

# European Financial Perspective and the European Neighbourhood and Partnership Instrument

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### **The European Neighbourhood and Partnership Instrument**

From the beginning of the new Financial Perspective in 2007, financial support for the European Neighbourhood Policy (ENP) will be provided through a new dedicated financial instrument: the European Neighbourhood and Partnership Instrument (ENPI)<sup>1</sup>. The ENPI aims specifically at developing an area of prosperity and friendly neighbourliness involving the European Union and seventeen<sup>2</sup> neighbouring partner countries. It targets sustainable development and approximation to EU policies and legislation, and brings a radical improvement in our capacity to support cross-border cooperation along the EU's external borders – thus giving substance to our aim of avoiding the creation of new dividing lines and promoting harmonious territorial development across the EU external border. The ENPI has a budget of €11.2 billion over seven years (2007-13) and replaces MEDA<sup>3</sup> and part of Tacis<sup>4</sup>.

The ENPI is a “policy driven” financial instrument that will operate in the framework of the existing bilateral agreements between the EU and neighbouring countries. It has been specifically designed to support the implementation of the ENP and in particular of the bilateral ENP Action Plans concluded by the EU and twelve partner countries<sup>5</sup>. For Russia, our cooperation will take place in the context of the EU-Russia “Strategic Partnership” and support the implementation of the road maps for the four common spaces. ENPI will go further than promoting sustainable development and fighting poverty to encompass, for example, considerable support for measures leading to progressive participation in the EU's internal market. Legislative approximation, regulatory convergence and institution building will be supported through mechanisms such as the exchange of experience, long-term twinning arrangements with Member States or participation in Community programmes and agencies. A specific and innovative feature of the instrument is its cross-border cooperation component. Under this component, the ENPI will finance “joint operational programmes” bringing together regions of Member States and partner countries sharing a common border. The instrument brings a radical simplification in procedures and substantial gains in efficiency. It uses an approach modelled on the experience of the Interreg<sup>6</sup> Community Initiative (Structural Funds) which

<sup>1</sup> Regulation (EC) No. 1638/2006 of the European Parliament and of the Council of 24 October 2006 laying down general provisions establishing a European Neighbourhood and Partnership Instrument, O.J. L 310, 9.11.2006 p.1

<sup>2</sup> Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, Moldova, Morocco, Palestinian Authority of the West Bank and Gaza Strip, Russian Federation, Syria, Tunisia and Ukraine.

<sup>3</sup> Council regulation (EEC) No. 1762/92 of 29 June 1992 on the implementation of the Protocols on financial and technical cooperation with Mediterranean non-member countries O.J. L 181, 1.7.1992, p.1 as last amended by Regulation (EC) No. 2112/2005 (O.J. L 344, 27.12.2005).

<sup>4</sup> Council Regulation (EC, Euratom) No. 99/2000 of 29 December 1999 concerning the provision of assistance to the Partner States in Eastern Europe and Central Asia O.J. L 12, 18.1.2000, p.1 as amended by Regulation (EC) No. 2112/2005 (O.J. L 344, 27.12.2005).

<sup>5</sup> Armenia, Azerbaijan, Egypt, Georgia, Israel, Jordan, Lebanon, Moldova, Morocco, Palestinian Authority of the West Bank and Gaza Strip, Tunisia and Ukraine.

<sup>6</sup> Interreg was the Community Initiative funded by the European Regional Development Fund to promote Cross Border Cooperation within the EU. It was launched in 1990 and it is now coming to an end. From 2007 onwards, under the new regulation, cross border cooperation will be covered by the “Territorial Cooperation” objective of Structural Fund.

## The ENPI brings a radical simplification in procedures and substantial gains in efficiency

is based on multi-annual programming, partnership and co-financing. The cross border cooperation component of the ENPI is co-financed by the European Regional Development Fund (ERDF).

