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**COMMUNICATION FROM THE COMMISSION  
TO THE EUROPEAN PARLIAMENT AND THE COUNCIL**

**Implementation of the European Neighbourhood Policy in 2008**

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# COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

## Implementation of the European Neighbourhood Policy in 2008

### 1. THE STRATEGIC CONTEXT – A YEAR OF CRISES

2008 was a difficult year for implementation of the European Neighbourhood Policy. Its last few months were marked by crises that could pose long-term challenges for this key EU policy. Two violent conflicts broke out: the war between Russia and Georgia in August 2008 and the Israeli intervention in Gaza in December 2008/January 2009. At the turn of the year Eastern partners and the EU suffered disruptions of gas supplies as a result of a dispute between Ukraine and Russia. Finally, the whole of the ENP area, particularly the East, was affected by the deepening global financial and economic crisis. This unfavourable context underscores the need for even more active and tangible EU support for the Neighbourhood to promote mutual prosperity, stability and security.

Despite the difficult overall environment, partners made significant progress on implementation of the ENP in several key areas, reflecting the policy's role as a catalyst for reforms. A number of partners advanced in trade negotiations, tax and customs reform and competition policy. The business environment also improved in a number of countries, in some cases linked to achievements in the fight against corruption. Yet corruption remains a significant issue in several countries. Overall the pace of reforms has slowed particularly in democratic reforms and human rights standards. This Communication provides an overview of these developments. It also highlights the impact of the financial and economic crisis on the partner countries and proposes a number of ways ENP instruments could contribute to the recovery process.

The gradual deepening of the ENP continued throughout 2008, based upon the proposals by the Commission in December 2007<sup>1</sup> and also with the development of two new initiatives: in July the Union for the Mediterranean was launched following a Commission Communication, and in December the Commission tabled its proposal for an ambitious Eastern Partnership. These major initiatives further reinforce the ENP and complement existing initiatives such as the Black Sea Synergy.

More detailed information can be found in the country-by-country Progress Reports and the Sectoral Progress Report, annexed. The ENP framework provides an objective and coherent approach. The reports reflect differences in sequencing and prioritisation of reforms under the bilaterally agreed Action Plans<sup>2</sup>, as well as the diversity between partners.

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<sup>1</sup> COM(2007) 774: 'A Strong European Neighbourhood Policy'.

<sup>2</sup> The ENP covers Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, Republic of Moldova, Morocco, the occupied Palestinian territory, Syria, Tunisia and Ukraine. Action Plans have been adopted with twelve of the partners, namely all but Algeria, Belarus, Libya and Syria.

## 2. DEVELOPMENTS IN BILATERAL RELATIONS

**Armenia** made progress on implementation of the ENP Action Plan. It is however still struggling with the consequences of an internal crisis in the aftermath of presidential elections in February 2008 that led to a state of emergency and resulting concerns about democratic standards and human rights, notably in the area of media freedom. This crisis occurred in a context of steady progress in reform during recent years. Important steps were taken in 2008 towards improving the transparency of the government decision-making process, notably the government's cooperation with NGOs and civil society, although more remains to be done. Armenia made progress on regional cooperation and dialogue with neighbouring countries. It also widely aligned itself with common foreign and security policy (CFSP) declarations and is generally very active in cooperating on CFSP-related issues. Progress was made on reforms of tax and customs, financial services, competition policy, social policy and poverty reduction. Armenia continued its cooperation with the EU on trade-related issues, including preparations for a possible future deep and comprehensive free trade agreement (DCFTA). The opening of a Delegation of the European Commission in Yerevan in February 2008 further contributed to the strengthening of bilateral relations with Armenia.

