

FINANCING THE EU NEIGHBOURHOOD – KEY FACTS AND FIGURES FOR THE EASTERN PARTNERSHIP

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Abstract: *The EU is permanently trying to secure its proximity by creating a “ring of friends” in the neighbourhood. Thus, stabilization through economic integration and modernization have been the purpose of the European Neighbourhood Policy (the ENP) since its creation, in 2004. Successive reviews of the ENP in the past decade have aimed to customize support to different needs of the partners. Funding has been allocated according to the level of commitment to reform of the EU neighbours. The six small states of the Eastern Partnership (EaP) have benefitted not only from common ENP provisions, but also from specific instruments dedicated to their particular situation. Bilateral and multi-country programmes included in the European Neighbourhood Instrument (ENI), but also instruments from other EU policies and support from the International Financial Institutions (IFI) have helped the EaP members to achieve progress in EU approximation.*

Keywords: funding; financial instruments; Eastern neighbourhood; “more for more”; reform

JEL Classification: F55; G23; O19; P33

Introduction

The European Neighbourhood has been a troubled area and is now, more than ever, on the front page of the EU agenda, as both its Southern and its Eastern partners have recently faced serious security challenges, affecting not only the countries themselves, but also their respective neighbours, namely the EU members.

Through available means within the EU architecture, the ENP members have received constant financial support to help them overcome their internal economic drawbacks and, at the same time, to stimulate conflict resolution and the rule of law.

We aim to analyse how the allocation of funds for the ENP members has changed over time and what the triggers of different reviews of the ENP have been and respectively, their consequences.

Our focus is represented by the Eastern dimension of the ENP and the paper is divided into two sections: the first one comprises an overview of the latest ENP review in terms of funding, whereas the second one goes further into the funding distribution and evolutions within the previous financial framework, 2007-2013 and available data from the current one, 2014-2020.

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A deep insight into the indicative allocation and committed funds, based on official EU data, is expected to show how the issues related to the Eastern neighbours have been addressed in recent years.

1. The latest ENP review: several changes to the funding mechanism

The latest review of the ENP shows that the EU is trying to create not only an economic area with its Deep and Comprehensive Free Trade Agreement (DCFTA) partners, but also more flexible agreements for those who choose not to sign a DCFTA.

Concerning the financial assistance available through ENI, the same document (European Commission, 2015a) emphasizes the need for a more intense cooperation with the main IFI and, at the same time, a better use of the Neighbourhood Investment Facility (NIF) for *increasing funds dedicated to the neighbourhood* and maximizing their regional impact.

In order to render the technical financial instruments (TAIEX - Technical Assistance and Information Exchange, and Twinning) more flexible, these will be modernised and tailor-made to offer personalized support. Under this review, the EU is also considering the creation of a new instrument to address the financial needs of partner countries to continue reforms and to adapt to the rapid evolution of some political circumstances (such as the trust funds being used to support people involved in the Ukrainian and Syrian conflicts).

Moreover, the next ENP evaluation in 2017 might bring the addition of a “*flexibility cushion*” to the ENI for unpredicted situations, amount that can be reported to the next year when not used. At the same time, the new ENP aims to better correlate donors with other financing mechanisms of the EU and with the main IFI, the African Union, the Arab States League, the Gulf Cooperation Council, the Union for the Mediterranean (UfM) and the EaP.

2. EU funding of the Eastern Neighbourhood: a crossroad of instruments from different policies

The economic and political offer provided by the Eastern Partnership (EaP) has not proven attractive enough for the Eastern Neighbourhood (Dragan, 2015).

Bilateral cooperation was, in 2014, the main funding source for the EaP (according to Table 1). The six Eastern partners received in 2014 a total amount of 578 million euro in committed funds within the ENI 2014-2020 and also 501.2 million eur disbursed in 2014, previously committed under

the 2007-2013 financial framework for the neighbourhood (the European Neighbourhood and Partnership Instrument - ENPI).

