



# BULLETIN

No. 111 (843), 2 December 2015 © PISM

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## Revision of European Neighbourhood Policy: Half-Hearted Reform

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*Proposals to improve EU neighbourhood policy are insufficiently ambitious as they do not involve many improvements on the old approach. Implementation of these enhancements would require alignment of financial assistance with strategy goals and reform of the budget support mechanism. The EU should also help associated countries implement Deep and Comprehensive Free Trade Area agreements.*

The European Commission and the European External Action Service (EEAS) announced on 18 November the end of a review of European Neighbourhood Policy (ENP), covering EU relations with its southern and eastern neighbours. The announcement ends the formal process at the EU level. After almost a year of broad consultations on the ENP's objectives, the EU's institutions are in favour of maintaining the existing policy within the frameworks of the Eastern Partnership, the Union for Mediterranean and bilateral relations.

A novelty of the renewed ENP would be that in all affected countries, the EU would focus mainly on stabilisation of the region by acting in three areas: economic development, migration and security. These areas were selected in response to the unstable situation in the neighbourhood and the expectations of ENP countries, but it would mean scaling back the EU's transformative ambitions in these regions. Supporting the rule of law and civil society development is mentioned in the review as not a main priority. Moreover, the EU is opting for differentiation in its offer. In relation to associated countries (such as Ukraine, Moldova and Georgia) or those negotiating an Association Agreement (Morocco, Tunisia) it has declared enhanced cooperation in areas awaited by the partners. For non-associated countries, the EU would strengthen economic relations through agreements on free trade zones or arrangements involving only some sectors, e.g., trade in industrial products. The EU strategy has some weaknesses. It does not indicate the means to implement its objectives, to encourage associated countries to cooperate more closely with the EU, or to improve the inefficient system of financial assistance spent on reforms. Therefore, the proposed revision may result only in cosmetic changes.

**Lengthy Procedures and Searches for Funding.** Although limiting the ENP to only three main priorities is beneficial because it reduces the risk of dispersion of EU action, in practice it will be difficult to align financial assistance to the goals. The reason is, first, a problem with lengthy EU procedures that prevent the bloc from undertaking timely action. In the new budget period (financial perspective 2014–2020), the EU has already introduced the principle of three goals financed in any one country. In most countries, priorities already had been established and were expected to be in place to 2017, based on lengthy budget programming cycles, and contracts for EU assistance for reforms are being finalised. Therefore, there is no possibility for rapid change in the priorities, and the first opportunity to do so would be the mid-term review in 2017. Moreover, the process of programming new areas of assistance may be prolonged because EU institutions plan to increase the role of the Member States.

A second challenge is how to generate additional funds to reach the intended goals. EU institutions have declared they will increase funds spent on the priorities by entering into partnerships with international financial institutions (e.g., the European Investment Bank, European Bank for Reconstruction and Development, the World Bank, IMF), but even so, the EU will have to provide a financial contribution. With countries in conflict or in a post-crisis situation, the institutions plan to increase funding by launching in 2017 a “flexibility cushion,” enabling freezing funds without the risk of losing them.

**Ineffective Support for Reforms.** Even if the EU schedules reforms in the desired sectors, it will be difficult to ensure the ENP states effectively implement them or have the proper absorption capacity. The mechanism for financial assistance supporting the reforms, or so-called budget support involving transfers of funds directly to partners' state budgets and conditioned on performance of the reforms, has not brought the expected results.<sup>1</sup> This mechanism supports adoption of legislation and creation of institutions in the sector under reform, but it does not allow the EU to effectively monitor the implementation stage. As a result, a number of reforms remain "on paper." Besides a lack of political will and institutional weakness in most of the neighbouring countries, another problem is that the EU often formulates conditions for reform that are too ambitious. Moreover, EU expert missions do not help develop adequate conditions and generally are contracted too late. Because of bureaucratic procedures they are hired usually at least one year after the start of a programme.