**Azerbaijan** made, like last year, only limited progress in the area of democratic governance. The Presidential Elections in October 2008 showed progress towards meeting OSCE (Organisation for Security and Cooperation in Europe) commitments but there were shortcomings in the electoral process. Some progress was made in the area of the judiciary, whose independence nevertheless remains a cause for concern. There were negative developments on protection of human rights and fundamental freedoms. The December 2008 decision of the National TV and Radio Council not to extend the licences of foreign broadcasters to transmit on local frequencies further restricted media pluralism. In the business field, Azerbaijan was assessed by the World Bank as one of the top reformers in the world. The macroeconomic environment was favourable with strong economic growth, mainly due to the high oil and gas prices, particularly in the first half of 2008. Azerbaijan continued negotiations on its accession to the World Trade Organisation (WTO). Good progress was made in the context of the 2006 Memorandum of Understanding on a strategic partnership in the field of energy and in strengthening its role as energy producer. After the reporting period, in 2009, some encouraging signs were seen, notably with the ratification of the Optional Protocol to the UN Convention against Torture and the withdrawal of the libel charges against a human rights defender. The opening of a Delegation of the European Commission in Baku in February 2008 further contributed to the strengthening of bilateral relations with Azerbaijan.

A positive step on the Nagorno-Karabakh conflict was taken, despite the prevailing high tensions, with the first document jointly signed by the Presidents of Azerbaijan and Armenia since 1994. The EU maintains its support for the solution of the conflict in the framework of the OSCE Minsk group.

A stronger commitment to implementation of the **Egypt**-EU Action Plan was seen in the areas of social, economic and sector reforms, though with less commitment to political reform. In the area of human rights and fundamental freedoms, good progress was made on women's and children's rights while much remains to be done on other aspects. Progress was achieved on economic reform, particularly on harmonising fiscal and monetary policy and on general economic liberalisation, backed up by the establishment of fast-track economic courts. Trade negotiations have been launched on the gradual liberalisation of trade in services and the right of establishment and have been concluded on agricultural products, processed agricultural and

fisheries products. On market and regulatory reform progress has been limited, concentrating mainly on improvements to the business environment for SMEs and the customs administration and its operational capacity. Egypt also joined the 'Enterprise Europe Network'. Progress was made on cooperation in the energy sector with the signature of an Egypt-EU Memorandum of Understanding on a strategic partnership on energy. In the area of employment and social affairs, limited progress could be noted on labour laws. Significant progress could be seen in promoting access to primary education. Progress was also reported on the reform of the health sector, including access to primary healthcare and the introduction of health insurance for the entire population. At the 4<sup>th</sup> meeting of the EU-Egypt Association Council in April 2008 Egypt submitted proposals to enhance relations with the EU.

In **Georgia**, implementation of the ENP Action Plan was seriously affected by exceptional events. In the course of 2008, Russia took a number of unilateral steps aimed at strengthening its relations with Georgia's separatist regions Abkhazia and South Ossetia, notably building up its military presence. A sequence of military incidents and provocations culminated in August 2008 in the outbreak of an armed conflict with Russia over the control of South Ossetia, causing hundreds of casualties, the displacement of about 192,000 people and serious environmental damage, leaving 7,000 Russian troops on Georgian territory. The ensuing recognition by Russia of the self-declared independence of the two separatist entities violated Georgia's sovereignty and complicated peaceful and sustainable settlement of the conflicts. A ceasefire agreement was concluded with EU help, and the European Council expressed firm support for Georgia's territorial integrity. At the same time, two rounds of contested early elections have highlighted the need to inject new momentum into democratic reforms and to encourage political pluralism, in line with the ambitious agenda of reforms pursued since the "Rose Revolution". In spite of this difficult context, Georgia made some progress on implementation of the ENP Action Plan, with notable achievements in fighting corruption, facilitating access to justice and improving the business and investment climate and customs administration. Concrete measures are needed with respect to labour law, rights at work and social dialogue. Georgia continued to cooperate with the EU on trade-related issues, including preparations for a possible DCFTA. Georgia also continued cooperation in the area of justice, freedom and security as the basis for EU-Georgia negotiations on visa facilitation and readmission agreements.

Following a request by **Israel** to upgrade bilateral relations, cooperation on the basis of the current Action Plan was extended in April 2008. This provided more time to discuss the content of a successor document. Israel has made progress on a large number of priorities of the Action Plan. Further efforts are needed to address the widening poverty gap and to improve the situation of the Arab minority by adopting adequate measures on employment, women's rights, social inclusion, education and public administration. Trade negotiations were launched on the gradual liberalisation of trade in services and the right of establishment and were concluded on agricultural products, processed agricultural and fisheries products. In the case of transport, the European Community and Israel signed a horizontal aviation agreement and started negotiations on a comprehensive aviation agreement. The Commission and Israel also signed a Joint Declaration on co-operation and dialogue in education and training and, in April 2008, a Protocol on the general principles governing Israel's participation in Community programmes.

