

# DIIS REPORT

**THE EU'S EASTERN NEIGHBOURS**  
THE STATE OF REFORMS AND THE REFORM  
OF THE STATE

*Edited by Julie Herschend Christoffersen*

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## **Abstract**

This report is based on the DIIS conference “The EU’s Eastern Neighbours – The Road to Viable Reforms and Efficient Assistance” held in March 2011 in cooperation with the Ministry of Foreign Affairs of Denmark. The aim of the conference was to provide input for the upcoming evaluation of the Danish Neighbourhood Programme (DNP) in the light of the ongoing review of the European Neighbourhood Policy. Focusing on various aspects of development in the Eastern Neighbourhood, various stakeholders, donors, politicians, NGO’s and researchers all gave their views on how development can be improved. The roles of conditionality, economic growth and donor coordination were among the issues discussed. Several of the contributions can be found in this publication.

## **Introduction**

*Julie Herschend Christoffersen*

At the Prague Summit in 2009 the EU decided to establish the Eastern Partnership (EaP) in order to further develop multilateral and bilateral ties with Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. The next summit between the EU and the Eastern Partners will take place in Warsaw in September 2011. In preparation for the summit, the EU's policy towards the Eastern Partners has undergone a review process aimed at improving the effectiveness and visibility of the cooperation.

At the same time Denmark is supporting reforms in the eastern neighbourhood through the bilateral assistance programme, the Danish Neighbourhood Programme. The aim of the programme is to promote open democratic societies based on rule of law, respect for human rights and a stable political and economic development. The planning of a new phase of the Danish Neighbourhood Programme 2013–2017 is currently underway.

In March 2011 the Danish Institute for International Studies (DIIS) and the Ministry of Foreign Affairs of Denmark hosted a high-level conference in order to shed light on these developments. Decision makers, civil servants, researchers and civil society representatives gathered to focus on the possibilities, challenges and needs that would shape the next policy frameworks.

The conference was open to the public and benefited from the lively participation of a large number of many different stakeholders.

The European Commissioner for Enlargement and European Neighbourhood Policy, Stefan Füle, as well as the Minister of Foreign Affairs and European Integration of Moldova, Iurie Leanca, and the Danish Minister for Foreign Affairs, Lene Espersen, opened the conference with a debate on the strategic priorities in the eastern neighbourhood.

The other sessions covered different aspects of development and assistance in the region under the headlines: 'Democratic Transition and Consolidation'; 'Growth,

## Trade, Employment and the Road to Economic Recovery' and 'Strained Budget and Ambitious Reform Agenda: How to Optimise Assistance?'

What follows are contributions based on the speeches delivered at the conference.

Conditionality was one of the issues which were brought to the core of the discussion. The Danish Minister for Foreign Affairs emphasised in her speech that conditionality has not been prominent enough in the current ENP and that the flexibility of the instruments has thus been reduced. In the new ENP, reforms should be rewarded with increased assistance and market access. In other words: more for more.

A different point was made by Kristi Raik from the Finish Institute of International Studies. She argued that although democratic conditionality is a central part of the ENP, the EU has not implemented it in a consistent manner. At the same time, the domestic preconditions are not always favourable for the conditionality policy to be efficient. Democratic conditionality should thus only be one element of a broader democratic control, but in return it should be applied in a more focused, limited and selective way.

Internal factors in the recipient countries also limit the room for manoeuvre of the EU. Profound democratic change in the eastern partner countries can only take place if the ruling elites wish it to do so. Balazs Jarabik from FRIDE argued that the EU must seek partnership with local public interest groups that are embedded in the broader society, rather than focusing its efforts on the ruling elites, i.e. the governments, when seeking to support democratic reforms.

Ukrainian MP Andriy Shevchenko presented a case study of how EU assistance to democratic reforms can be supported. He was deeply involved in the process leading up to the adoption of a Law on Access to Public Information and describes in his paper how a joint effort by government, opposition and civil society along with international pressure made this possible. The case of the Ukrainian Law on Access to Public Information is relevant to the reformist effort in the Eastern Partnership countries.

In terms of economic reform and growth, the east faces great challenges after the financial and economic crisis. A vision for a growth strategy for the EU's eastern neighbours was presented by Paweł Świeboda from the think tank *demosEuropa*. The to-do list ranges from a strengthening of bank regulation and supervision to a

general structural reform of the countries' judicial and political systems in order to secure a more attractive business environment.

That the road towards economic development in the eastern countries is long and winding was also emphasised by the preliminary conclusions of an evaluation study of the Danish Neighbourhood Programme. Pinto and Schwensen argued that even with a targeted programme like the DNP it is difficult to point to direct successes. The economic and financial crisis has had a general negative effect on the economic sector. This makes it difficult to determine what impact a bilateral assistance programme like the DNP has had.

Another consequence of the economic and financial crisis is strained budgets in the donor countries, which results in reduced development assistance. At the same time the challenges in the east as well as the reform agenda of the donor countries remain the same. So how can efficient assistance be ensured in spite of these changed circumstances?

The Paris Declaration on Aid Effectiveness seeks to create a streamlined approach for both donor as well as recipient countries based on five fundamental principles: Ownership, Alignment, Harmonisation, Results and Mutual Accountability. Head of Operations at the EU Delegation office in Kiev, Laura Garagnani, analyses aid effectiveness in Ukraine based on these five principles and identifies lessons learned as well as areas with room for improvement.

Nicu Popescu from the European Council on Foreign Relations delivered a comprehensive view of the renewed focus on conditionality or the 'more for more' approach as it is called. Should the countries be rewarded for democratic or economic reforms? Developments in Ukraine and Georgia have shown that these two do not necessarily go hand in hand. Another issue to take into account is the constant influence of geopolitics which will always influence EU assistance in the closer neighbourhood.

In other words, the challenges are many for the EU's Neighbourhood Policy, for its Member States' bilateral Programmes such as the DNP and, not least, for the countries in the east. The level of application of conditionality, the degree of differentiation between the partner countries, the inclusion of civil society along with numerous other issues are still subject to discussion and evaluation. Senior analyst Peter

Munk Jensen from DIIS writes<sup>1</sup> that the Eastern Partnership Summit in Warsaw must be an occasion to revive the Eastern Partnership and should result in a clear and strong European vision for the partner countries.

The timing of the Eastern Partnership Summit, however, is not optimal. The European Union is currently struggling to overcome the Euro crisis and the Schengen cooperation and free movement have been challenged by several member states. At the same time the Arab Spring is drawing a lot of political attention and energy towards the south. This leaves very little appetite for bold action in the east. However, one can hope that the Polish Presidency will be able to draw the attention needed to the eastern corner of Europe and remind others of the importance of a strong and consistent policy towards our eastern neighbours.

<sup>1</sup> Peter Munk Jensen, "Getting on the Right Track: The EU Eastern Partnership", *DIIS Policy Brief*, July 2011, Danish Institute for International Studies.

## **I. Challenges and Opportunities in the Eastern Neighbourhood**

*Speech by Lene Espersen*

The European neighbourhood is rightly on everybody's minds these days. The dramatic events unfolding in Libya have captured the attention of the world. The same is true for struggles for freedom, democracy and human rights in Tunisia and Egypt. The changes are of historic dimensions and will have lasting consequences – not only for the people and countries of the region but also for the rest of the world and the EU in particular. They are a challenge and an opportunity on a scale that matches events in the east in 1989.

