, p. 9.

¹² Act 11/91 RM from 26.01.1991 regarding appointing the Government Plenipotentiary for European Integration and Foreign Aid.

¹³ Primary tasks of the Plenipotentiary was coordinating adaptation and integration processes along with their supervision and overseeing EEC aid usage.

helped to alleviate and gradually defeat. Its contribution to reduce unemployment was supporting the creation and development of employment offices in both urban and rural areas. Moreover, the PHARE funds helped to improve the objective by introducing active forms of searching for jobs as well as extending the scope of responsibilities by adding counselling and training. The education helped to retrain people into new trades to improve their chances on the job market during the crisis and the economic transformation.

On the domestic level, the PHARE funds of 1991 were largely directed to institutions tasked with the aforementioned processes of restructuring, demonopolising and privatisation of business. Hence, it reached the Ministry of Ownership Transformation, Industrial Development Agency and the Office and the Anti-Monopoly Office. In turn, this influenced the acceleration of establishing legal and institutional regulations, especially increasing the profitability of businesses while ensuring the improvement of their privatisation strategies – accelerating the whole process. What was also an advantage was the progression in relations between managers and workers or workers' unions, including the relations with the owner. On the level of business however, especially service, industrial and agriculture funds were utilised based on the restructuration analyses and their recommendations such as: management training, using modern accounting and many other important elements of the so-called 'technical support'.

The PHARE aids was of utmost importance at this time for modernising the financial sector which is absolutely indispensable for the economic transformation. The aforementioned three major processes highly depend on an efficient financial system which could have been achieved only with the PHARE funds. Alongside, some funds were assigned to support the private sector with a special interest in small and medium-sized business which are the core of the Polish economy. The PHARE Programme helped by creating business consulting centres and initiatives promoting export while encouraging foreign capital to invest in Poland.

The second key area for the PHARE funds of that year was fulfilling the needs of the sector to ensure a sustainable economy growth as per the course set in the reforms. The funds were also designed to overcoming adversity and hardships faced by the society in the following:

- Agriculture, supporting a coherent agriculture policies while highlighting the agriculture advisory reform, creating a mechanism of land trades and the development of cooperative movements;
- Education, language courses, job trainings, Higher Education reforms, TEMPUS implementation on the wider scale;
- Environment Preservation, trainings on preserving the environment policies, investments detrimental to the environment or safe agriculture;
- Healthcare, modernisation and reforms of the public healthcare system, technical assistance in implementing new healthcare related policies of the state;
- Energy, transportation and telecommunication, consulting dedicated to formulating and implementing reforms in respective domains, necessary technical assistance and adapting to the European community standards;
- Citizens' society, public administration reform including training administration workers as well as supporting local self-governance¹⁴.

¹⁴ See Arch. RM, syg. 2283/156.

Year 1992. PHARE funded projects were executed with a delay due to a deferred approval of the Financing Memoranda pertaining to the indicative programmes for this edition signed in May 1992¹⁵. Among others, the programme focused on promoting export as per the Programme for Promoting Export of small and medium-sized businesses (SMBs) running until the end of 1994, approved in November 1992. It included a ECU 12 million (10 million provided by PHARE and 2 million coming from the Polish beneficiaries) and its objectives were to strengthen the export potential of Polish industries through technical support for marketing campaigns, consulting and education trainings as well as aids for export supporting institutions (e.g. Polish Chamber of Commerce). In 1992, a two-year Financial Sector Development¹⁶ programme was launched aimed at funding services and procurement of education frameworks for banking, insurance, taxed and accounting as well as financial audits. In order to complete the programme, Polish authorities decided and subsequently launched a Foundation for Financial System Development tasked with implementing and managing the programme. Until the first half of 1994, the Foundation signed more than 100 contracts worth around ECU 14.4 million such as with the Ministry of Finance, Polish National Bank or the Polish Chamber of Insurance.¹⁷

Year 1993, the fourth year during which the programme was running, the indicative programme was particularly crucial. It was signed on 21 July 1993 by Third Republic of Poland's authorities and the European Commission representatives who had decided the directions of community aids for until 1995. They were, yet again, crucial for the advanced reformative action plans in the Polish economy. The PHARE Programme of 1993 focused largely on key aspects for restructuring, reforming the public sector as well as developing infrastructure, upskilling personnel including workforce for the newly reformed economy and supporting the progress of the Polish rural regions¹⁸. The value of the 1993's PHARE programme was agreed to be ECU 225 million and its primary objectives included agriculture again (30m) as well as education and trainings (collectively 45m), transport infrastructure (collectively 48m), reforming the industrial sector (10m) and telecommunication and postal services (7m).