Any review of bilateral EU-Israel relations, including in the context of the ENP Action Plan, must take into account the persisting Israeli-Arab conflict and the overall political developments in the Middle East. Continued and even accelerated expansion of settlements in 2008 had a negative impact both on the peace process and on access and movement for the

Palestinian population and economy. This was further compounded by the lack of progress on a number of commitments made in the framework of the Action Plan, such as on facilitating Palestinian trade. Demolition of Palestinian houses without a building permit in Area C (which comprises areas under exclusive Israeli control) of the West Bank resumed in the last quarter of 2008 after a de-facto moratorium of six months. The launch of Operation Cast Lead in Gaza at the end of the reporting period has further exacerbated the political context and dramatically worsened the situation of the Palestinian population, which was already impoverished prior to the offensive due to the full blockade of the Gaza Strip.

**Jordan** is an active and constructive ENP partner. Progress was made on penitentiary reform, transparency and the fight against corruption. However, no significant advances were observed on the independence of the judiciary or freedom of association. Good progress was made towards liberalising the economy and increasing competition in sectors such as electronic communications and energy and in environmental governance. Further legislation is required to improve the business environment. Limited progress was made, however, on the trade agenda. Moreover, a comprehensive poverty reduction strategy has yet to be implemented and the gap between rich and poor has been widening. In November 2008 Jordan expressed the desire to come to a qualitative and quantitative intensification of the political exchanges with the EU on a wide range of common political and security challenges.

After the end of the military conflict between Israel and Hezbollah in 2006, **Lebanon** entered a long political stalemate. In May 2008 an agreement was finally reached between the rival factions, ending an 18-month crisis. A government of national unity was formed in July 2008. The difficult political situation throughout the year slowed down implementation of the Action Plan. Despite the institutional improvements a legislative deadlock meant that no legislative proposals could be debated. Several reforms (including of competition policy and VAT) were agreed by the Council of Ministers but could not be enacted. Progress in other fields (human rights, judicial reform, social sector reform, and regulatory and administrative reforms) was also slow. This situation has had an impact on the overall social, economic and political situation in the country and on the dialogue in the framework of the ENP. The first step towards normalisations of relations with Syria was taken in October 2008 by the establishment of diplomatic relations. The work of the International Independent Investigation Commission continued throughout the reporting period. The European Commission provided support to the creation of the Special Tribunal for Lebanon in The Hague.

**The Republic of Moldova** (hereinafter "Moldova") has made progress in a number of areas of the ENP Action Plan, with the continuing reform of the judicial system, the publication of the reports of the European Committee for the Prevention of Torture and the positive cooperation with the EU Border Assistance Mission (EUBAM). Moldova also continued to cooperate with the EU on all questions related to the Transnistria settlement efforts, including on confidence-building measures geared to improving grass-roots dialogue and has ensured a correct implementation of the conditions for benefiting from the EU Autonomous Trade Preferences. An EU-Moldova mobility partnership was signed. In November 2008 negotiations were launched on Moldova's accession to the Energy Community Treaty, reflecting substantial progress in energy sector reform. However, no or limited progress was made on certain key priorities, such as the respect for human rights, including freedom of expression. The same goes for market and regulatory issues, implementation of national strategies against corruption, drugs and trafficking in human beings, and in sectors such as transport. The adoption of a modified electoral law constitutes a regression. The elections, held in April 2009, will be reported upon next year.

