

# **Economic and Social Development in the EU Eastern Neighbourhood: EU Policies and Instruments**

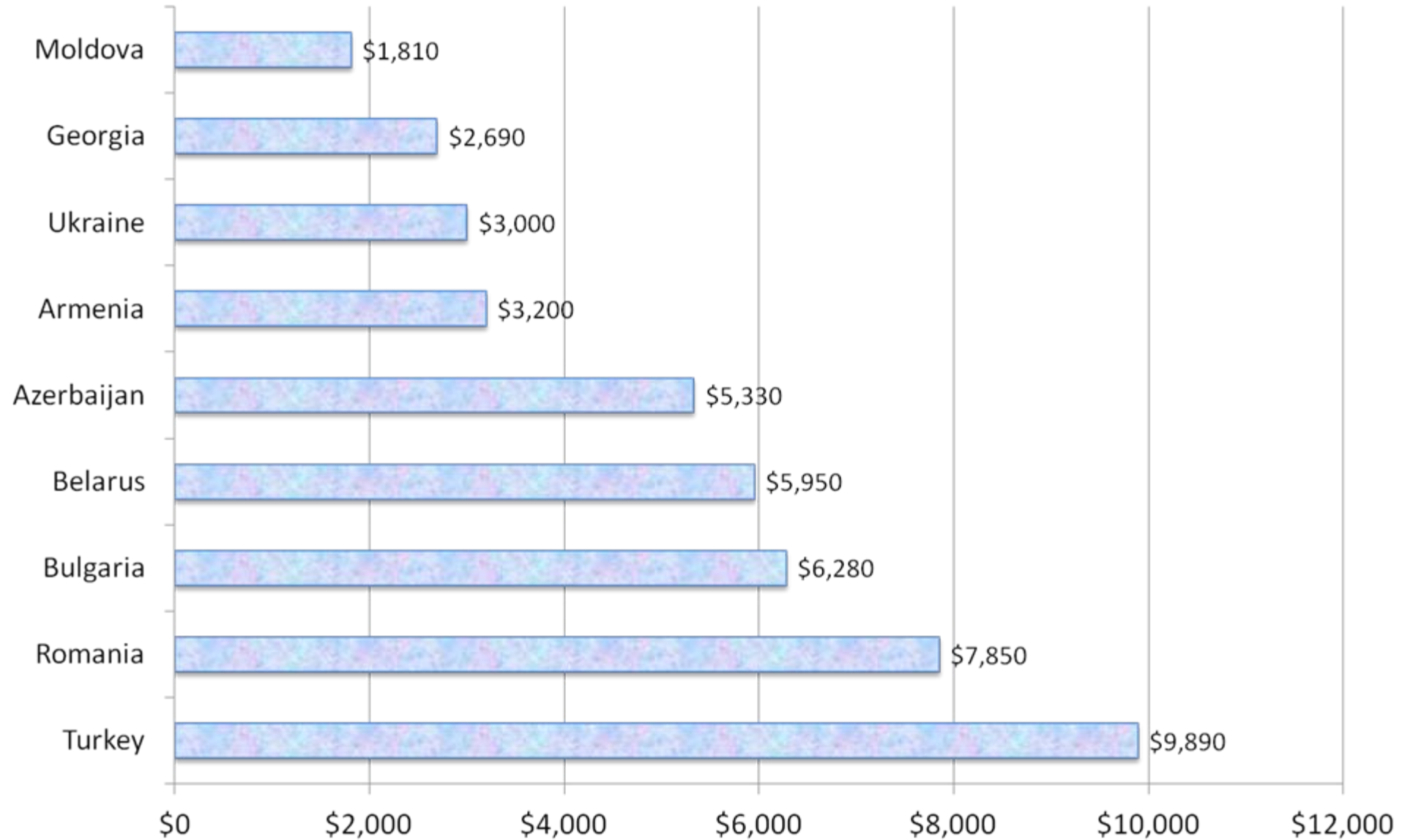
Will Bartlett

LSEE, London School of Economics

# Project background

- The SEARCH project (FP7)
  - <http://www.ub.edu/searchproject/>
  - analyses the impact of EU Neighbourhood Policy (ENP) on the integration of neighbouring countries and the EU in the areas of
    - trade flows
    - mobility and human capital
    - technological activities
    - innovation diffusion
    - institutional environment
- The MATCH project (ETF)
  - Analyses mismatch on the labour market in ENP countries and Western Balkans