### The Origins of the ENPI

The process that has led to the development of the ENPI in its current shape, i.e. a comprehensive, single instrument tailored to best support the implementation of the European Neighbourhood Policy, has been a gradual one which has led, over time, to major changes in the envisaged scope. Responses to a number of different issues were developed in parallel and converged in the final Commission proposal. In particular, reflection focused on the need to elaborate a policy for our neighbours, new and old, the need to address obstacles to effective cross-border cooperation at our external borders and the need to simplify external relations instruments.

The elaboration of the policy framework started with the Commission Communication “*Wider Europe*”<sup>7</sup> of March 2003, where the Commission recognised the importance of elaborating a new policy for our neighbours with the overall aim of preventing the creation of new dividing lines on the European continent. The process continued in the Commission’s May 2004 Communication “*European Neighbourhood Policy Strategy Paper*”<sup>8</sup> and in the most recent Communication “*Strengthening the European Neighbourhood Policy*”<sup>9</sup>.

With the Communication, “*Paving the Way for a New Neighbourhood Instrument*”<sup>10</sup> the Commission addressed the long-standing problem of how to facilitate cross-border cooperation at all EU external borders through a single Regulation. In the past, the interface of internal and external funding instruments operating with different rule had given rise to widespread criticism. The main features of this new cross-border instrument were outlined in the 2004

“*European Neighbourhood Policy Strategy Paper*”. The assumption, at this time, was still that the ENPI would complement, rather than replace, the existing instruments (MEDA, Tacis) or their successors and would focus exclusively on cross-border cooperation activities at the external borders between the EU and the countries covered by the ENP.

As conceptual work on setting out the framework for a new and simplified political and administrative structure for the delivery of the Community’s assistance and cooperation programmes proceeded, it became apparent that a specific instrument with a broader scope was necessary in order to reflect the specificity of the ENP approach, in order to give the required visibility to relations with neighbouring countries and to provide optimal coherence and further simplify delivery of assistance. On that basis, the Commission’s July 2004 Communication on the “*Financial*

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*Perspectives 2007-13*”<sup>11</sup> indicated that the scope of the ENPI should be enlarged to cover all financial assistance to the ENP countries. Nevertheless, the new ENPI maintained an important cross-border cooperation component, along the lines of the May 2004 ENP Strategy Paper.

### The Approval Process: The Commission Proposal

In its effort to simplify the legal framework for delivering external assistance, the Commission proposed to replace the wide range of existing geographical and thematic instruments that had grown up in an ad-hoc manner with six instruments: three of which were designed to implement particular policies, and three to provide the necessary response to particular needs.

<sup>7</sup> Wider Europe – Neighbourhood: A New Framework for Relations with our Eastern and Southern Neighbours, COM (2003) 104 final of 11.3.2003

<sup>8</sup> European Neighbourhood Policy Strategy Paper, COM (2004) 373 final of 12.5.2004

<sup>9</sup> Strengthening the European Neighbourhood Policy, COM (2006) 726 final of 4.12.2006

<sup>10</sup> Paving the Way for a New Neighbourhood Instrument, COM (2003) 393 final of 1.7.2003

<sup>11</sup> Financial Perspectives 2007-13, COM (2004) 487 final of 14.7.2004

ENPI, together with the Instrument for Pre-Accession (IPA) and the Development Cooperation Instrument (DCI) were to be the policy-driven instruments meant to support the European Neighbourhood Policy, the Accession and Pre-Accession Policy and the Development Policy. The Instrument for Stability, the Humanitarian Assistance Instrument and the Instrument for Macro-Financial Assistance were to be the instruments designed to address crisis of political, humanitarian and macro-financial nature. The simplification effort resulted in the Commission proposing, on September 29th 2004, four new draft Regulations, including the one for ENPI<sup>12</sup>, replacing all pre-existing geographical and thematic Regulations except for the humanitarian and macro-financial assistance where existing legal arrangements were maintained.