**Morocco** continues to be an active and constructive ENP partner and made progress in a large number of areas covered by the Action Plan. Although the reforms to advance democracy and human rights could be more ambitious, progress has nevertheless been made, for example with the adoption of a new electoral code reinforcing the participation of women, measures to fight corruption and accession to UN conventions. Nevertheless, persisting deficiencies in the functioning of the judiciary pose a risk to the reforms that have been launched. Obstacles to freedom of the press remain. The dialogue with the EU in certain sensitive sectors has further intensified, notably on the fight against organised crime and cooperation on border management issues. Negotiations on a readmission agreement have not progressed as much as expected. There has been progress on negotiations on the gradual liberalisation of trade in services and on the right of establishment, and on trade in agricultural, processed agricultural products and fish and fishery products. The government formed following the 2007 elections has gradually initiated a number of structural economic reforms, despite an unfavourable economic climate. In terms of social policies, there are signs of improvement: the proportion of the population living below the poverty line has slightly diminished, and education and health care budgets have been raised and there have been substantial improvements in water supply and sanitation infrastructure. But child labour persists and youth unemployment remains a matter of concern. At the meeting of the Association Council in October 2008, Morocco and the EU adopted a joint document, prepared by the *ad hoc* working group, on the strengthening of bilateral relations in the form of an “Advanced Status road map” that will be implemented in the coming years. The working group will report to the next meeting of the Association Council.

For the **Palestinian Authority** 2008 saw some progress in several of the areas covered by the Action Plan and the PA also took credible steps to implement its "Palestinian Reform and Development Plan". The most notable progress was on budget consolidation and security sector reform. In the economic sphere, a dramatic regression for development of the private sector was observed in Gaza, with only minimum humanitarian aid allowed to pass crossings under an otherwise complete blockade. Economic development on the West Bank was also severely hampered by the ongoing Israeli occupation and the persisting restrictions on movement and access. Therefore, overall economic growth in the occupied Palestinian territory remained weak (below 2%) and well below demographic growth, despite a massive injection of donor funding. Political reform and institution-building also suffered a setback as a result of the split between the West Bank and Gaza. Several attempts at factional reconciliation failed and led to a deterioration of the human rights situation in both parts of the territory. Legislative activity was limited, since the Palestinian Legislative Council could not convene.

The year ended with one of the gravest chapters in the Israeli-Palestinian conflict. This will, however, be covered in more detail in the next Progress Report.

Overall, **Tunisia** is participating actively in the ENP. In the area of democracy and human rights, the dialogue in relevant sub-committee has been further developed, but challenges remain on the ground in the implementation of objectives agreed, notably on freedom of association and expression. Reform of the justice system is needed in order to strengthen the rule of law, an element that will be essential to bring Tunisia truly closer to the EU. The dialogue that has been initiated in the frame of the subcommittee on Justice and Security should open the way for closer cooperation on the fight against terrorism and organised crime, on border management and on migration issues. Significant progress has been made on economic and regulatory reforms, which has led to significant growth of the Tunisian economy and of trade with the EU. As Tunisia has continued its efforts in the area of social

policy, results in terms of health care, schooling, fight against poverty and the protection of women's rights are encouraging but more needs to be done. Tunisia is the first partner in the region to have entered into a free trade area for industrial products, on 1 January 2008, two years in advance of the original timetable. It is also the first one to have concluded negotiations on a dispute settlement mechanism in the framework of the Association agreement, and initialled the Protocol in July 2008. Negotiations have started on the gradual liberalisation of trade in services, on the right of establishment, as well as on trade in agricultural, processed agricultural products and fish and fishery products. At the Association Council meeting in November, Tunisia expressed interest in a strengthened partnership in the same spirit as the Advanced Status with Morocco. The EU has indicated its willingness to work actively on this.

**Ukraine** made progress in many areas covered by the Action Plan. However, the pace of reform slowed down as a consequence of continuing domestic political instability and, in the second part of the year, the deepening global financial and economic crisis. Ukraine made no or only limited progress in the implementation of some key political reform measures including constitutional and judicial reform and combating corruption. Major achievements during the reporting period were Ukraine's accession to the World Trade Organisation in May 2008, the good progress in the negotiations on the EU-Ukraine Association Agreement, including those aspects related to a deep and comprehensive Free Trade Area, the launch in October of a visa dialogue with the aim of establishing a visa free regime as a long term perspective and the continuing positive cooperation with the EU Border Assistance Mission (EUBAM). Co-operation on CFSP matters was also positive, with Ukraine aligning itself on nearly all CFSP positions open for alignment. In December 2008 Ukraine and the Commission services signed a new administrative arrangement on closer cooperation in the field of civil protection. In November negotiations were launched on the country's accession to the Energy Community Treaty. Cooperation on energy was further enhanced in the context of the Memorandum of Understanding on Energy.