More than half of the total funding dedicated by the EU to its Eastern neighbors in 2014 was directed to Ukraine (556.1 million euro), followed by Moldova (224.7 million euro) and Georgia (172.1 million euro). This is considered a consequence of the “more for more” principle, included in the EaP review 2010-2011, as the three states mentioned are also the most committed to reform in approximation towards the EU and economic integration through AA/DCFTA signed in 2014.

Regional programmes and multilateral cooperation programmes within the EaP totaled around 200 million euro in 2014, while the ENI contribution to cross-border cooperation programmes and Erasmus + (for the EaP and the UfM) was of 156.4 million euro.

Table 1 - Committed and disbursed funds in 2014 through ENI/ENPI in the EaP countries (million euro)

| Country / Programme | Committed funds through ENI in 2014 | Disbursed funds in 2014 for ongoing projects committed through ENPI |
|---|-------------------------------------|---|
| Armenia | 34 | 23.2 |
| Azerbaijan | 21 | 6.8 |
| Belarus | 19 | 22.3 |
| Georgia | 131 | 41.1 |
| Moldova | 131 | 93.7 |
| Ukraine | 242 | 314.1 |
| Subtotal bilateral programmes | 578 | 501.2 |
| Regional programmes and other multilateral cooperation programmes | 152.4 | 47 |
| Total EaP | 730.4 | 548.2 |
| CBC (EaP + UfM) | | |
| ENI contribution | 6.9 | 45 |
| Erasmus+ (EaP + UfM) | | |
| ENI contribution to Erasmus+ | 102.9 | 1.6 |
| Completion of Erasmus Mundus / Tempus Actions funded from ENPI | | 98.3 |

Source: Author's representation, based on European Commission (2015b, p. 32-33)

At the same time, for the time sequence 2014-2017, the maximum available amounts for the EaP countries reflect the same distribution tendency, with *higher values to the states that prove the highest commitment to reform* (Georgia, Moldova and Ukraine). Thus, Georgia and Moldova can receive, for this period, up to 410 million euro each, followed by Ukraine, with 200 million euro

allocated for 2014 only. At the bottom of the ranking, Armenia receives a maximum of 170 million euro, Azerbaijan 94 million euro and Belarus 89 million euro (Figure 1).

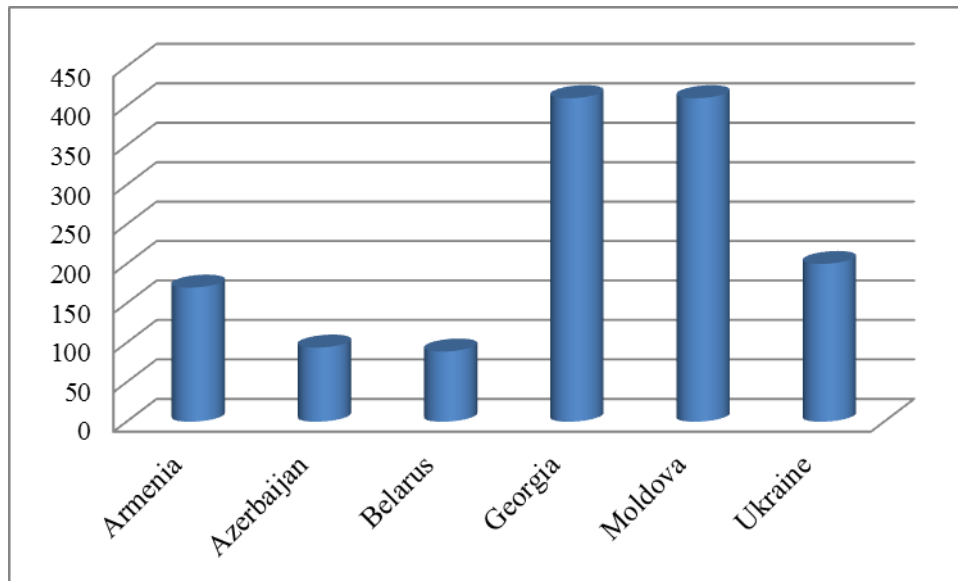
Table 2 - Indicative multiannual allocation (million euro) and allocation of funds for 2014-2017 in the EaP countries