The legislative process that started with the Commission proposals took place at two inter-related levels: on the one hand, there was the horizontal aspect, linked to the consequences of the “simplification” and to negotiations on the Financial Perspectives and, on the other hand, the instrument-specific aspects. The Approval Process: Horizontal Aspects and Financial Amounts

## The proposed simplification and the package of new proposals were not favourably received by the European Parliament

The proposed simplification and the package of new proposals were not favourably received by the European Parliament. The Parliament, and in particular its Development Committee, felt that the new framework would severely curtail its powers. Their main objection was that legal instruments with a very wide geographical scope had very general objectives and global allocations (originally one amount per instrument). This was perceived as diminishing Parliament’s possibility of orienting cooperation priorities and determining the level of allocations per region and per theme. The Parliament also insisted on the need to have a dedicated Instrument for Democracy and Human Rights and strongly objected

to the fact that the Stability Instrument was not “co-decided”.

The Council, on the other hand, was broadly in agreement with the approach proposed by the Commission, provided that existing comitology arrangements allowing Member States to provide opinions on all Commission programming and implementation documents were maintained. Member States were more concerned about finding an agreement on the overall “Financial Perspective” which could keep Community spending below the threshold of 1% of GDP. They also objected to the full integration in the Community budget of the European Development Fund (EDF).<sup>13</sup>

Discussions on these horizontal aspects lasted over two years and resulted in a compromise. The requests of the Parliament were addressed by including more detailed legal provisions in the instruments (revision of the objectives and breakdown of funding), by including an expiry date and a review clause, by introducing co-decision for the Stability Instrument and by creating a few additional instruments including a new “European Instrument for Democracy and Human Rights”. A political mechanism providing for dialogue on Country, Regional and Thematic Strategies

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was also established. Concerning funding, the agreement on the Financial Perspectives reached under the Austrian Presidency saw a severe reduction in the overall budget for external relations (-20% compared with the original Commission proposal). How can this compromise be assessed in relation to the stated goal of simplifying the framework for external cooperation? We now have less instruments than we had before, but more than the Commission originally proposed (ten, including the EDF, compared to the six proposed). As a result, the budget has also become simpler. The implementation sections of the Regulations have been harmonised across the instruments and are now more easily implementable by the Commission

<sup>12</sup> Commission proposal for a draft Regulation laying down general provisions establishing a European Neighbourhood and Partnership Instrument, COM (2004) 628 final of 29.9.2004

<sup>13</sup> The European Development Fund is the financial mechanism through which the EU funds technical and financial cooperation with 79 countries of sub-Saharan Africa, the Caribbean and the Pacific. This fund is not part of the Community budget and Member States Contributions follow a different repartition key than for the General Budget. The Commission has been long arguing for its full integration into the Community budget.

and the beneficiaries. On the other hand, the Development Cooperation Instrument had to be radically re-written as a result of the negotiation process and has now become quite complex. The expiry dates on all the instruments will also oblige the Commission to present new legislative proposals before the end of this Financial Perspective.

### **The Approval Process: ENPI-Specific Aspects**

Several Committees of the European Parliament (in particular, the Foreign Affairs Committee and the Regional Policy Committee) examined the ENPI Regulation and received it favourably overall. The Parliament's concerns about the ENPI specifically concerned a few main issues such as a reference to a wider list of values and objectives, greater conditionality on the provision of EC assistance, greater involvement of civil society and the participation of the countries of the European Economic Area (EEA) and Switzerland in ENPI projects.

Most Member States were also broadly in agreement with the approach proposed by the Commission although some would have preferred that funding for cooperation with neighbouring countries be provided through the Development Cooperation Instrument (thus increasing the focus on development aspects and the Millennium Development Goals) and that a specific instrument focussing only on cross-border cooperation be maintained. The most difficult issue, in the discussions in Council, was whether or not to include in the Regulation a specific breakdown between the two main geographical regions covered by the ENPI, notably the East and the South. In the end, Member States agreed not to include such a breakdown, following reassurances provided by the Commission that past levels of assistance will be taken into account while determining allocations. Intense discussions also took place with Member States concerning the amount of the contribution of the European Regional Development Fund to the Cross-Border Cooperation Component of the ENPI. This led to the inclusion of specific new provisions in both the ENPI and the Structural Funds Regulations<sup>14</sup>.