Some may then ask why we, today, here at this conference, are focusing on our neighbours in the east. The answer is easy and clear: the east must not be forgotten! The EU has a vision of *real* stability based on democratic values and prosperity for *all* its neighbours.

Our main question today is how we ensure that our vision becomes real. Which policies and tools should be applied? What role do our basic values play? And how can we more efficiently coordinate offers of support by the EU and its member states in the future?

I am very pleased that EU Commissioner Stefan Füle and Deputy Prime Minister and Minister for Foreign Affairs and European Integration of Moldova, Iurie Leancă, are with us today to discuss strategic priorities.

A major lesson learned from our eastern and southern partners is that stability cannot be sustainable if it ignores the will of the people and their hope for a better life. Lasting stability has to be built on deeply rooted democratic values, human rights, social justice and the rule of law. The EU has a genuine interest in fostering this development in its neighbourhood. It also makes our own countries more stable.

The EU's reactions have to match the scale of the changes ongoing both in the east and the south in order to ensure that we will remain a credible and attractive partner. Therefore, there is a clear need to continue with the ongoing revision of the European Neighbourhood Policy, the ENP, that was initiated by the Commission last

year. A number of useful proposals on how to improve policy towards our southern neighbours have already been presented. I hope that our conference today will serve as useful input to the ongoing process of revision of the ENP and that some of the outcomes will be taken into account when the Commission produces its proposal in May. At the same time Denmark will assess our bilateral Danish neighbourhood strategy to enhance alignment with the priorities of partner countries and further strengthen our cooperation with the EU.

How should we do that in the long run? Let's be clear: in the current ENP, merits and conditionality are not prominent enough. Too many of our resources have been allocated according to fixed country quotas – thus minimising the flexibility of our instruments. That is why it is sometimes difficult for us to be timely and effective in our support to the countries that make great efforts towards democracy and human rights.

Therefore EU resources should be allocated primarily according to merit and conditionality, not geography. More measurable democratic, economic and judicial reforms based on clear political and economic benchmarks should mean more money and market access from our side. In short: *more for more*. We already have a good instrument that should be used further in the future in the EU's *Governance Facility*, which rewards neighbours that carry out political reforms – but it has too few resources to be efficient.

In order to be able to allocate funds more flexibly according to merit we should stand ready to impose stricter conditionality based on annual evaluation reports of the performance of each ENP country. Countries that fail to comply should receive less political and economic assistance, such as, for instance, Belarus. Moldova, one of the most eager reformers, should be rewarded even more.

The assistance by the EU and its member states must be constantly assessed to ensure that we receive value for money and reach our common goals. Since 2004 we have successfully been implementing the Danish Neighbourhood Strategy. As a relatively small, but efficient, partner, we seek to align our assistance with the priorities of partner countries and to coordinate closely with the assistance by the EU and other key stakeholders. It is essential to ensure that our partners are in the driving seat and lead the development process.

Bilateral neighbourhood assistance is quite often mentioned by partner countries for its flexible, efficient and timely implementation. We have to strengthen the link between the 'seed activities' by member states with the larger-scale programmes under the ENP.

Likewise, the support to civil society groups and their agenda for democratic development has traditionally been an important focus of member states' assistance programmes. There is a need to have a closer look at how we jointly maximise EU and member states' efforts in this field.

Later today, during my bilateral meeting with Commissioner Füle, I look forward to discussing in more detail the Danish proposal for a *Transformation Platform* that could strengthen the quality and relevance of the collective assistance of the EU and its member states. This could be done by enhancing the complementarity of efforts and by ensuring greater ownership by the partner countries. In the first instance, this platform could be used in our southern neighbourhood where we face an immediate need for quick action. Later, the platform could be adopted in other regions too.

When offering more aid and more access to our markets we have to ensure that our partners can make the best of it. Therefore the EU should, for instance, consider stepping up its efforts to help partner countries comply with European standards. Just to give one example: it is of little value to give Armenia the possibility to export selected agricultural products when their products do not comply with the basic standards of the EU and thereby cannot be imported by us. We have to help them on their way, in order to comply with our standards. We should therefore expand our activities related to the Comprehensive Institution Building Programme.

The EU has given a lot of attractive offers during its negotiations with Ukraine, Moldova and the countries in the South Caucasus. But approximation to large parts of the EU acquis is a very long and demanding process. The populations of our partner countries feel and see many costs very early and many results are invisible for the first years. How do we enable them, not forgetting they are also voting publics, to keep the faith? We should help partner countries highlight interim successes in their cooperation with the EU. This will give partner governments a platform for increasing public awareness of the benefits of cooperation with the EU and should help sustain public support for often difficult reforms.

A focus area within the bilateral Danish neighbourhood assistance has been support for economic development in order to strengthen economic growth and improve employment conditions. In this cooperation we have seen how some specific and relatively small interventions have had great impact on peoples' support for changes and enhanced the process for necessary reforms.

When it comes to energy, we are speaking about a strategic sector both for the EU and the partner countries. Deepened cooperation holds the potential for great financial, environmental – and even political – benefits. In this connection the EU should continue to work for the promotion of energy efficiency, the use of renewable energy, integration into the European Energy Community and approximation to the EU energy acquis. All of this will help to enhance energy security. Therefore we are very pleased that both Moldova and Ukraine are now members of the European Energy Community. Both Denmark and the EU have supported the recent establishment of an Energy and Environmental Fund to promote energy efficiency in Eastern Europe. We hope that it will demonstrate very concrete improvements in the short run in Ukraine.

It is important for Denmark to increase mobility and people-to-people contacts. This will underpin a better mutual understanding between the peoples of the EU and partner countries. In the short term we should focus on visa facilitation. In the long run visa liberalisation is our goal, as we stated in Prague in 2009 when the Eastern Partnership was launched. However, visa liberalisation for our eastern partners would have important consequences both for the EU and its partners. We have to take fully into account that these issues raise a number of concerns in many EU countries. That is why EU policy is to proceed towards the long-term goal of visa liberalisation for individual partner countries on a case-by-case basis, provided that conditions for well-managed and secure mobility are in place.

Meanwhile, we should look at better possibilities for strengthening exchange and fellowship programmes for, among others, students and researchers. Further highlighting the expanded possibilities of these programmes is in the interest of the EU. This should be done in close cooperation with bilateral programmes of the member states. In the case of Belarus, Denmark has launched a number of new projects benefitting the youth after the crackdown against the democratic opposition by the regime in December last year.

The issue of available resources for the Eastern Partnership has gained new importance with the recent developments in the south. In times of tight public budgets even more focus has to be put on the effective use of available financial means. We hope for more funds for the European Neighbourhood Policy, but we should be realistic and remember that there is strong competition and many diverging interests in the EU.

The European Union and its member states have a proud tradition of supporting countries in transition from autocratic regimes to democracy. There is a shared interest in a democratic, stable, prosperous and peaceful European Neighbourhood. Let us use this conference as one more step towards an even better ENP. I look forward to the Commission's proposal on a revision of the ENP to be presented in May. Likewise, the conference will serve as useful inspiration for the Danish review of our bilateral Neighbourhood Programme.