| Country | Indicative ENI allocation for 2014-2017 | | Allocation of funds |
|------------|---|----------------|--|
| | Minimum amount | Maximum amount | |
| Armenia | 140 | 170 | Private sector development 35% Public administration reform 25% Justice reform 20% Complementary support for capacity development and civil society 20% |
| Azerbaijan | 77 | 94 | Regional and rural development 40% Justice reform 20% Education and skills development 20% Complementary support for capacity development and civil society 20% |
| Belarus | 71 | 89 | Social inclusion 30% Environment 30% Local and regional economic development 30% Complementary support for civil society 10% |
| Georgia | 335 | 410 | Agriculture and rural development 30% Public administration reform 25% Justice reform 25% Complementary support for capacity development and civil society 20% |
| Moldova | 335 | 410 | Agriculture and rural development 30% Public administration reform 30% Policy reform and border management 20% Complementary support for capacity development and civil society 20% |
| Ukraine | 140 | 200 | Private sector development 40% Energy sector 40% Complementary support for capacity development and civil society 20% |

Source: Secretariat of the Committee on Foreign Affairs

Agriculture, regional and rural development are the main destination of allocations to the EaP countries (Azerbaijan 40%, Belarus 30%, Georgia 30%, Moldova 30%), followed by private sector development (Ukraine 40%, Armenia 35%), whereas the complementary support for capacity development and civil society represents a priority for all the Eastern partners (according to Table 2).

Figure 1 - Multiannual indicative allocation (maximum amounts, million euro) for 2014-2017 in the EaP countries



Source: Author's representation, based on data in Table 2

In the previous financial framework, the ENPI 2007-2013, the EaP benefitted from 2.5 billion euro in commitments for bilateral cooperation (according to Table 3), which represent in average 357 million euro/year, less than the allocation for the first year of the 2014-2020 framework (578 million euro).

Increases in the financing of the Eastern neighbourhood were not only quantitative, but they also represented *targeted adjustments to the political context* and different allocation priorities. Before the ENPI, the TACIS and the MEDA programmes were mainly geographically divided (according to the Eastern and Southern neighbourhood respectively), while the new instruments are more related to progress achieved in reforms. In addition, ENPI and ENI were also directed to fund regional, interregional and cross-border programmes, involving both partner countries and EU members.

The “umbrella” programmes SPRING and EaPIC within the ENPI – for improvements in profound democracy – are an example of the incentive approach the EU has to funding. 692 million euro were directed between 2011 and 2013 to democratic transition and economic recovery in countries affected by “The Arab Spring” - Algeria, Egypt, Jordan, Lebanon, Libya, Morocco and Tunisia - but also in the Eastern Neighbourhood for partners engaged on the road of institutional building and economic reform - Moldova, Georgia, Armenia (European Commission, 2014). This mechanism is now included in the ENI and represents an additional funding, not included in programming documents.

Partner countries can get additional funding – included in the multiannual programming – for implementing the main agreements with the EU and for supporting the civil society based on previous initiatives: the CIB (Comprehensive Institution Building), the NCSF (Neighbourhood Civil Society Facility) and the ENPI (European Commission, 2015b). Cross border cooperation (CBC) is financed both through ENPI/ENI and through ERDF (European Regional Development Fund) and involves the EU member states and the EU neighbours.

The Regional East Programme is also covering: education and youth programmes (Tempus, Erasmus Mundus and Erasmus +), administration (TAIEX and SIGMA - Support for Improvement in Governance and Management) and investment (NIF), with allocated funding.

Twinning programmes, TAIEX and SIGMA are different from the classic support instruments, as they provide expertise from the public sector, involving employees from the public administrations of the Member States that interact with their homologues in partner states (EU Neighbourhood Info Centre, 2013).

TAIEX programmes are meant to offer specialized assistance in implementing the EU legislation in partner countries (EU Neighbourhood Info Centre, 2013). SIGMA programmes, on the other hand, are co-financed by the OECD (Organisation for Economic Cooperation and Development) and are addressed to all public governance institutions (civil service, administrative law, expenditure management, financial control, external audit, procurement, regulatory capacities, and property rights' management). SIGMA is active in all EaP member states, except for Belarus.