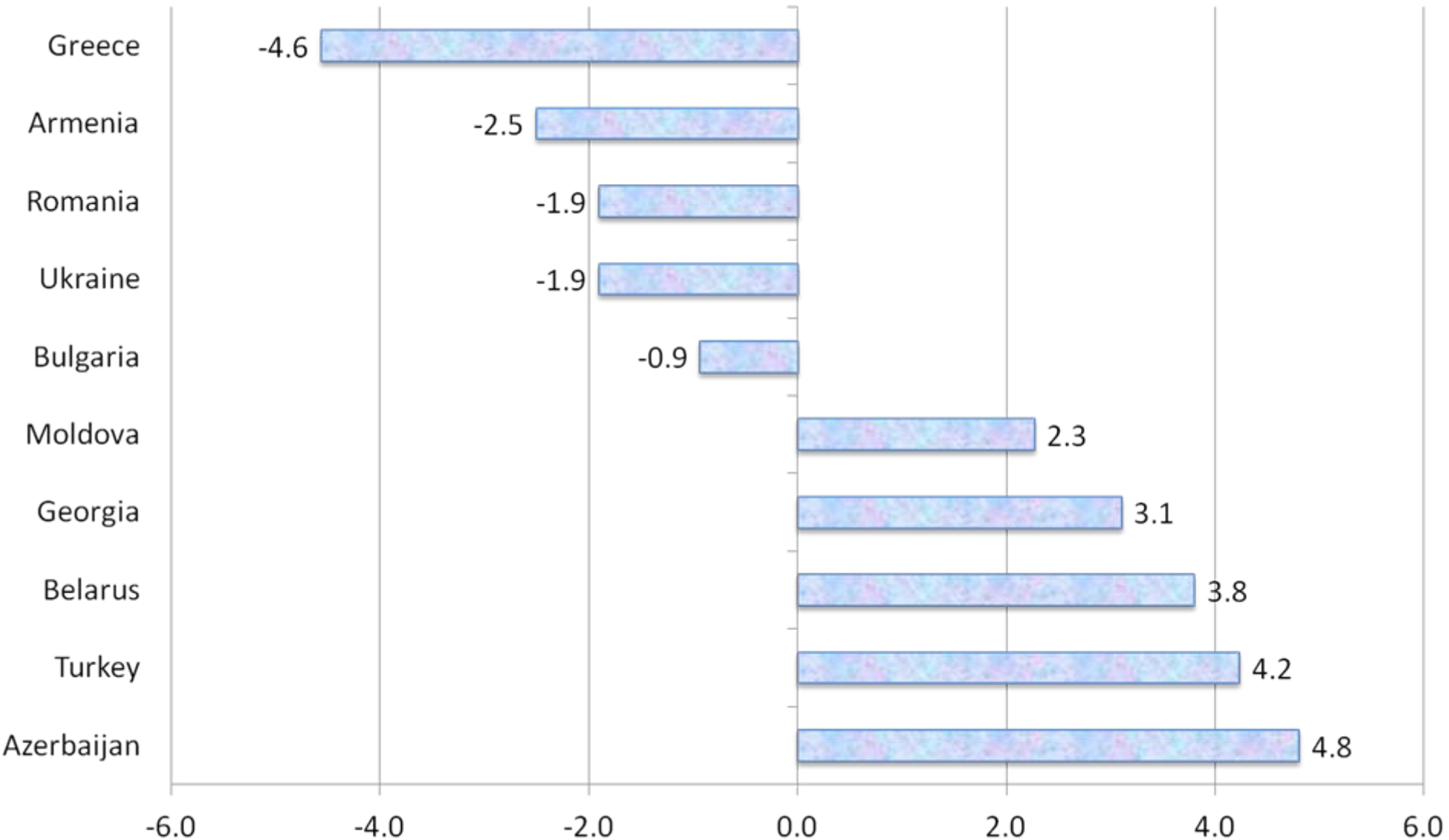
# National Income per capita (US\$)