Thank you for your attention.

## **2. How to Make Conditionality Work?** <sup>2</sup>

*Kristi Raik*

Over the past years the EU has persistently stressed that the pace and depth of its relations with eastern neighbours are determined by the commitment of the latter to democratic principles. The idea of democratic conditionality has been included in the European Neighbourhood Policy (ENP) strategy since early on. However, it has been implemented in an inconsistent and selective manner.

Now the Arab uprisings have provoked calls for stronger conditionality under the ENP. I would like to question these calls and argue that democratic conditionality should not be an overall guiding principle of relations with neighbours, but just one element of broader democracy support. The EU should develop a more focused, limited and simultaneously more consistent conditionality policy. At the same time it needs to become better at creating linkages and increasing openness, no matter what kind of regimes are in power in the neighbourhood.

### **Problems with applying conditionality**

Let me first quickly recall some problems with conditionality, before considering more focused ways to use carrots and sticks.

Although democratic conditionality became a popular policy tool in the 1990s, especially among international organisations, it has not been applied in a consistent and effective manner. The only exception is EU enlargement – but with important limitations even there. Studies of enlargement show that successful conditionality requires firstly, credible and considerable incentives and secondly, favourable domestic conditions. Weakness of incentives remains a major problem, especially with regard to those eastern neighbours that aspire to join the EU but who have no hope of a membership perspective in the foreseeable future.

As for domestic conditions (political, socio-economic and historical), there is no doubt that they always play a decisive role in democratisation and that they are less favourable in the neighbourhood than they were in any of the former candidate

<sup>2</sup> A longer version of this article is to be published as a Briefing Paper of the Finnish Institute of International Affairs, "Between Conditionality and Engagement", see [www.fiaa.fi](http://www.fiaa.fi)

countries prior to EU accession. Conditionality has achieved best results as an affirmative policy, pushing for better and faster reforms where the political will and commitment are there to begin with. So, for example, the EU can promote judiciary reform in Moldova by offering extensive conditional aid. The Moldovan government is, in principle, willing to undertake the reform, but political sensitivities and lack of resources endanger the process.

However, at the moment Moldova is the only Eastern Partnership country out of six that clearly meets the democratic conditions. By imposing stricter conditionality the EU is not likely to spread democracy in the rest of the region. Whatever benefits it offers, this will hardly bring down autocrats such as Lukashenko, or make them opt for political liberalisation.

The potential of conditionality in the eastern neighbourhood is undermined by the existence of alternative models of development and sources of support – needless to mention Russia and China. While the EU refuses to speak about competition with Russia over the common neighbourhood, the choices the neighbours themselves make are shaped by a comparison of the two models and the benefits they offer. Thus, political conditionality risks simply repelling the neighbours away from the EU without bringing about any positive change towards democracy.

A further well-known problem with democratic conditionality is that it often gets watered down amongst competing interests in the spheres of security, energy and trade. Azerbaijan is the most blatant case of this in the eastern neighbourhood, where the need to ensure European gas supplies and the success of the Nabucco pipeline override concerns over the poor state of democracy and human rights.

There are other, less selfish causes that shrink the share of assistance to be made conditional upon democratic advances. Poverty reduction, environmental protection and cross-border cooperation serve as examples of EU priorities that deserve to be pursued in their own right. On the other hand, improvement of socioeconomic conditions makes democratisation more likely to occur and succeed.

The EU also finds it difficult to smooth the conflict between imposing conditions on partners and, often in the same breath, highlighting the importance of local ownership. Conditionality always limits local decision-making powers. The EU's concept of 'democracy support' adopted in 2009 strongly stresses local ownership and gives almost no role to conditionality.

Putting conditionality into practice is complicated by the need to identify the right timing and benchmarks. (Semi)authoritarian leaders can easily fool the EU by declarative commitments to reform and small steps that do not change the nature of the regime. On the other hand changes of power, such as in Moldova in 2009 and in Tunisia recently, can dramatically change the political atmosphere and create a pressing need for quick and extensive external support. In such circumstances it is obviously not wise to wait for reforms to be implemented, but to quickly offer support in order to make success more likely.

### **Focused use of sticks and carrots**

Having said all this, it is important to think of ways to use conditionality better as part of the EU's democracy promotion toolbox.

One of the main incentives of the Eastern Partnership is an association agreement including deep and comprehensive free trade (DCFTA). The essence of the agreement is 'political association and economic integration'. Initially the launch of negotiations was linked to democratic conditions, so the negotiations started with Ukraine in March 2007 (more than two years after the Orange Revolution) and with Moldova in January 2010.

However, soon the EU opted to include all three South Caucasus countries in the process and launched negotiations with Armenia, Azerbaijan and Georgia in July 2010 (leaving out only Belarus which is about as authoritarian as Azerbaijan). This made clear that the principle of political conditionality had been all but dropped.

It might indeed be better to involve the neighbours in the process and use the negotiations as a way to shape their domestic agendas. However, there should be red lines, and saying 'no' to political association with autocrats sounds like it should be one. While negotiations can be used to push the neighbours towards reforms, the EU should make clear that it *will not sign* association agreements with countries that have major problems with democracy.

Being the largest and strategically most important eastern neighbour, Ukraine is a crucial test case of whether the EU is willing to react to the decline of democracy with any significant slowdown in the country's EU relations. Democracy has suffered serious setbacks in Ukraine since President Yanukovich came to power in Feb-

bruary 2010. The leadership continues to assure of its commitment to European integration, but many of its policies are not in line with such a plea. Yet the EU seems to be even more eager to conclude the association agreement by the end of 2011 than is Ukraine itself, as it hankers after ‘deliverables’ of the Eastern Partnership.

A couple of years back, when Ukraine was still the model pupil of democracy in the neighbourhood (in spite of all its flaws), the EU considered signing the association agreement without DCFTA. This would have been a way to reward Ukraine and encourage further reform while it was clear that more time was needed for negotiations on free trade. Now that the country is sliding towards authoritarianism, the EU should turn this idea upside down and consider signing DCFTA only. In this manner it could use economic integration as a way to tie Ukraine to Europe, while saying ‘no’ to political association as long as there is no improvement on democratic criteria.

The need for a stronger link between aid and democratic performance has recently been stressed by many commentators. So far there has been limited correlation between the level of democracy and EU assistance to the eastern neighbours, even though a considerable share of money – half of it as a non-paper by the German foreign ministry has suggested – should be set aside to support democratic reforms.

There is also more scope for suspension of assistance, especially budget support, if the EU’s conditions are not met. For example, the EU has recently pushed Ukraine to amend its public procurement law by suspending about 100 million euros of budget support. Suspension of aid is likely to succeed in pushing for small, concrete improvements that do not as such essentially transform the nature of the regime, but which can make further change more likely.

### **The value of openness**

Domestic preconditions for democratisation – such as bottom-up pressure for change, support for democratic values among the population and socio-economic conditions – are better advanced through openness and engagement than conditionality. By contrast closed, isolated countries are the least likely to change and provide the best conditions for centralised control. Democratisation of post-Cold War authoritarian regimes has been most frequent in countries with extensive, multi-level ties with the West.