Relations with other countries covered by the ENP evolved positively during 2008. A road-map for the implementation of the Association Agreement with **Algeria** was agreed by the Association Committee in September. Following the release of remaining political prisoners, the visa ban for some members of **Belarus** government was suspended for a period of 6 months. Negotiations on a Framework Agreement with **Libya** started in November 2008, and an updated Association Agreement with **Syria** was initialled in December 2008.

### **3. NEW FRAMEWORKS TO STRENGTHEN THE ENP**

In 2008, the European Union continued to substantially strengthen its relations with its neighbours through new frameworks which complement the differentiated bilateral relations. Equally, the continued implementation of the Africa-EU Joint Strategy, which covers five of the ENP countries, contributes to the same goals by its own result-oriented and focused partnerships.

#### ***Union for the Mediterranean: towards a more visible partnership***

The July 2008 Paris Summit launched the *Union for the Mediterranean* (UfM) with the objectives of providing new political impetus for the EU's critical relationship with its Mediterranean partners, providing greater co-ownership and making this relationship more

concrete and visible through regional and sub-regional projects, building on the achievements of the Barcelona Process. As regards the detailed design, the UfM<sup>3</sup> proposed setting up a project-oriented Secretariat. At the UfM Ministerial Meeting in November, its location was decided (Barcelona) and agreement was reached on the participation of the League of Arab States, in all meetings at all levels. It was also agreed to set up an EU-Arab League Liaison Office in Malta.

The first set of projects to be developed under this initiative include de-pollution of the Mediterranean Sea, establishment of maritime and land highways, civil protection initiatives to combat natural and man-made disasters, a Mediterranean solar energy plan, the inauguration of the Euro-Mediterranean University in Slovenia and the Mediterranean Business Development Initiative focusing on micro, small and medium-sized enterprises.

#### ***The Black Sea Synergy: first year of implementation<sup>4</sup>***

A Foreign Ministers' meeting took place in Kyiv in February, 2008. The Joint Statement adopted identifies fields requiring action at the regional level including energy, transport, communications, trade, the environment, maritime policy, fisheries, migration, law enforcement and the fight against organised crime.

The Black Sea Synergy has also attracted considerable interest from NGOs. The first of a series of Black Sea Synergy civil society seminars on human rights issues took place in May 2008 in Moldova. A platform on migration has been established.

The Commission has launched exploratory talks with the countries of the region about the extension of the trans-European transport networks, and a ministerial meeting on transport was held in Baku in December 2008. The Commission has increased its focus on maritime safety and security and has begun to implement the Motorways of the Sea concept in the Black Sea. Work has also started on extending the Common Aviation Area to the Black Sea countries. The Commission has started preparing for the accession by the European Community to the Convention on the Protection of the Black Sea against Pollution (Bucharest Convention). Bulgaria and Romania have made formal proposals to amending the Convention in order to allow the European Community to become a party.

#### ***Proposal for an Eastern Partnership<sup>5</sup>***

In response to the Union's strategic interest in seeing stability, better governance and economic development at its Eastern borders, to the need to help the Union's partners to consolidate their statehood and sovereignty, including through democratic reforms, and to their stated choice to intensify their relations with the EU, in December 2008 the Commission made a proposal for an Eastern Partnership. In this proposal the Commission drew a distinction from the regional cooperation initiated in the Black Sea Synergy, in order to obtain maximum complementarity with the Synergy, which is just entering its operational phase.

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<sup>3</sup> COM(2008) 319 - Communication from the Commission to the Council and the European Parliament - Barcelona Process: Union for the Mediterranean UfM Communication.

<sup>4</sup> COM(2008) 391 - Communication from the Commission to the Council and the European Parliament - Report on the first year of implementation of the Black Sea Synergy.

<sup>5</sup> COM(2008) 823 - Communication of the Commission to the Council and the European Parliament - Eastern Partnership.