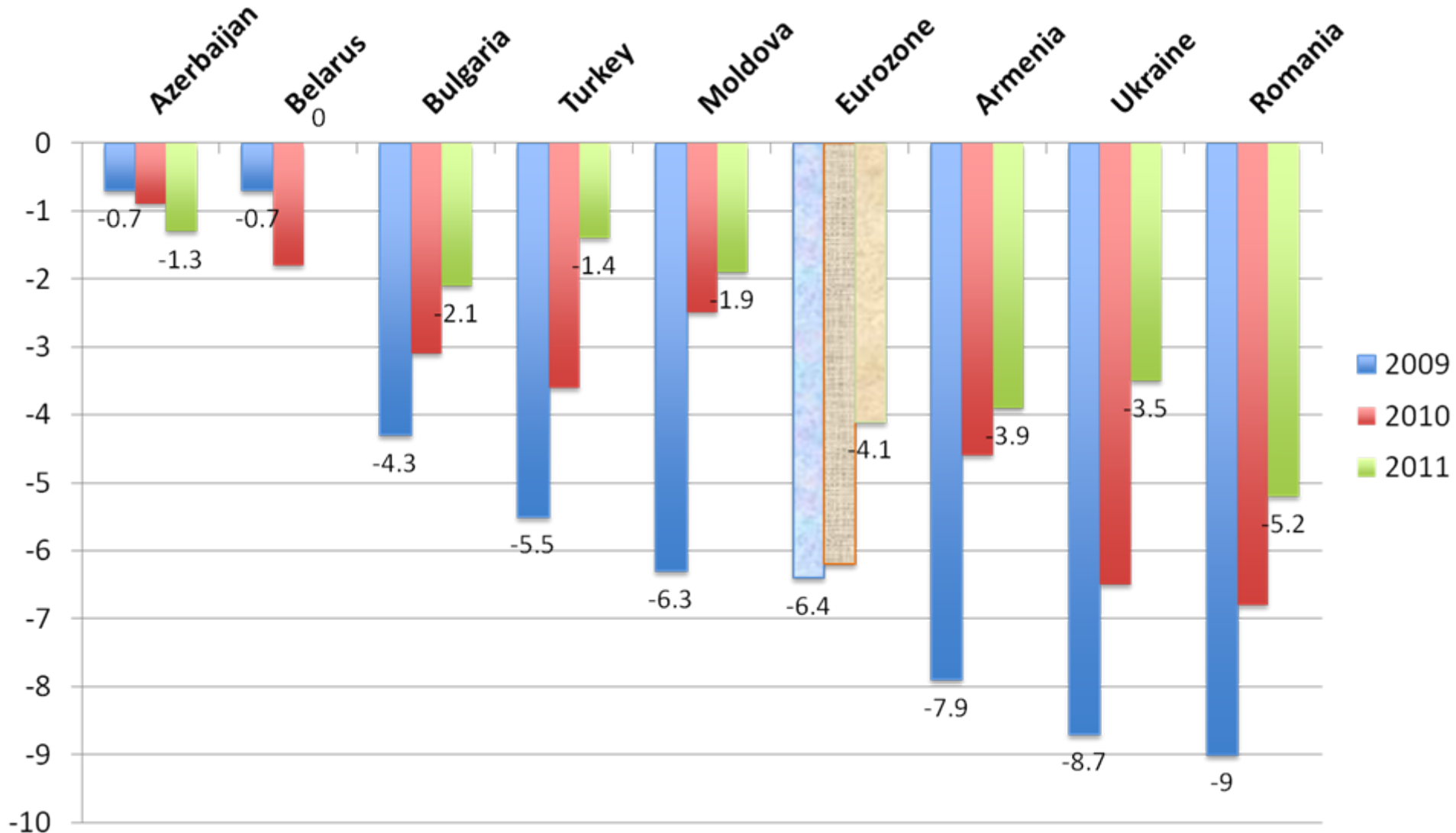
# Eastern Partnership (EaP)