Economic integration and visa liberalisation are, therefore, incentives that should not be tied to democratic conditions, but used as a means to increase linkages and europeanisation. However, the EU is imposing extensive technical conditions on both free trade and visa facilitation, which have little to do with promoting democracy and threaten to alienate the neighbours rather than bringing them closer. There is too much conditionality and of wrong kind.

Engagement with (semi)authoritarian leaders can be a successful means of democracy promotion if it is accompanied by supporting pro-democracy groups and reaching out to the populations. Engagement does involve the delicate problem of legitimising autocrats. Mr Yanukovich, Mr Sargsyan and others are sure to enjoy photo opportunities with European leaders and use any advances in EU relations to their advantage in domestic politics.

This may be a price worth paying for keeping as many contacts and lines of communication open as possible, and for making the domestic environment more favourable to democratisation. Change may occur in a longer perspective, or abruptly at any time. In any case, suspension of relations is also used by autocrats to their advantage as it allows them to portray themselves as guardians of national interest against hostile outsiders.

Parallel strong support to civil society and pro-democratic forces is the most important means to alleviate the problem of legitimising autocrats. Honest and open assessment of the political situation in each country is also essential, together with diplomatic and public pressure for improvements.

To conclude, while conditionality has its limits, it remains an important means to show that values matter and to reward pro-democratic governments. As for those countries that do not meet the democracy criteria – that is, most EU neighbours for the time being – multi-level engagement is preferable to cutting ties. Finally, one of the lessons learned from the Arab uprisings should be ‘conditionality of friendships’ – dealing with autocrats is necessary, but being friends with them is not.

### **3. ENP after the Arab Spring: End of the Status Quo?**

*Balázs Jarábik*

The Arab revolutions have given the strongest feedback and reality check the EU could ever wish for to its neighbourhood policy. Especially since the EU is not 'losing' its neighbourhood; it is actually making (slow) progress, even in the east. But this is much less connected to the ENP than the EU and the European expert 'industry' tend to portray. It is still the living standards that Europe enjoys which attract societies most, while the 'threat' from Russia constitutes the biggest motivation for the regional elites to accept European standards and competition – rather than the EU policies themselves.

Nevertheless, the recent ENP review has already confirmed the changing status quo in Brussels. Not only were conditionality and differentiation highlighted as the two guiding principles for the EU's assistance to its eastern neighbours, but also a 'merit' based approach will be introduced to boost reforms. Those countries that take more steps towards greater political and economic association with the EU will receive more support from it than those that do not reform. Now the question is whether the newly established European External Action Service (EEAS) will be able to rise to the task. A crucial task for EEAS is to recalibrate EU assistance in a way that allows for greater and more long-term support to domestic agents of change and pro-reform constituencies. The EEAS should note that the quality of engagement, i.e. communication, is key.

At the same time the region's outlook is increasingly unstable. The regional status quo – one of increasingly authoritarian but patriotic/nationalistic elites with some understanding/passive support of society – may be under much more serious pressure. This is caused by the regional turbulence due to the global economic crisis in the form of growing inflation and overall dissatisfaction of the workers and the middle class which are the layers of society most hurt by the economic crisis everywhere in the region. After the Arab revolutions, the best example of what turmoil the EU may face in the east is the current situation in Belarus: a serious economic and social downturn caused by total lack of dialogue between political forces and postponement of any reform in a basically still Soviet style society. After the crackdown on the post-election protesters on 19 December virtually no one in Minsk has a clear

idea of what will or should come next, given the status quo where a strong (authoritarian) leadership has taken care of things till now. Having experienced revolutions already, the societies in the east are unlikely to repeat them, but reforms are blocked by the elites. The east, still, lacks room for democracy.

While the principles in the ENP review are a step in the right direction, this approach only succeeds insofar as the countries themselves want to embark on a path of reform, transformation and closer association with the EU. However, most of the EU's neighbours still see the integration process from a zero sum perspective, i.e. the lack of an EU membership perspective makes them feel that this is a lost cause and, moreover, the elites believe that reform would amount to a show of weakness, and that they cannot lose face in their societies.

This framework is a dangerous mix. The EU should ignore the regional status quo and face the challenges. Brussels' current shift from its own status quo has been caused by the developments in the south. However, lessons learnt from the east's last twenty years of political, economic and social development could help to benefit the ENP and its policies towards the east and the south.

### **Beyond myths**

The Arab revolutions have killed off a major myth: that of the stability of the authoritarian regimes. There are plenty of them left, though. So perhaps the biggest challenge for the ENP is its own 'schizophrenia'. In the south the ENP was based on how these countries are, whereas in the east the focus has been on how the EU wants these countries to be. In the south the EU accepted the brutality of the Egyptian regime and the corruption of Ben Ali in exchange for what was believed to be stability. In the east the EU has been trying to use its soft power much more actively, but still without a membership perspective attached. In Egypt (and Libya) the EU was criticised for building up too close ties with the ruling elites whereas in Belarus it only has contacts with the (tiny) opposition.

Secondly, despite the fact that the EU's contacts with its neighbours have expanded, its policy in the east remains mired in dozens of stereotypes and myths rather than being based on facts. Expecting popular revolution in Belarus is clearly one of them, as this is simply a long-term misreading of the actual mind of Belarussian society. Brussels may think that its message and policy is clear, but the receptors in Kiev or elsewhere are translating it differently. Communication should be a factor in the

actual implementation of the ENP – messages must be repeated consistently and patiently, this is the best way of moving conditionality forward.

Thirdly, the EU is invoking the principle of conditionality as the basis of its activities in the eastern neighbourhood at a time when its soft power and magnetism in the east has weakened. This is due to several reasons. One of the more notorious explanations is the lack of an EU membership perspective. However, the opposition of many EU Member States to further expansion eastwards has been inspired by one of the myths that continue to guide the EU's policy, namely that these countries actually want to join the EU. This is no longer the case. The political elite (including the opposition forces) in Belarus and Ukraine seek to pocket both the financial and political benefits of playing off the east against the west – 'Partnership à la East'. Rather than looking for a mutually beneficial cooperation, both of these states primarily seek a *modus operandi* with Moscow and Brussels that would allow them to extract benefits without delivering on their part of commitments. In other words they want acceptance, appreciation or assistance, but do not see added value in forms of assistance such as improved capacity or closer integration. The EU should bear in mind the lesson from the 2009 Ukraine–Russia gas war: those who are only interested in your money are not real partners.

### **Who wants the EU?**

Thus, in most of the cases the EU is there to keep Russia in check and preserve the status quo of the elites who are in turn keeping their own societies in check. The only viable social contract between the elites and society was in Belarus, even though this social contract excluded democracy. This is the reason Lukashenko has been popular (till the very end), while the opposition has never been able to deliver the oft-mentioned revolution in the form of 'democratic change'. The majority of Belarusians were against. Not even the popular Orange Revolution was able to bring a different social contract for the Ukrainians, as the Orange politicians merely continued the old system developed under Kuchma and now continued with President Yanukovich. The Ukrainian society feels trapped but without viable representation and its own concept of social contract, it is unlikely to challenge the elite. Only the elite can ruin its own status quo by pushing the envelope too much, just as Lukashenko did in Belarus.