Moreover, in PHARE of 1993, highly valuable instruments were launched for technical assistance, and in turn for restructuring the economy:

- the agriculture sector, APRICOT II programme, among others supporting farming cooperatives, cooperative banks and the privatisation of state farms;
- the financial sector, FINSEC programme focused on restructuring banks as they are so vital for businesses and the development of securities;
- the foreign investments, PHARE-INVESTPROM programme for promoting foreign investments on the Polish territory as well as Polish investments outside Poland;

¹⁵ *Memorandum. Program Indykatywny Pomocy Wspólnot Europejskich dla Rzeczypospolitej Polskiej (PHARE 1992)*, Arch. RM, syg. 2423/93.

¹⁶ *Program Phare Rozwoju Systemu Finansowego* (Arch. RM, syg. 2422/182).

¹⁷ *Informator o projektach realizowanych w ramach Programu Phare Rozwoju Sektora Finansowego*, Warszawa: Financial System Development Foundation 1994, p. 2.

¹⁸ For Poland's regional development during the transformation, see: M. Opałło, *Transformacja systemowa gospodarki a polityka regionalna*, „Ruch Prawniczy, Ekonomiczny i Socjologiczny”, R. LIV(1992), z. 2, p. 69-85.

– production quality, STANDARD programme focused on ensuring high quality products of the Polish industry which could measure up to Western standards¹⁹.

A key programme financed from PHARE funds was a two-year STRUDER programme launched in 1993. The name stood for Structural Development in Selected Regions. This pioneering, on the Central and Eastern European scale, aid plan was lengthily discussed with the European Commission and launched in September 1993. A new agency, called Polish Regional Development Agency, along with its local branches, was tasked with the implementation and coordination of that programme. The total budget was ECU 76.7 million²⁰.

Its uniqueness lies in the fact that it allowed using the funds designated for the government and its initiatives to fund private investments. The STRUDER programme spanned over the few of the least developed Polish regions requiring special care during the economic crisis and transformation due to its low economic maturity level and low GDP as well as “dying” industrial branches and large-scale unemployment (provinces: Łódzkie, Wałbrzyskie, Rzeszowskie, Suwalskie and Olsztyńskie). The main objective of the programme was to reconvert and help these regions affected by the side effects of the transformation, including the cost of restructuring. The key to achieve that was to incentivise the local entrepreneurship, especially small and medium-sized businesses (SMBs) which were intended to work as a generator for local economy growth and be a new job market. STRUDER funds were distributed to help economic entities, small infrastructure and institutions promoting the growth of the chosen regions.

Another significant programme funded by PHARE in 1993 was the 3-year programme supporting the Association Agreement – SIERRA, standing for Support for Implementation of the Europe Agreement. The budget approved in the Financial Memorandum on 7 June 1993 amounted to ECU 20.1 million. Its objective was to support coordination plans for the process of adapting Polish economy and the legal system to the requirements agreed in the contract signed on 16 December 1991 become effective on 1 February 1994 as well as the European community standards in other key areas. The European Integration and Foreign Aid Office was tasked with implementation and coordination of the programme. The aid provided by the SIERRA programme was mostly consulting, training and educational in nature. Contrary to misconceptions, it was a considerable feature for Poland during the economic transformation. Additionally, adapting the law to conform with the European Community ((*acquis communautaire*) as well as developing skills of public administration personnel concerning knowledge of the European Union and Community institutions and their standards, mechanisms and processes with special attention paid to their policies, were key for modernising and advancing Polish economy²¹.

¹⁹ Archival materials of the European Integration and Foreign Aid Office under the Council of Ministers URM (Arch. RM, sygn. 2596/42; 2847/95).

²⁰ Regional structures’ support worth ECU 2.5 million; regions’ funding ECU 53 million including the SMBs Subsidy Fund ECU 42 million (granted based on the number of employees in a company, the value of investment between ECU 5000-400.000; beneficiary’s contribution at least 20%, bank loan 55%, the subsidy up to 25% of the overall project (source: European Integration Office archival materials).

²¹ SIERRA Aid regarding information, education and research in the context of the European Union, Integration, organising awareness campaigns addressed to a wide audience such as high schools, higher education, academic institutions or Centres for European Education ((source: European Integration Office archival materials).