- Covers 6 countries of Eastern Europe (Belarus, Moldova, Ukraine) and Caucasus (Armenia, Azerbaijan, Georgia).
- Launched at Prague Summit in 2009
  - aims to promote political and economic reforms and assist countries of the region to move closer to the EU.
- Second Summit was held in Warsaw in 2011
  - intensity of cooperation depends on pace of reform
- Also aims to support regional cooperation
- Modelled partly on EU policies towards Western Balkans

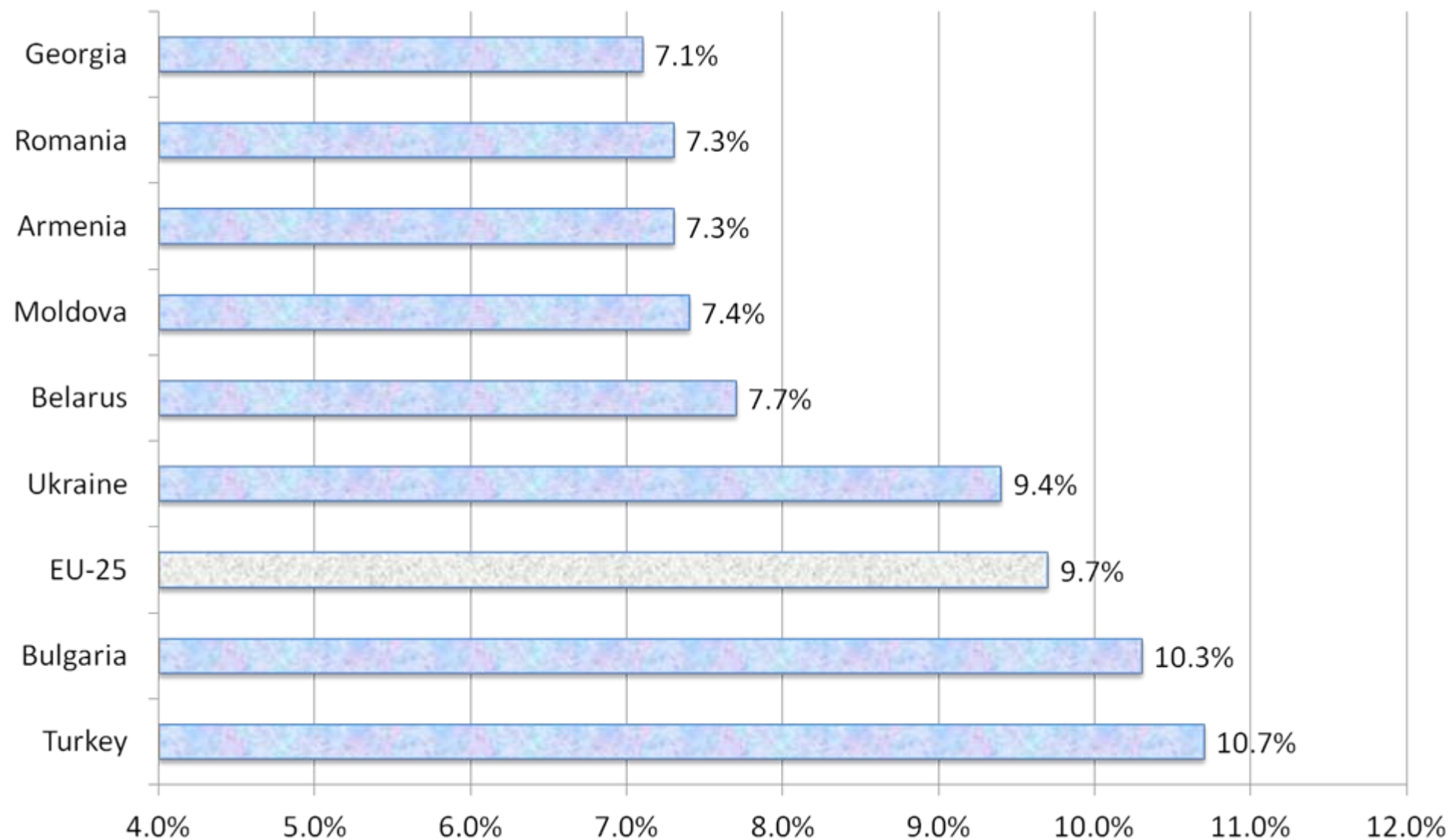
# Real GDP growth (2009-2011, average % p.a.)