With the possible exceptions of Moldova and Georgia, none of the East European countries aspire to join the EU. In countries with 'frozen conflicts' what actually

fires their motivation is the need for security. The young Georgian technocratic elite, however, seems more motivated to bring a different social contract, while in Moldova it seems the new elite are learning the European reform talk, but not the walk. However, Tbilisi's aspirations are now in check, with the present focus being on its political transformation and maintenance of the current status quo and firmly not on any further delivery on the social contract. Thus, EU integration has become a tool rather than a focus in itself. Even the government in Chisinau (Moldova) is more focused on its internal power struggle than on taking concrete steps towards closer integration with the EU.

Without the promise of future membership, the EU's soft power in the neighbourhood is based on an image, i.e. the high living standards attached to Europe, and not on the policy Brussels promotes (which is usually limited by a lack of coherent implementation and insufficient assistance). Although it is not immediately visible, the euro crisis has been 'blackening' the attractiveness of this image. However, Russia's Customs Union is seen by the regional elites as an increasing 'threat' and this is the reason behind the renewed Ukrainian effort to sign the DCFTA.

### **New partnership, more middle class**

Looking at the ENP review simply as an opportunity to redesign the policy is not enough. If the EU aspires to make a change in its neighbourhood, it needs to modify the way it provides assistance. Currently, this is not designed to advance the EU's policy objectives: the focus is narrowly technical and processes are overly bureaucratic.

Transformation of the EU's neighbourhood is a long-term project that offers few instant successes. It will take at least years, if not a (new) generation, for the region to modernise and reform. At the same time the amount of funds available for eastern neighbours is unlikely to increase substantially, although the EU should consider redirecting some of the funds currently provided to countries such as China, India or Russia – countries still described as developing countries, despite their impressive economic development and own assistance programmes to third countries. However, the problem does not lie in the amount of money; what is more important is how these funds are spent and what objectives they are meant to help achieve.

As mentioned above, with the exceptions of Moldova, Georgia and potentially Tunisia in the south, few governments in the EU's neighbourhood are currently ready

or willing to embrace the EU's model of governance, democracy and economy in practice, i.e. beyond the regular rhetoric. The EU often lacks local partners who could advance its agenda in the region. As a result, the ENP has become an à la carte menu for the EU's neighbours. Too often this has resulted in the EU lending support to sectors and projects that have little relevance to its own priorities in the neighbourhood.

The 'more for more' principle of policies and assistance should aim to enlarge the EU's 'circle of friends' of those who understand European standards, principles and values. In other words, the EU needs to expand and strengthen the home-grown, pro-reform and pro-European constituencies in the neighbourhood, rather than focusing almost solely on working with the region's governments (i.e. the ruling elites). Such an approach would gradually increase the domestic pressure to reform and thereby enhance cooperation with the EU. This is not an advocacy to beef up NGOs though, far from it. Take into account for instance that the biggest weakness of the EU in Belarus is the lack of contacts with the Belarusian bureaucrats. It is more a call to practice policy in a broader fashion, based on deeper knowledge of the motivations and ambitions of various layers of society, as well as to increase the work directed at democratic institutions beyond the government. Some of the new facilities of the Eastern Partnership will actually be taking this into consideration – such as the engagement of local business communities as policy stakeholders in the EaP implementation.

Modernisation has become a popular slogan in the east, but when the elite – be it Russia's President Medvedev, Belarus's President Lukashenko, Ukraine's President Yanukovich – speak about modernisation, what they have in mind is their ambition to make the state more efficient in order to (re-)assert control over society. The limbo of 'managed democracy' is not a Russian, but a post-Soviet phenomenon. What the EU should further promote in the neighbourhood instead is a progressive modernisation of society (in terms of values and of political and economic freedoms) rather than just the modernisation of East European economies.

To do so the EU needs to look for a new partner in the region. It is the middle class that most often acts as the main carrier of modernisation. However, the middle class that is gradually emerging in Eastern Europe currently lacks both the representation and the institutional capacity to initiate and sustain a shift towards a more democratic system. As is currently the case in the EU, it is the (weak) middle class in Eastern Europe that is carrying the biggest burden of the economic crisis, since it had

borrowed the most. The middle class also lacks the means and know-how to reach out and convince others of the importance of such democratic change.

The EU needs to expand its outreach in the region and look for innovative ways of supporting the embryonic middle class and its – sometimes still disorganised – institutions. Thus, in addition to supporting pro-democracy activists and independent media, the EU should focus on programmes that help empower local public interest groups that are embedded in the broader society, that have clear constituencies and articulated interests. These can engage in advocacy vis-à-vis the government on specific policy issues, thus promoting social rather than regime change (for which there is little popular support). In practice this means greater EU support for representative businesses associations, small and medium-sized enterprises, but also for bureaucrats, professional associations and grass-roots civil society organisations, rather than just for NGOs and political parties. Democratic principles need to be upheld by democratic institutions, and the EU should demand these institutions not only from the governments but also from civil society organisations in the region.

### **Here come the bureaucrats**

Compared to Central Europe, the countries in the eastern neighbourhood appear to be weak states. With the exception of Belarus and Georgia, few have the capacity and understanding to carry out reforms or adopt all the standards the EU requires. Civil servants have little understanding of how the EU works, of how it seeks win-win solutions and compromises. They have little incentive to change the system, i.e. shrug off their role of navigating between myriads of options. What is left is the zero-sum thinking, which is what prompts the Ukrainians to snub anything but a membership perspective. Since membership is seen as their (only) ‘win’, anything else is a ‘loss’. The lack of understanding about what association with the EU requires, of the costs and benefits of closer cooperation with the EU and of the benefits of good governance is overwhelming. This is the case even in the most pro-European country in the region, Moldova. The EU supports high-level advisers to do high level twinning, i.e. in site capacity development for the civil service in hope of boosting their capacity to address necessary EU regulations. In the eastern countries most of the government officials are not there to deliver services, but to possess a title or to collect rent. Make no mistake; this is the reality in Central Europe as well. Therefore, to change the perception about government in the region requires a fundamental difference in motivation of officials. A key focus for the Moldovan gov-

ernment could be twinning accompanied with a reform of public administration. In this case Georgia could be cited as a success story. However, the young Georgian officials' aggressive attitude when it comes to actual twinning makes this case much harder to make than it should be.

Such a mentoring approach would require an overhaul of the way the EU's assistance programmes are implemented. Currently most of them are project-oriented, leaving no space for long-term planning and strategic thinking and providing little hope of sustainability. The biggest EU-funded assistance projects aimed at promoting 'europeanisation' are usually implemented by EU-based consultancy companies versed in EuropeAid lingo but which carry out few activities and communication campaigns in the target countries. In fact, USAID currently allocates more funding for 'europeanisation' through local civil society actors than the EU does. Finally, the EU should embrace a programme-based approach which allows for mid- and long-term planning, and support those European NGOs capable of developing long-term partnerships in target countries rather than favouring projects implemented through consultation companies and contractors. After all, the Eastern Partnership region offers more than 20 years of experience in supporting local civil society, with all its successes and failures.