Figure 1. PHARE Programme funds for Poland (1990-1993)

Year 1990

The Name of the Programme		Value in ECU (in millions) Funds used and/or contracted (in millions of ECU) (%)		
AGRICULTURE				
1.	<i>Animal Feed Programme</i>	20	19,9	100
2.	<i>Line of Credit for Farmers</i>	30	8,0	27
3.	<i>Pesticides Import</i>	50	49,8	100
RESTRUCTURING AND PRIVATISATION				
4.	<i>Privatisation</i>	9	8,8	98
5.	<i>Line of Credit for SMBs</i>	8,3	8,0	96
6.	<i>Industrial restructuring</i>	4,0	3,9	98
7.	<i>Statistics*</i>	1,5	1,4	93
8.	<i>Capital Deposits Programme</i>	2,0	2,0	100
9.	<i>Foreign Commerce Infrastructure</i>	8,5	5,9	81
ENVIRONMENT PRESERVATION				
10.	<i>Environment Preservation I</i>	22	15,2	69
INFRASTRUCTURE				
11.	<i>Telecommunications in rural areas</i>	6	4,6	77
EDUCATION, TRAINING, SCIENCE				
12.	<i>Education and vocation training</i>	2,8	2,2	77
13.	<i>Tempus</i>	13	13	100
Miscellaneous				
14.	<i>Various Pilot programmes</i>	5,5	5,5	100

* these data was corrected by the Central Statistical Office (GUS) with the act of. 25.07.1994 (GP-2-0243-44/94), *Informacja o programach PHARE 1990-1993 Biura ds. Integracji Europejskiej oraz Pomocy Zagranicznej URM* (Arch. RM, sygn. 2596/42).

Year 1991

The Name of the Programme		Value in ECU (in millions) Funds used and/or contracted (in millions of ECU) (%)		
AGRICULTURE				
15.	<i>Technical Support for rural areas and agriculture</i>	17	8	47
RESTRUCTURING AND PRIVATISATION				
16.	<i>Private Sector Growth</i>	6	0,5	9
17.	<i>Restructuring, privatising and demonopolising of businesses</i>	50	11,7	23
18.	<i>Financial Sector Growth</i>	16	4,7	29
19.	<i>Social and economic growth</i>	18	2,5	14

ENVIRONMENT PRESERVATION				
20.	<i>Environment Preservation II</i>	35	1,1	3
INFRASTRUCTURE				
21.	<i>Telecommunication</i>	5	1,9	37
22.	<i>Energy Sector Growth</i>	3	0,5	18
23.	<i>Transportation</i>	2	0,4	20
EDUCATION, TRAINING, SCIENCE				
24.	<i>Tempus</i>	13,5	13,5	100
25.	<i>ACE</i>	1	1	100
26.	<i>Advancing skills and Education</i>	1	0,4	44
ADMINISTRATION AND LOCAL SELF-GOVERNANCE				
27.	<i>Public administration</i>	4	1,1	28
28.	<i>Local democracy development</i>	3,5	1,1	31
29.	<i>Social dialogue</i>	3	0,3	10
HEALTHCARE				
30.	<i>Healthcare system reforms</i>	20	1,3	6

Year 1992

The Name of the Programme		Value in ECU (in millions) Funds used and/or contracted (in millions of ECU) (%)		
AGRICULTURE				
31.	<i>Agriculture -privatisation and cooperatives</i>	18	0	0
RESTRUCTURING AND PRIVATISATION				
32.	<i>Tourism growth</i>	4,5	0,7	15
33.	<i>Export publicity</i>	10	1	10
34.	<i>STRUDER - structural development in selected regions</i>	76,7	0,2	0,3
35.	<i>Local information system - phase I</i>	5	0	0
ENVIRONMENT PRESERVATION				
36.	<i>Environment Preservation III</i>	18	0	0
EDUCATION, TRAINING, SCIENCE				
37.	<i>Tempus</i>	26	26	100
38.	<i>ACE</i>	1,5	1,5	100
39.	<i>Science and technology reforms</i>	7	0	0
40.	<i>Modernisation of vocation skills education and strategic trainings</i>	9	0	0
ADMINISTRATION AND LOCAL SELF-GOVERNANCE				
41.	<i>Improving local administration</i>	8,5	0,8	10
MISCALLENOUS				
42.	<i>SIERRA - promoting the Association Agreement</i>	20,1	0,4	2

43.	General technical assistance (FIESTA I)	13,9	-	-
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Year 1993

The Name of the Programme		Value in ECU (in millions) Funds used and/or contracted (in millions of ECU) (%)		
AGRICULTURE				
44.	Agriculture - privatisation and cooperatives	30	0	0
RESTRUCTURING AND PRIVATISATION				
45.	Industrial restructuring	7	0	0
46.	Financial industry	10	0	0
47.	Statistics (POLSTAT statistics) **	12	0	0
48.	Customs Service support	15	0	0
49.	Standardisation and norms	5	0	0
50.	Tourism growth II	8	0	0
51.	Promoting foreign investments in Poland	10	0	0
INFRASTRUCTURE				
52.	Telecommunication and Postal Services	7	0	0
53.	Transport - border crossings	18	0	0
54.	Transport -modernisation of railroads	30	0	0
EDUCATION, TRAINING, SCIENCE				
55.	Tempus	35	35	100
56.	Education reform	10	0	0
ADMINISTRATION AND LOCAL SELF-GOVERNANCE				
57.	Law and Order	10	0	0
MISCALLENOUS				
58.	General Technical assistance (FIESTA II)	18	0	0

Self-study based on *Informacja o programach PHARE 1990-1993...* (Arch. RM, sygn. 2596/42).