# Government Budget Deficits (% GDP)



# Unemployment rate, 2010 (%)



# Eastern Partnership objectives

- Overall, EaP supports the reform process in the transition to democracy and market economy
- Contractual relations based on:
  - Association Agreements
  - Free Trade Agreements ('deep and comprehensive')
- Also aims to promote mobility of citizens and visa liberalisation
- Sector cooperation
  - enable countries to participate in EU programmes.



# Conditionality

- Conditionality is expressed under the slogan ‘more for more’
  - i.e. more support for more reforms.
- Support comes in the form of
  - funding for social and economic development
  - larger programmes for institution capacity building
  - greater access to EU internal market
  - increased investment finance available from EIB loans (and other IFIs) and EU grants.

# Bilateral track

- Comprehensive Institution Building Programme (€173m for 2010-13).
  - Institutional capacity strengthening to prepare Association Agreements and DCFTAs ('Deep and Comprehensive Free Trade Agreements')
  - Programmes based on Institutional Reform Plans (IRPs) (€75m for 2010-13)
- Pilot Regional Development Programmes (PRDPs)
  - Based on EU cohesion policy experience
  - designed to support regional development strategies aimed at reducing disparities within countries.

# Multilateral track

- Five 'Flagship Initiatives' focus the multilateral dimension of cooperation between EaP and EU
- Integrated Border Management (€44m for 2010-13)
- Support to Small and Medium Sized Enterprises (SME)
- Regional Electricity Markets, Energy Efficiency and Renewable Energy Resources supported through INOGATE for energy cooperation (€32m)
- Disaster Prevention and Response (€6m)
- Environmental Governance support for capacity building and environment impact assessment (€10m)

# Current situation (Contractual Relations)

- Negotiations with Ukraine on an Association Agreement including a DCFTA were initialled in March 2012.
- Negotiations on Association Agreements have been launched with Moldova, Georgia, Armenia and Azerbaijan
- Negotiations on DCFTAs are to be conducted with Georgia and Moldova.
- Moldova and Ukraine are implementing Visa Liberalisation Action Plans.
- Mobility Partnerships are in place with Georgia and Moldova.