#### **4. Ukraine's Law on Access to Information: How Can the International Effort be Efficient?**

*Andriy Shevchenko*

The Law on Access to Public Information was adopted by Ukraine in January 2011 and enacted in May 2011. Why is this case interesting to research?

Firstly, because it shows how major changes in the interest of civil rights and freedoms can be achieved, even under a regime clearly moving the country in the opposite direction. Secondly, it was a remarkable success of a joint effort which brought together government, opposition and civil society.

Finally, being the MP who sponsored the Law on Access to Public Information in the Ukrainian Parliament, I find this experience very relevant to many reformist efforts throughout the countries of the EU Eastern Partnership.

##### **The importance of the Law**

During the last two decades throughout Europe access to governmental decisions and official documents has been widely recognised as one of the basic human rights. This has been supported through numerous documents by the European Union, the Council of Europe, OSCE, and by decisions of the European Court as well.

In the cases of Ukraine and other post-Soviet countries lack of access to information has been the norm under these regimes. The Communist authorities of the past were well known for hiding information from the wider public and for being closed to public enquiries. The new regimes of the 1990s and 2000s have proved to be even more inventive.

In more practical terms this means that authorities use an unreasonably wide range of excuses not to disclose important information. As of 2010, in Ukraine about 55% of information enquiries were either not answered in a proper way, or were simply ignored. The decision-making process is usually completely hidden from public oversight. Resolutions or other decisions by authorities are often closed to the public, even when it comes to such documents as city development plans or decisions on privatisation. Moreover, authorities provide very limited information

on public spending, using a very broad definition of ‘confidential information’. As a result, journalists and active citizens have difficulties when searching for information which is important to the public.

All the above creates major obstacles for reforms and effective governance such as corruption and non-transparent decisions by authorities. The lack of access to information also downgrades the quality of governmental decisions and undermines fair business competition. Last but not least, it weakens civil society and ruins social trust.

In Ukraine the issue is even more sensitive due to the political context after the Presidential election of early 2010 which brought Victor Yanukovich to power. Under the new administration civil rights and freedoms have been shrinking. Ukraine has been downgraded from a ‘free country’ to a ‘partially free country’ by *Freedom House*. The country also dropped by 42 positions in the free speech list drawn up by *Reporters without Borders*. Under such circumstances any move towards expanding civil rights in the country looks very unlikely.

### **Access to information: the Ukrainian way**

For many years openness of official information has been a recommendation/demand from the European organisations and national governments towards Ukraine. By 2010, along with Belarus and Kazakhstan, Ukraine was one of the very few post-Communist countries which had not adopted legislation on access to information.

Starting from the mid-2000s several draft laws died in the Cabinet of Ministers without even being introduced to the Parliament. In 2008 a wide coalition of NGOs came up with their own draft of a Law on Access to Information. The draft law was registered in the Parliament by a single MP without governmental approval. In 2009 it successfully survived its first reading in the Parliament but without a realistic hope of going any farther.

A working group consisting of civil activists, journalists and representatives from authorities, including the Security Service, was created. At the beginning the process resembled the typical treadmill so familiar to international players attempting to promote a reformist legislature in post-Soviet countries: endless negotiation with no clear result at the end. Nevertheless, by the middle of 2010 the experts of the working group did arrive at a final edition of the Law that was supported on a base of consensus.

This happened due to tremendous support from the international institutions, to mention a few:

- The Council of Europe and the European Commission provided the working group with European expertise, bringing in several European experts.
- International Media Support, a project sponsored by the Danish Foreign Ministry, helped with detailed analysis of the draft versions by both European and local experts.
- USAID supported public discussion on the draft Law (particularly, through PACT and Internews).
- OSCE was very vocal in public support of the measure.
- *Renaissance*, the Ukrainian branch of the Soros Foundation, supported the draft Law, facilitating the working group.

For Ukraine, all the above represents a rare case of fruitful cooperation with international donors in supporting a specific reform.

However by fall of 2010 the political climate had changed to a visible decline in civil rights and freedoms. While the Yushchenko administration had been passive in adopting the European legislation, the Yanukovych administration made a direct attack on the draft Law. An alternative version, which was even worse than the existing procedures, was registered in the Parliament. Putting political pressure on the authorities became crucial.

In the following period international organisations and individual national governments made it very clear to the Ukrainian authorities that adoption of the Law was crucial. Dunja Miyatovich, the OSCE Representative on Press Freedom, visited Kiev and obtained public commitments to support the Law from Ukrainian officials. NGOs and civil activists launched series of public actions in support of the Law and journalists bombarded high officials with questions about it.

By the end of 2010, after slight amendments to the draft Law, the Ukrainian authorities agreed to support it. On 13 January 2011 the Law on Access to Information was adopted by the Ukrainian Parliament, receiving 408 votes out of 450 MPs.

**The key provisions**

The Law on Access to Public Information simplifies and speeds up the procedures of getting information from authorities. All information held by authorities should be available to the public with specified exemptions. Information on public spending should be as open as possible and the privacy of high-ranking officials is less protected than the private lives of ordinary citizens.

**Lessons and conclusions**

Some general lessons and conclusions can be drawn from the process. First of all, the Law was successfully adopted thanks to the joint effort by the government and the opposition, civil activists and journalists.

Secondly, flexibility was important. The Law successfully entered the Parliament only after the initiators of the Law halted fruitless attempts to get support from the Cabinet of Ministers.

Cooperation between the international players did also have a huge impact. The combination of resources and efforts by the international community helped to establish the grounds for efficient cooperation by the local stakeholders.

The case has also shown the power of public pressure. Journalists and civil activists focused on the draft Law in a key civil society initiative.

Lastly, political consensus was vital to the success of the Law. The Law was passed as a joint motion of both the Government and the opposition.

The future implementation of the Law will be challenging and requires a lot of commitment on the part of both the authorities and the civil society. Nevertheless the success story of the Law's adoption can serve as a precedent for productive cooperation between stakeholders in adopting reformist legislature.

## **5. EU and the Growth Strategy for the Eastern Neighbours**

*Paweł Świeboda*

### **Long shadow of the economic crisis**

The economic crisis has had a strong bearing on the growth agenda of the European Union's eastern neighbours. Countries in the region have been affected in several ways. In economies with a double digit or high single digit current account deficit (Ukraine was in the latter category), the outflow of capital proved to be a considerable challenge. Lower income countries such as Georgia, Armenia or Moldova have felt the impact mostly through falling export revenue and lower remittances. Eastern Europe is characterised by one of the highest degrees of dependence on remittances in the world. The amounts transferred fell by more than 30% in some countries during the first quarter of 2009. When it comes to export revenues, the deep contraction of the Russian economy in 2009 was strongly felt in Armenia and Moldova, countries with a high ratio of exports going to Russia.

Another common pattern across the region concerned unsustainable growth of credit to the private sector which became a problem in the context of the quick catching-up in consumption levels and the enormous global liquidity with a generous stream of credit going to emerging economies. Countries in Eastern Europe generally had not applied strong prudential measures in order to reduce the risk of overheating. Fiscal policy was rarely used in its stabilising role and it generally was not well adjusted for the economic cycle. A number of countries relaxed their fiscal stances just as they should have pursued a tightening. Another big problem proved to be the scale of non-performing loans which reached 15–25% of all loans in 2009 in Ukraine. This became apparent on top of the high volume of loans to households issued in foreign currencies.