A compromise text, including an agreement on the horizontal and specific aspects, was approved in May 2006 at COREPER and on 6th July the European

Parliament voted, in a first reading, a final report on ENPI whose content reflected that agreement. The ENPI Regulation was formally adopted by Council on 17th October, over two years after the original Commission proposal, and the act was signed by Parliament and Council on 24th October. Publication in the Official Journal took place on 9th November (OJ L 310) and the Regulation entered into force on 29th November. It applies as of 1st January 2007.

### **Conclusions**

Over three years after the idea of a new instrument to support the European Neighbourhood Policy was first floated and more than two years after the draft

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ENPI Regulation was approved by the Commission, one can legitimately ask whether the act that was finally adopted does justice to the original ambitions of the European Commission and if it provides the European Union with a better cooperation tool to promote its policy vis-à-vis neighbouring countries. Even at the end of a long negotiation process, ENPI preserves its original “policy-driven character”. Its scope, as defined in Article 1, to establish an area of cooperation and friendly neighbourliness, refers to a text present in the draft Constitutional Treaty about the importance for the EU of having special relations with its neighbours. Its comprehensive list of cooperation areas allows support for the implementation of 360-degree Action Plans. Its policy framework (Article 3) clearly refers to the “ENP Action Plans” as a key point of reference for assistance programming. Allocations (Article 7) are defined in a way that takes into account the level of ambition of the relationship between the EU and a partner country and the progress made towards implementing agreed objectives.

The ENPI retains a specific Cross-Border Cooperation component under which it will be possible to implement joint programmes involving border regions of Member States and partner countries. Member States have

<sup>14</sup> Regulation (EC) No. 1083/2006 of 11th July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund, O.J. L 210, 31.7.2006, p.25

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agreed to co-finance the CBC component through the European Regional Development Fund (approx. €590 million over the period 2007-13) and that this funding, together with an almost equivalent amount from the ENPI budget (approx. €530 million), will be implemented using ENPI rules. This finally addresses the shortcomings of the past and provides border regions with the opportunity to play a role in the implementation of key external relations priorities.

Funding-wise, the original Commission proposal was severely curtailed. The amount originally proposed for ENPI was €14.93 billion for the period 2007-2013. The amount finally agreed for cooperation with neighbouring countries is approximately €12 billion (€11.18 billion under the ENPI budget and approximately €0.8 billion under the new Instrument for Democracy and Human Rights and in the thematic envelopes of the Development Cooperation Instrument). While this constitutes a cut of almost 20% over the Commission proposal, it represents an increase compared to the previous Financial Perspective (2000-2006). On the whole, funding for neighbouring countries in the next seven years will grow, in nominal terms, by 45% compared with the amount available in the previous Financial Perspective (approx. €8.3 billion). In real terms this represents an increase of 32% that, although not as substantial as anticipated, remains significant. Under ENPI, national

allocations will in almost all cases grow significantly already from 2007.

Finally, ENPI has a number of new technical features which will allow cooperation to be implemented more effectively than under MEDA and Tacis in the past. Unlike Tacis, it can support investment projects and fund budget and sector support programmes (Article 15). It further opens the “procurement” market (Article 21) allowing beneficiaries to get better value for money and companies from neighbouring countries to compete for aid-related contracts in the whole neighbourhood (as well as in candidate and potential candidate countries). It allows the Commission to provide co-financing for projects managed by other donors and to receive and manage co-financing from other donors (Article 17).

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In light of that, there is no doubt that ENPI constitutes a clear improvement over the past legal framework: the link between policy and cooperation is stronger, there are more resources at its disposal, it is simpler and more flexible than MEDA and Tacis and, last but not least, it allows effective implementation of cross-border cooperation at our external borders. Will it also be more effective?

ENPI remains a tool. As such it is only one, albeit important, element in making assistance more effective. Equally, if not more important, will be the will and ability of all partners to take advantage of the new opportunities, to identify good operations and to implement them well. The action now moves from the rooms of the legislators to the field.