The Eastern Partnership Communication contains an ambitious set of policy proposals for deeper relations with the Eastern European and South Caucasus countries, to advance political association, further economic integration and gradually promote mobility, having a full visa liberalisation as a long-term goal. The Partnership would have both a bilateral and a multilateral dimension. At multilateral level, it would introduce “cooperation platforms” on democracy, good governance and stability; economic integration and approximation to EU policies; energy security; and contacts between people. The European Council welcomed the proposals in March 2009.

The Eastern Partnership will be launched at a Summit on 7 May 2009 and structured through annual meetings of Foreign Ministers and biennial summit meetings. The first meetings of the thematic platforms are foreseen shortly after the launch.

#### **4. IMPACT OF THE GLOBAL FINANCIAL AND ECONOMIC CRISIS**

The global financial crisis has affected the partner’s real economies to different degrees.

So far the Eastern neighbourhood countries have been more seriously affected by the changed global economic conditions. These countries, whose buoyant growth in the previous years had been driven essentially by foreign capital inflows (in the form of FDI, bank credits or, in some cases, remittances) are now suffering from the drying up of international capital and credit markets. For several countries in the region the financial meltdown is compounded by the dramatic drop in the prices of export commodities on which several countries in the region rely heavily: energy, metals and agricultural commodities. The social impact is likely to unfold with risks of increased vulnerabilities and poverty making social responses and reforms more urgent and challenging.

The largest economy in the Eastern neighbourhood, Ukraine, suffered a sharp economic downturn in late 2008: trade conditions with the decline in export prices for steel and the global financial crisis exposed the banking and corporate sectors' vulnerability to the face of a cut off from external financing. Real GDP decreased significantly, bringing overall economic growth down to some 2.5% for the whole year. The downturn of the Ukrainian economy, expected to continue in 2009, has also adversely affected countries for which it is an important trading partner, such as Moldova and Belarus.

The Ukrainian authorities quickly agreed on a stand-by arrangement with the IMF for about EUR 12.8 billion under a comprehensive economic stabilisation programme. The first tranche has been disbursed, with discussions ongoing on the implementation of IMF conditions for the second tranche. Ukraine's public and publicly guaranteed debt remained at a sustainable level during 2008. The main concern is the refinancing of banking and corporate short-term external debt. The legal framework to resolve the situation of banks was amended under the anti-crisis legislation of November 2008; implementation of this legislation is a top priority for the authorities in 2009 so that viable banks can continue lending and thereby support the resumption of economic growth.

Ukraine was not the only country in the region to obtain financial support from the Bretton-Woods Institutions. The IMF has already put in place financing arrangements with Georgia, Belarus and Armenia. Moldova is likely to follow later this year.

In the Mediterranean region, the low international integration of the financial sector and prudent lending policies, combined with the relatively low reliance on external financial flows, have largely buffered financial institutions from the consequences of the sub-prime fallout and over-leveraging. Domestic banks have not been affected by the global credit crunch and have kept credits flowing into the economy, even if the limited access to external borrowing is a constraint for future credit growth and deeper financial intermediation.

For the entire ENP area, the global financial and economic crisis nevertheless poses risks to some key sectors of the economy in 2009, such as remittances, export-oriented industries, tourism and construction. The poor outlook for European growth, in particular, poses significant risks since the EU is the main export market and employs a large proportion of the expatriate workers who are a source of remittances. Exports are also likely to be affected by competition from lower-wage countries. Inward investment is likely to suffer because of the European slowdown. FDI volumes are also likely to be affected since European firms might decide to postpone investments. The drying-up of liquidity in the banking sector in developed countries could hamper the privatisation process in partner countries. SMEs could face an even more difficult access to finance which could severely affect their economic activities. A spill-over of the crisis to EU neighbours would aggravate the already high unemployment of youth in particular and further challenge employment and social reforms.

In a situation of an economic crisis, the trade and trade-related priorities from the ENP Action Plans become more important than ever. The regional economic integration processes in the Neighbourhood need also to be continued.

As an early response to the London G20 Summit, the Commission set out, in a recent Communication<sup>6</sup>, timely, targeted and coordinated measures to be taken as of this year by the EU as a whole, with a view to supporting partner countries in their efforts to cope with the impact of the global financial crisis. With this in mind, the European Commission will, *inter alia*, accelerate the Mid-Term Review of its external assistance programmes in 2009 and 2010, with a view to reflect new needs and priorities.