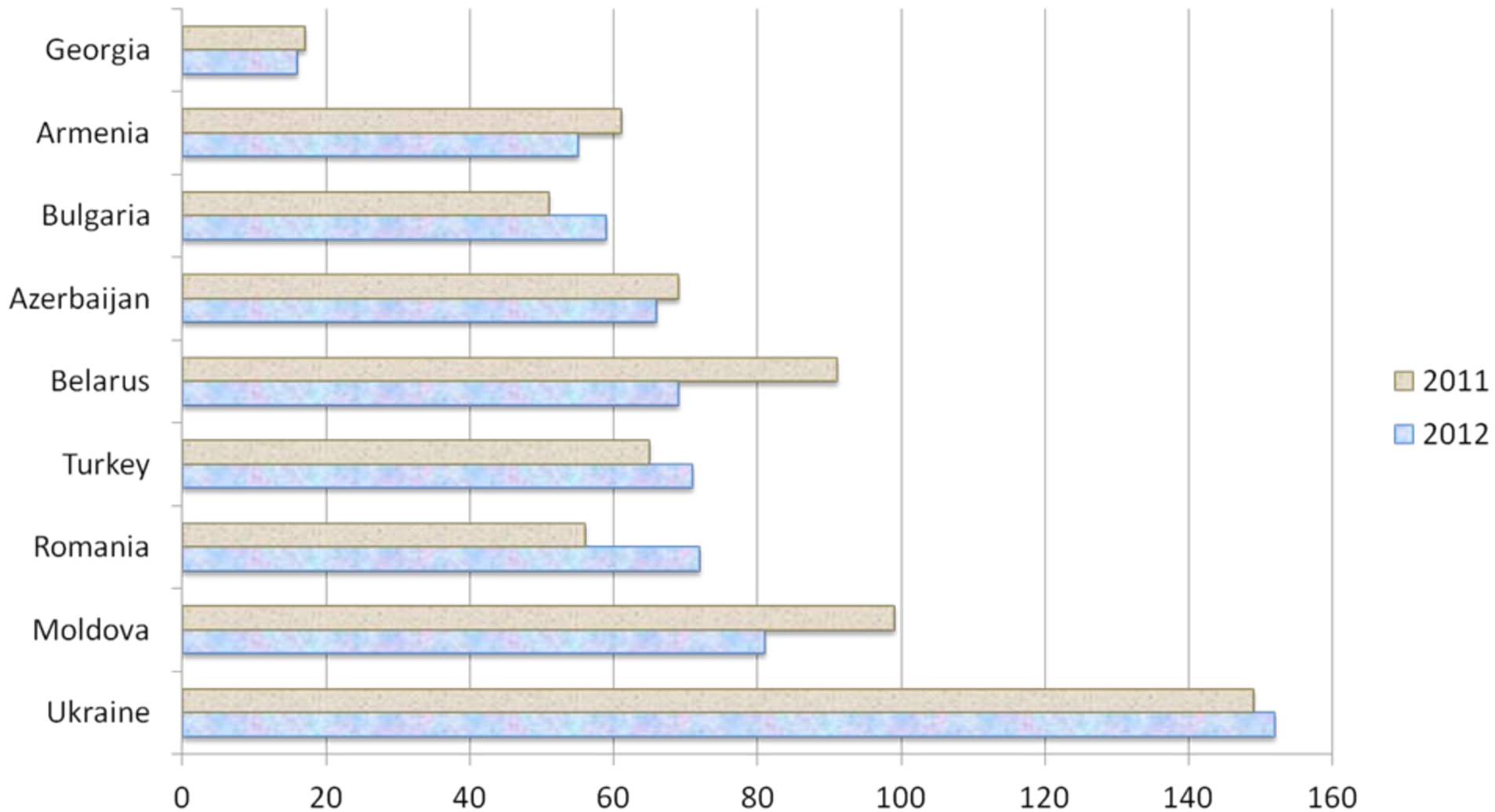
# Current situation (EU Programmes)

- The EU has signed protocols with Moldova and Ukraine that provide the legal basis for participation in EU programmes that are open to ENP partners. Moldova has been associated to FP7 since January 2012.
- Large programmes on regional development are under way in Ukraine and Georgia
- The Moldovan PRDP will be launched in 2012.
- Discussions are being held with Armenia and Azerbaijan on preparing PRDPs
- An Eastern partnership business Forum was launched in 2011.

# SME Flagship Initiative

- Designed to address constraints on SME development in EaP countries
- Inadequate business regulatory framework and lack of inter-regional and international networking mechanisms
- Lack of available and cost effective advisory services for SMEs
- Lack of funding due to under-developed capital markets and financial sector still in transition