** these data was corrected by the Central Statistical Office (GUS) with the act of 25.07.1994 (GP-2-0243-44/94), *Informacja o programach PHARE...*

Summary

Conducting systemic reforms for the economy during a deep crisis was an especially challenging enterprise for Polish authorities. Nevertheless, it was indispensable due to the political change. A centrally planned economy inherited from the Polish People's Republic was an ossified system, unfit for any democratic, free-market state. Data resulting from studying the primary communal instrument for supporting Poland in this difficult time, the PHARE programme, demonstrate discernibly that the aid offered during the initial phases of the transformation was cogent and well planned with the EEC. Moreover, it was adequately adapted to the changing needs of the new economy. The scale, or rather the amount of the analysed aid of the European Community for Poland was not limited, as per the donors wish. Instead, the amount was tailored to

the current needs and the state's absorption capacity. The latter, as shown by the study, was largely limited especially in the initial phase²². The scope of the foreign aid spanned across many domains i.e. sectors and subjects. The PHARE funds proved especially useful and the various sub-programmes allowed for completing numerous projects, all related Polish economic reforms.

During the initial phase of the economic transformation, between 1989-1991, on the one side, the PHARE programme support was fairly direct and humanitarian which was a result of a disastrous condition of the state risking the safety of its citizens. On the other side, it was a significant help to gain stability during the economic crisis. The aforementioned stability was the goal of the government reformers under the leadership of Leszek Balcerowicz²³. It was a decisive point concentrated on the macroeconomic stability, without which it would be impossible to continue with the then systemic reforms. At that moment, the reforms would be unattainable without the PHARE programme's aid.

During the second phase of the economic transformation, in 1991-1994, the PHARE programme support was focused on improving the conditions and modernising key economic sectors as well as the invaluable educational, consulting and expert support. They provided Polish authorities and enterprises' management the know-how in many important areas. Without this competence shared by the experts invited to Poland, the government could not reach the implementation of systemic changes and solve all the arising issues from the process itself. The teachers were often highly skilled professionals with expertise in economy and managing business in free-market conditions. This was essential since the know-how regarding e.g. management, banking, taxes or marketing in the free-market economy were mostly unavailable in Poland, at the time before the transformation. Without the professional consulting services resulting from the PHARE programme, the authorities would not achieve a restructuring or privatising of enterprises, let alone modernising the financial sector, build a capital market or support small and medium-sized business as well as the private sector. Apart from the aforementioned transformation areas, also many others needed considerable contributions in terms of not only financing but also conceptual and organisational which the European Community pledged to provide through the PHARE programme.

According to the author, the study of the potential and the scope of support for the aid granted to Poland by the EEC through the PHARE programme during the initial phase of the economic reforms prove the thesis formulated in the beginning. Namely, the complexity and scale of this aid was of utmost significance with regards to the suc-

²² On the reasons for the low effectiveness of PHARE fundraising, see: *Informacja dla Rady Ministrów o proponowanej alokacji środków pomocy bezzwrotnej Unii Europejskiej dla Polski w ramach Programu PHARE w 1994 r.* (Arch. RM, syg. 2596/51.), according to data from the PHARE Information Office from 1990-1993, the level of utilization of PHARE funds in Poland in 1990, 1991 and 1992 (data from April 1993, excluding funds granted in 1993 and used in 1994) was successively 73%, 24 % and 13%, i.e. in total in the indicated period -36% of the granted support (zob. *Informacja o bezzwrotnej pomocy Unii Europejskiej dla Polski (Program PHARE)*, comp. submitted to the Council of Ministers 31.01.1994 (Sekr. Min JSW/114/W/94). The difficulties in using PHARE support were confirmed by the Supreme Audit Office, see: *Informacja o wynikach kontroli wykorzystania pomocy Unii Europejskiej dla Polski realizowanej ze środków PHARE*, Warszawa: NIKI, listopad 1998 (DGiE/41012/97, Nr ewid. 207/98/P97067/DGI).

²³ See. L. Balcerowicz, *800 dni - szok kontrolowany*, Warszawa: BGW 1992.

cess of the Polish transformation into a free-market economy. Not only this support and its outcomes led to the great achievement of the transformation but also became a solid basis for decisive actions towards fulfilling the requirements of the Association Agreement paving the way for becoming a member of the European Union and the European Communities.

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