## 5. CONCLUSIONS

### *A growing partnership based on mutual interdependence*

The EU's relations with its neighbours have thus on balance continued to intensify, despite the difficult international context. This trend is reflected in the overall progress made with the ENP "front-runners" identified in the 2008 Communication just as much as in developments with the other countries, including those that are not, at present, full participants in this policy. It is reflected both in the depth of bilateral relations and in the growing web of multilateral initiatives. The crises in 2008 and the remaining challenges in partner countries have only reinforced the strategic rationale for an intensified ENP providing tangible and credible support to create mutual security and prosperity dividends.

A number of countries have asked that these developments be reflected in a formal upgrading of their relations with the EU. This demonstrates the ENP's force of attraction and the positive incentives provided by a performance-based, differentiated policy. Such upgrading would institutionalise and increase political exchanges, intensify the country's participation in

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<sup>6</sup> COM(2009) 160, 8.4.2009: Supporting Developing Countries in Coping with the Crisis.

the EU economic area, and bring about greater integration in various policy areas. The Commission considers that the EU should be open to such requests, not least to sustain the momentum of reforms in partner countries. Formal upgrading would be based on the commitment to shared values and interests and when Action Plan implementation demonstrates the ambition of the partner concerned to go further, notably as concerns democratic practice, respect of human rights and fundamental freedoms, and the rule of law.

### *Addressing the challenges of governance and the economy*

The EU's toolbox for implementation of the ENP is becoming increasingly sophisticated. While continuing to pursue a differentiated policy, tailored to the situation of each partner, the Commission will ensure that successful approaches and instruments developed for one country or region will be replicated, as appropriate, in other parts of the Neighbourhood. In particular, a number of proposals made in the Communication on the Eastern Partnership, such as a stronger comprehensive approach to institution-building or national policies supporting social and economic cohesion could also be considered to support relations with the Union's Southern neighbours.

The financial support accompanying the partners' reforms must also be adapted to new priorities emerging from the challenges that the Neighbourhood faces. The Commission's proposals for ENPI programming for the period 2011-13 will duly reflect this.

The overall lack of progress on governance issues observed in 2008 underlines the need for the EU and its partners to redouble their efforts, both with intensified political dialogue and with tailored assistance, including the Governance Facility which remains an important political incentive. The Commission will decide on the next allocations under this facility in the light of the analysis in this Communication and the annexed country reports.

While the deepening global financial and economic crisis underscores the need for partner countries to keep up the pace of economic reforms and refrain from protectionist and trade-distorting measures, it also calls for tangible EU support. In that respect the Commission proposes to:

- Ensure, in its regular contacts with the partners, an intensive dialogue on the response to the financial crisis and its economic and social consequences and in particular on the way to cushion the impact on the most vulnerable whilst further promoting decent work conditions and securing a sustainable economic and social development;
- Contribute to addressing the short term liquidity problems stemming from the financial crisis by further mobilising community macro-financial assistance loans provided in cooperation with the International Monetary Fund and in coherence with IMF programme conditions. If other means of provisioning the guarantee fund for external actions prove to be insufficient to meet the needs, setting aside part of future ENPI grant funding could be considered. In addition, the Commission urges Member States to consider providing bilateral macro-economic assistance to ENP countries, similarly coordinated with the IMF;
- Strengthen the regulatory environment of the financial sector and institutions that can ensure appropriate supervision of financial markets (central banks, banking and financial sector supervisory authorities, security exchange commissions, etc), by means of technical assistance, and where appropriate, twinning, programmes over the next two years. Within this additional support, the possibility of the European Central Bank and the national

central banks of the Eurosystem further extending technical assistance programmes to partner countries' central banks will also be explored;

- Encourage the EIB and EBRD to accelerate their lending operations, including in the Eastern Neighbourhood;
- Address the impact of the economic crisis by means of trade and investment support. This may include prioritising the SME Facility foreseen under the Eastern Partnership, and, if additional funds are available, providing an additional contribution to the Facility for Euro-Mediterranean Investment and Partnership (FEMIP) and/or the Neighbourhood Investment Facility (NIF).