### **Reform ever more important**

The impact of the crisis points to the need to address the economic fundamentals. The economies in the region need to diversify, see a stronger stabilising role of fiscal policy and have appropriate anti-crisis measures in place. The experience of previous recessions shows that slow restructuring of banks hampers chances of recovery. This means that the problems of household and corporate debt need to be addressed at

an early stage. In addition, the existing insolvency frameworks need to be supplemented by more efficient judicial systems, capable of handling a large number of restructuring cases. This points to the need to set up out-of-court settlement systems to ensure smooth debt restructuring. Strengthening bank regulation and supervision is also necessary to address the lessons of the present crisis.

The challenge is that generating growth is going to be more difficult in the context of subdued global liquidity and faltering demand in Europe and other key markets. Therefore, to remain competitive countries will need to undertake genuine structural reforms to unblock potential for growth. It is likely that those countries with the more attractive business environments will be able to attract higher capital inflows.

Eastern Europe's record on structural reform has been patchy with progress in some areas and weak performance in others. The World Bank's Doing Business Report reflects that situation quite well. Georgia may be number 8 in the world when it comes to the ease of doing business, but in the category of closing a business, important to entrepreneurs wishing to get a new start, it is number 105. Ukraine is a dismal performer on all counts with 145<sup>th</sup> overall position and is close to the bottom of the scale in the category of paying taxes (181 out of 183 countries in the ranking). More unexpectedly, Belarus has carried out a successful reform of the property registration system while Azerbaijan has revolutionised its tax administration by creating a state-of-the-art online system.

According to the Global Competitiveness Report, the main constraints for competitiveness in the countries of the region are: political instability, tax regulations and access to finance. Corruption is also often mentioned. In the OECD survey 70% of firms in the region reported that access to finance is an obstacle, with the levels of the interest rate seen as a barrier and the collateral being unavailable. Bucking the recent trend, owner's contribution became one of the major sources of financing in Ukraine and South Caucasus. There will have to be a comprehensive effort to improve access to finance and this includes issues such as building the corporate bond market, corporate disclosure requirements, availability of risk capital and micro-finance.

Once issues affecting a business environment conducive to private investment are addressed, the two fields which stand out in surveys of firm managers are those of infrastructure and labour skills. Upgrading transportation and communications infrastructure is a major challenge for Moldova, necessary to offset the high cross-

border transaction costs. In the field of energy, there is room for the strengthening of utilities, introducing competitive trading regimes and workable regulatory frameworks. Energy markets should be, from the beginning, regional with a South Eastern European regional market emerging.

In the area of skills, the region has a number of strengths, including good performance of primary school students in international tests. However, problems are growing with vocational education which is becoming more detached from the needs of the labour market. There has been a substantial expansion of tertiary education, mostly as a result of new private universities entering the market, but licensing and accreditation systems need to be strengthened to ensure quality of education while students should be better guided to make informed choices about their future. Monitoring quality of education provision is a necessary part of the reform. It would be highly recommendable, as well, to ensure that financing is made more strategic, for example by allowing funding to follow students and introducing incentives for good performance.

### **The EU's involvement in policy shaping**

The EU is assisting the region in these areas but more needs to be done. Supporting SME policy development in Eastern Partnership countries is the focus of the EaP Enterprise Policy Working Group, which has developed the policy dialogue and peer review mechanisms based on exchange of best practices. Similarly, the OECD Eurasia Competitiveness Forum, launched in 2008, helps accelerate economic reforms and improve the business climate. However, these efforts should be streamlined into a High Level Policy Dialogue which would exercise elements of macro-economic policy coordination. The Association Council would be an appropriate platform for that exchange once the comprehensive deep free trade talks are concluded and association treaties are signed.

Assistance in the design of reforms needs to be scaled up and made more comprehensive. Creating an Eastern European Competitiveness Index would help to measure the progress of the six countries of the Eastern Partnership and make sure there are cross-references between their performance and exchanges of best practices.

Finally, engaging more stakeholders is vital by means of creation of a major business forum, raising the profile of the changes which are needed but also discussing issues which have to do with access to capital, SMEs, cross-border partnerships,

networking, skills and training. This would help to create an entrepreneurship leg of the Eastern Partnership by promoting the belief that success of the region will be decided by regional economies standing up on their feet in a sustainable fashion and becoming globally competitive. An effort is also needed to strengthen capacity building with major focus on the quality of institutions.

Countries of the Eastern Partnership face the challenge of a 'second wave of reforms' which would need to tackle the more sophisticated 'infrastructure of growth' and include reforms of banking supervision, pension reforms or reforms of educational systems. These developments would serve as a basis for long-term growth. Poland and other Central European countries have significant experience in this area. Polish banking supervision proved very effective before the crisis. Poland and Estonia are the only two countries in Europe to have negative long-term costs of pension systems (according to OECD estimates). Also, in terms of sustainability of public finance, Poland has debt brakes in its constitution and a relatively good overall fiscal situation. In all these areas there is a wide field for cooperation and sharing of best practices. The new EU members have to be at the forefront of transition assistance to countries of the European neighbourhood.

## **6. Evaluation of the Danish Neighbourhood Programme's Economic Development Portfolio: Preliminary Thoughts and Suggestions**

*Ricardo Pinto and Carsten Schwensen*

### **Introduction**

In December 2010 the Danish Ministry of Foreign Affairs (MFA) commissioned an independent evaluation of the Danish Neighbourhood Programme (DNP) 2008–2012, focusing on the economic development portfolio of activities. Although the evaluation is ongoing the MFA has invited the two experts responsible for the evaluation to deliver a short paper highlighting: the nature of the DNP evaluation; the methodology being employed; the preliminary issues; and the scope for recommendations. It must be borne in mind that since the evaluation is not yet complete, what is presented in this paper is, by necessity, preliminary thoughts and suggestions which may be incorporated in the final evaluation report.

### **Nature of the evaluation**

The DNP is Denmark's bilateral programme for neighbouring countries to the east (broadly Central Asia) and south-east (broadly western Balkans). The overall objective is to promote democratisation within certain priority areas:

- Respect for human rights including minority rights, good governance (administrative and human rights aspects), civil society development, and free media;
- Promotion of legal reforms and fight against corruption, organised crime and illegal migration coupled with capacity building of the public sector;
- Economic development, including business development aiming at promoting economic growth and job creation;
- Region of origin initiatives, including helping refugees and Internally Displaced Persons (IDPs) to return home.

The first phase took place during 2004–2007 (DKK 742 million); the second and current phase 2008–2012 has a budget of DKK 1 billion and targets fifteen countries with explicit prioritisation. The detailed activities and priorities are set out in the DNP's strategy (see Strategy for the Danish Neighbourhood Programme 2008–2012, MFA, 2007).

## **Methodology**

The objective of the independent evaluation is to assess and document the DNP's relevance, effectiveness and efficiency as far as the theme of 'economic development' is concerned, both at the level of the priority area as a whole (i.e. the portfolio) and the individual programmes/projects.