# Ease of Doing Business in Black Sea Region, Rank (183 countries)



# Objectives of SME Flagship Initiative

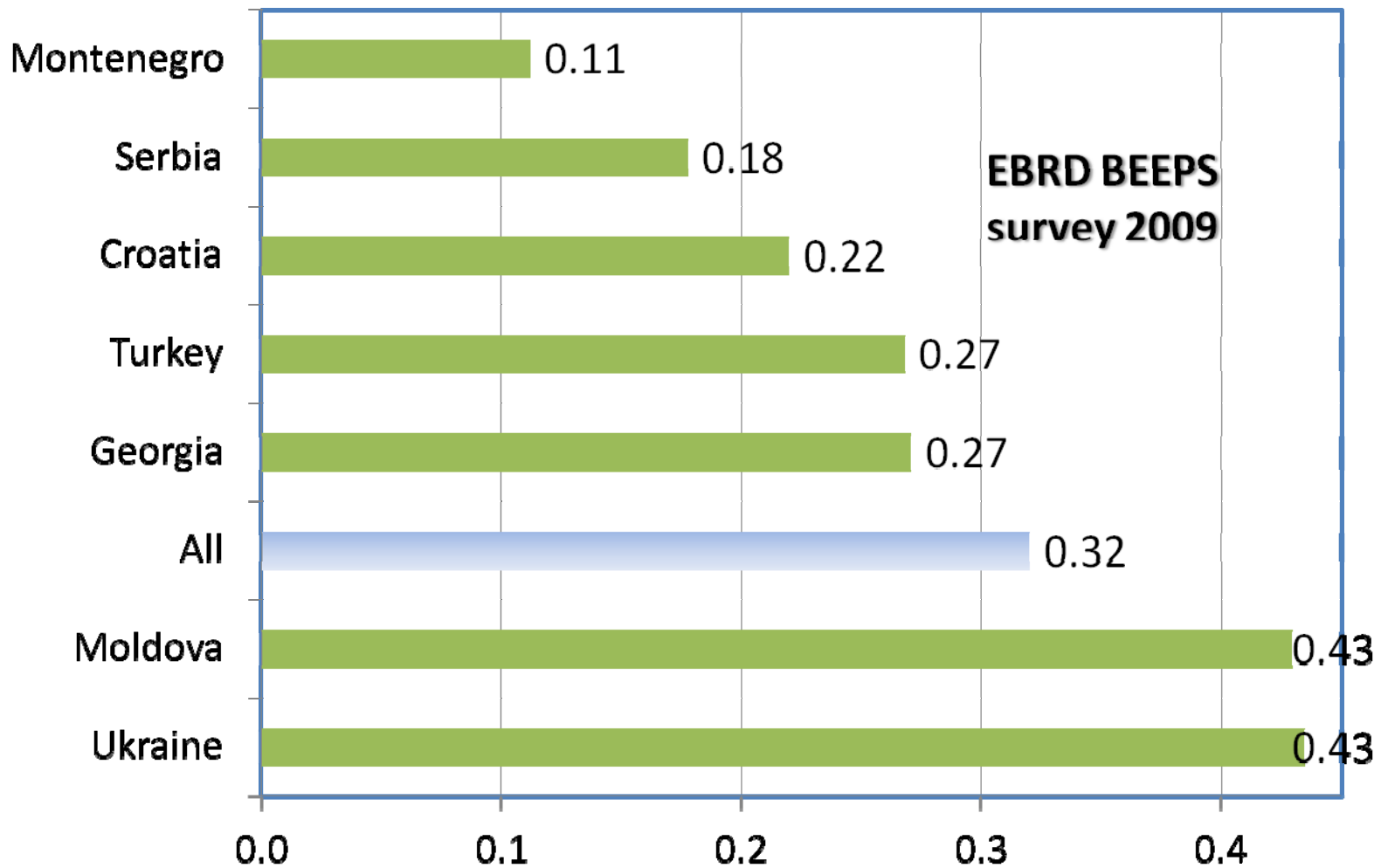
- Encourage convergence with EU policies and *acquis communautaire* in the field of SME policies
- Establish networks between public and private institutions of the EU and Partner Countries,
- Strengthen business links between SMEs in EU and EaP countries
- Provide advisory services
- Improve SME access to funding