Furthermore, it is difficult to monitor the results of reforms supported by the EU as there is no effective control mechanism. The aid is granted on the basis of compliance with rather general conditions related to the transparency of a state's public finances management system. After the transfer of a tranche of funds to the budget of a partner country, the EU has no possibility to perform an audit and can only check whether the reform is implemented based on reports by the relevant ministry. Civil society organisations are too little involved in the monitoring of results. Therefore, there is great risk of misappropriation of funds. The best example of this is the results of a European Court of Auditors check on Egypt that showed that a huge portion of the funds earmarked for reform in the country in the years 2007–2012 had not been properly used due to corruption.

The EU's ENP review did not respond to this crucial problem. A positive step, however, is the announcement of modernisation of EU advisory missions carried out by twinning and the TAIEX instrument. Moreover, the EU plans to phase out progress reports and introduce more flexible and results-oriented reporting.

**Unclear Incentives.** The EU proposals do not present a vision of advanced relations with the associated countries, declaring that such a perspective will be the subject of future consultations with them. It will be difficult for the institutions to develop the concept of "association plus", which assumes integration will extend further than a DCFTA but not to full membership. Any such plans cannot substitute for the incentive of EU membership for association countries. Moreover, beside integration in trade and the internal market, every other area of EU integration would require involvement of EU structural funds (e.g., transport, agriculture), or close political cooperation (e.g., energy), which could be only provided by full EU membership. There is no consensus in the EU for that.

The only new incentive offered in the review is the improvement of mobility between the EU and its neighbours by increasing funding of student exchanges such as Erasmus+ as well as the introduction of a startup fund to fight brain drain and to support migrants returning to their countries of origin after a stay in the EU. This would go hand in hand with a change in the EU Blue Card system in 2016, regulating the influx of highly skilled workers into the EU from third countries in order to facilitate procedures for workers coming from ENP countries. This is a positive change, but circular migration with neighbouring countries, meaning temporary stay of foreigners legally employed in the EU, is related mainly to low-skilled workers. Therefore, an increase in job opportunities mainly in the agricultural and construction sectors in the EU would be the most appropriate solution.

**The Need for More Ambitious Changes.** To ensure the effective implementation of cooperation in the chosen areas, the EU should first reconsider the priorities of financial assistance in order to support reforms in selected spheres, and then supplement it with programmes enabling operational cooperation (through grants and tenders). The scope of support for economic development must be made precise, as in other cases the majority of EU actions might fall under it. Civilian security requires namely the introduction of additional financial instruments that would enable, for instance, the funds for the purchase of new equipment, computers, and databases, and for holding workshops.

Second, the EU should reform the budget support mechanism and limit its use to project-based approaches in countries where the risk of corruption is huge. EU institutions should focus more on determinations of relevant conditions for reforms within a broad consultation process with government, parliamentarians, NGOs and businesses from partner countries. Moreover, EU institutions should use the advice of external experts at the planning phase of the support process and introduce flexible procedures enabling rapid contracting of advisory missions. The control mechanisms and transparency in the disbursement of funds should be improved by making mandatory the involvement of watchdogs on monitoring committees attached to budget support operations.

Third, for associated countries, a key problem in the next three to five years will be implementation of their respective DCFTA. Therefore, the EU should, foremost, insist on public administration reform and allocate adequate funding and develop further support for increasing the organisational capacity of state institutions that will be responsible for implementation of the agreements. Moreover, it should further increase funding of instruments for small and medium-size businesses and which are designed to help companies adapt to EU standards, by granting loans for investment and consulting. In relation to countries to the EU's south (Tunisia, Morocco, but also Jordan and Lebanon), the EU should significantly increase incentives by launching circular migration programmes for low-skilled workers and funds for implementation of adopted legal norms in the field of migration policy.

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<sup>1</sup> E. Kaca (ed.), A. Sobják, K. Zasztowt, *Learning from Past Experiences: Ways to Improve EU Aid on Reforms in the Eastern Partnership*, PISM Report, Warsaw, kwiecień 2014.