Table 3 - Committed funds for the EaP countries through ENPI 2007-2013 (million euro)

| Country | Committed amount |
|---|------------------|
| Armenia | 281.5 |
| Azerbaijan | 143.5 |
| Belarus | 94.2 |
| Georgia | 452.1 |
| Moldova | 560.9 |
| Ukraine | 1005.6 |
| Total ENPI for bilateral programmes in the EaP | 2537.8 |
| Russia (2007-2011) | 66.5 |
| Regional and interregional programmes | 1280.3 |
| Total EaP and Russia | 3884.6 |

| | |
|--|---------------|
| ENPI for bilateral programmes in the UfM | 7523.3 |
| Regional and interregional programmes | 1518.9 |
| Total UfM | 9042.2 |

| | |
|--------------------------------|----------------|
| CBC (cross-border cooperation) | 955.3 |
| ENPI contribution | 463.1 |
| ERDF contribution | 492.2 |
| TOTAL ENPI | 13389.9 |

Source: Author's representation, based on European Commission (2014) data

There are some other instruments financing the European Neighbourhood apart from the ENPI/ENI (according to the EU Neighbourhood Info Centre), such as:

- ✓ Instrument for Pre-accession Assistance (IPA)
- ✓ Development Cooperation Instrument (DCI)
- ✓ Partnership Instrument (PI)
- ✓ Instrument contributing to Stability and Peace (IfSP)
- ✓ European Instrument for Democracy & Human Rights (EIDHR)

DG Home Affairs also allocates funding for the Neighbourhood through the Asylum, Migration, Integration Fund and the Internal Security Fund.

Complementary financing is made through private sources (co-financing for the Flagship Initiatives), but also with IFI support, namely the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD). The EIB supports the EaP with financing projects¹⁸ related to European transportation, energy, telecommunications and environment infrastructure, and, starting with 2009, through lending to SMEs (Small and Medium-sized Enterprises). The Eastern Partnership Facility (EPF) – including Russia – is also created in 2009, with a supplementary allocation of 1.5 billion euro (without EU budgetary guarantee). Its purpose is to support the Foreign Direct Investments (FDI) in the EaP countries.

The EBRD is co-financing projects related to building democratic market economies and concentrates FDI in the operating countries, on a permanent dialogue with governments, authorities and representatives of the civil society. Its activity is correlated to the OECD, the IMF (International Monetary Fund), the WB (World Bank) and specialized UN agencies. Its relations with the EaP date back to 1991.

¹⁸ For financing operations outside the EU (including the neighbourhood), the EIB receives an EU budgetary guarantee.

Conclusions

The ENP has been a framework of support for the EU neighbours since its creation. It provided a platform of expertise in profound democracy, public administration and the rule of law for the EU partners, which further led to higher economic integration and more intense trading relations.

However, as part of the global benefits incorporated in the ENP, financial assistance has always had a huge impact on the funding recipients. Although extended to regional and multi-country programmes, the main part of the cooperation with the ENP members is still on a bilateral track, as the ENPI and ENI allocation has shown.

The EaP members that recorded the best performances in reform implementation have received proportional financial assistance. Georgia and Moldova are considered the top apprentices and were allocated a maximum amount of 410 million euro each for 2014-2017, whereas the conflict in Ukraine has also generated a higher aid to this country for 2014: 210 million euro. Even the less obedient partners can receive from 89 million euro (Belarus) to 94 million euro (Azerbaijan) and 170 million euro (Armenia), in the time sequence 2014-2017. The total ENI amount is also globally higher than the ENPI (2007-2013) amount.

EaP members also benefitted from complementary support through the ERDF and DG Home Affairs. Projects can also be financed by the EBRD and the EIB, or co-financed by the OECD.

The indicative ENI allocation for 2014-2017 reveals that agriculture, regional and rural development is the main priority for the majority of the EaP countries. Private sector development and complementary support for capacity development and civil society are also key destinations for EU funding.

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