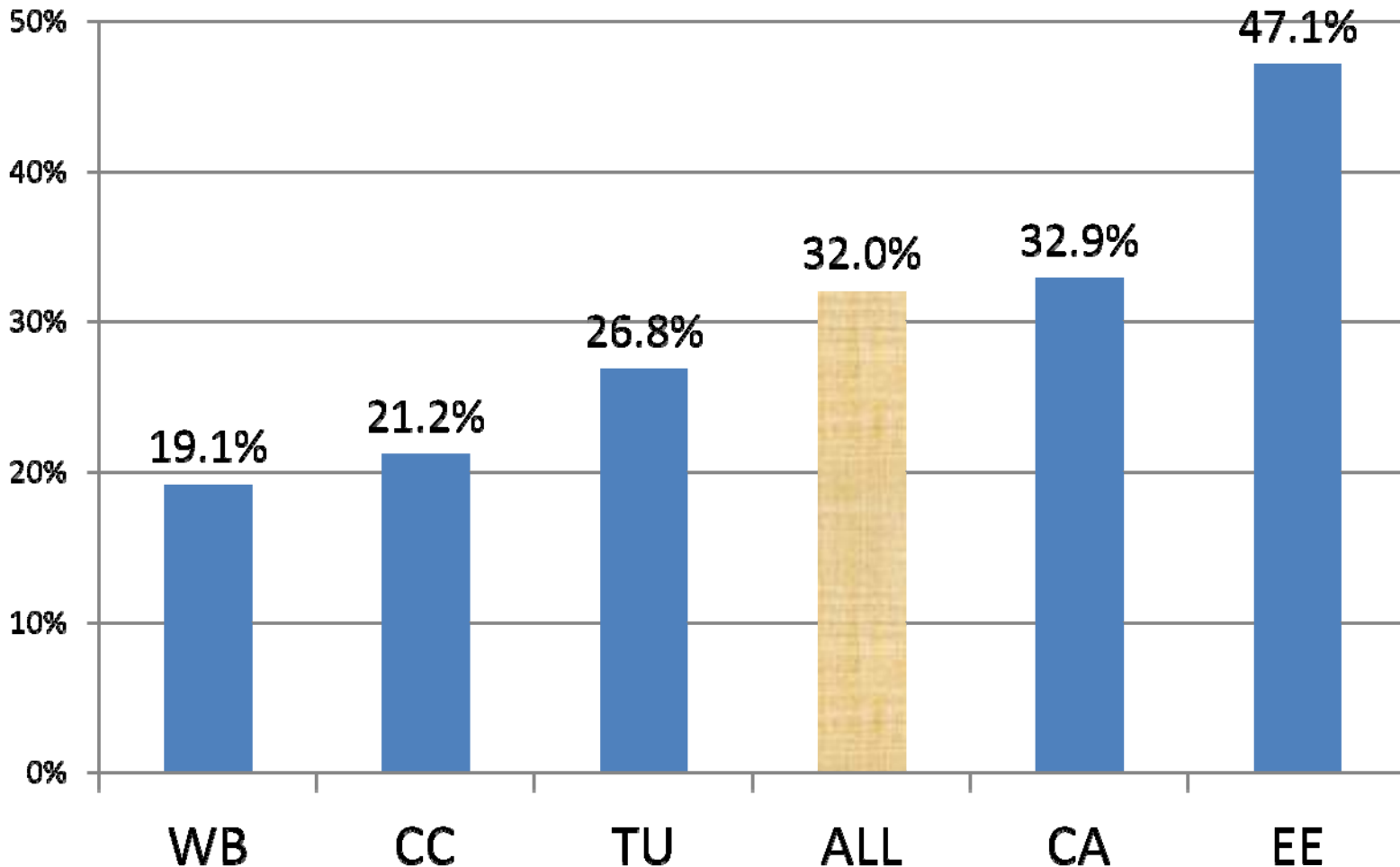
# Activities of SME Flagship Initiative

- Technical assistance through bilateral programmes and East-Invest Programme (€7 million)
- Advisory services provided through EBRD TAM-BAS programme (Turn Around Management and Business Advisory Services) €10 million 2012-11, to:
  - Develop sales and marketing strategies
  - Develop financial and strategic planning expertise
- Funding through SME Facility provided by
  - European Investment Bank (EIB)
  - European Bank for Reconstruction and Development (EBRD)
  - Initial €300 million credit facility

# “Inadequate education is a serious obstacle to the firm” (%)



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# Education in transition economies

- Project of European Training Foundation in ENP countries
- In transition economies, education is often inappropriate to needs of modern economy
  - Vocational and high school graduates often have inappropriate skills and qualifications
- Restructuring and technological change has increased demand for university graduates
  - Employers cannot find enough highly qualified workers (especially in Ukraine and Moldova – BEEPS data)
- But there is also evidence of ‘over-education’ and ‘bumping down’ in transition economies
  - suggests socially inefficient matching process

# Policies for education systems

- Reform of high schools and vocational schools
- Expand but regulate tertiary education to ensure quality
- Incentivise employer in-house training
- Address mismatch of older workers through public investment in retraining, lifelong learning and adult education