A thorough assessment of impact and sustainability will not be feasible because of the insufficient implementation time – most of the programmes/projects to be evaluated have only started implementation of activities over the past 2–3 years and will continue to run until 2012/13. Therefore, the emphasis of the evaluation is as a 'learning-focused exercise', which will serve as an input into the ongoing discussion within the MFA on how best to promote private sector driven economic growth and employment. Its focus is thus to distil key lessons learned regarding the strategies, approaches and methods used in the DNP.

The evaluation concentrates on programme/project activities undertaken in the most recent years and includes an in-depth assessment of a sample of selected activities within three pre-selected case countries, namely Kosovo, Serbia and Armenia. The evaluation aims to ensure a fruitful interplay between the in-depth analysis of the sample activities and the analysis at the overall portfolio level within the priority area (i.e. economic development). The fieldwork was completed in March 2011 and the Final Report is due by Autumn 2011.

## **Preliminary portfolio issues**

A preliminary mapping of the existing and pipeline projects focusing on economic development projects being funded by the DNP (2008–2012) highlights a number of top-line issues as far as the DNP is concerned:

- First, about DKK 666 million (out of a total budget of about DKK one billion – 67%) of DNP support has been targeted at economic development projects.
- Second, the budgets (and therefore project sizes) have changed over time. The average project budget was DKK 80 million for the early projects which started prior to the current phase (e.g. in Kosovo and Russia); the average project budget was DKK 48 million for the period 2007–2010; and DKK 43 million for the new/forthcoming projects).
- Third, the degree of complexity, as measured by the number of project components, has decreased over time. Whereas the first few projects, for example

in Russia and Serbia, involved numerous interventions in terms of components and sub-components, over time the economic development projects have tended to focus on only a couple of components and sub-components.

- Fourth, the applied instruments vary from country to country but have also changed over time: financial services (access to credit) and support to (agriculture-related) SMEs are elements of most, if not all projects. Other instruments (e.g. advocacy, regulatory reform and public–private dialogue and clusters) have been phased out or modified over time. For example, public–private dialogue has been replaced with advocacy and delivery of support services. A key objective in the DNP, namely Technical and Vocational Education & Training (TVET) is applied in four countries and is expected to gain relevance over time.
- Fifth, support to agribusiness and agriculture is a feature of all projects in one form or another. However, the way this is done has changed over the time: the cluster approach, focusing on enterprises within a particular industry in a particular locality, has been replaced by the value chain approach, focusing on constraints hampering backward and forward linkages within the production of a particular product or group of products. The support consists of business development services (BDS), management and entrepreneurship training, access to market information and similar interventions.
- Last, the project implementation mode is changing towards delegated partnership (e.g. Kreditanstalt für Wiederaufbau, Swiss Development Cooperation, UNDP, etc.). This is partly to meet the principles of the Paris Declaration/Accra Agenda and partly a reflection of the way in which the DNP is managed (the nature of the institutional structure and the resources available). The other main implementation modality, especially in the early DNP projects, was outsourcing to consultancy companies. The latter is used in conjunction with implementation through Project Implementation Units (PIUs). In two instances (Kosovo TVET and Montenegro), bilateral advisors were contracted to assist the implementing government institution.

### **Preliminary case programme issues**

Some of the key preliminary issues include the following:

- Rationale: the objectives of the DNP interventions that have been designed within the targeted countries appear to be consistent with the beneficiaries' priorities and other donors' policies. The DNP follows a detailed project design

process which ensures that there is ownership by governmental bodies, as well as other stakeholders and beneficiaries.

- **Implementation:** the DNP interventions have sought to follow the recommendations of the Paris Declaration in seeking to use national partners, establishing delegated partnerships and ensuring that the implementation modalities use the existing national structures to the greatest extent possible. This is not always feasible however, for example when the national procurement policies and procedures are insufficiently developed. The programmes typically involve more than one component: development of the agribusiness sector, for example in the form of value chain support, is typically a core component, combined with others such as financial services and TVET. Reaping of component synergies is a priority in DNP projects. However, as other donors can attest, this is easier said than done. On the different implementation modalities (delegated partnerships, consultants, project implementation units, etc.), it is simply not possible to determine, in general, which is the most effective modality: the objectives and nature of the DNP interventions vary so much that the best that can be said is that each modality needs to be customised to the particular needs of each country programme/component.
- **Impact:** it is also premature to be definitive about the likely impact of the DNP projects, not least because most will only be completed in late 2012/13. However, the indications are that much has been achieved in all programmes researched, though not always entirely as anticipated. In particular, the global financial and economic crisis has had a significant effect on the overall impact in relation to issues such as the dynamism of the enterprise sector, particularly for farmers and agribusinesses. Fewer jobs have been generated and, therefore, those that participated in vocational educational programmes may not have benefited quite as much as anticipated. Incomes may have increased, but the global increase in food prices may have been the main factor at play, rather than DNP activities per se, etc.
- **Sustainability:** the same applies as for the preceding analysis. By and large it is too soon to make a judgement. However, in the vast majority of cases, the plans set out in the country programme documents are in the process of being implemented with varying degrees of success.

### **Scope of recommendations**

This is a 'learning-focused' evaluation designed to distil key lessons regarding the strategies, approaches and methods used in the DNP, and serve as input for the

development of a possible Phase III of the DNP from 2013 onwards. It should be stressed, once again, that the issues raised below are no more than indicative since the evaluation is far from complete:

- DNP is different: the DNP is separate and different from other Danida programmes. It has its own organisational structure, albeit one which is increasingly operating within the Danida framework. The DNP is managed by MFA staff located in Copenhagen who, therefore, do not formally operate through the Danish Embassies (where these exist). The MFA staff responsible for the DNP are required to perform a dual function: they have responsibility for the political aspects of the DNP countries, as well as country programme activities. Furthermore, compared with other Danida programmes, the DNP ones are generally smaller and the timescale of implementation is shorter.
- Country coverage: the above DNP structure is responsible for 15 countries divided into the following categories: 'highest priority' (Kosovo and Ukraine), 'high priority' (Serbia, Bosnia and Herzegovina, Belarus, Georgia, Armenia, Albania and Turkey), 'low priority' (Croatia, Macedonia, Montenegro and Moldova), and 'lowest priority' (Russia and Azerbaijan). It is far from clear that having 15 countries and four different categories of prioritisation is appropriate from the point of view of efficiency, quality control, etc. for what is, after all, a relatively small MFA staff team responsible for the DNP.
- Regional coverage: there appears to be a trend of donors vacating the region and targeting their resources at other regions, a process which is likely to be attenuated by the current developments in North Africa and the Middle East. The assumption is that the European Neighbourhood Programme/Candidate Country status will pick up the slack. However, the EU has finite resources that are prioritised according to the framework of accession/acquis communautaire. There is much unfinished development business in the region and the DNP has a continuing development role in the next, critical, medium term phase.
- Thematic focus: the global financial and economic crises appear to have underlined a continuing need for some of the core components related to the DNP interventions. In particular, the focus on agriculture and agribusinesses is as sound as it ever was. The financial crisis is squeezing the availability of finance, especially for the agricultural sector, which is widely considered to be among the riskiest by financial institutions; and the economic crisis is affecting the labour markets, especially in relation to youth unemployment, suggesting a continuing need for a focus on TVET-type activities.

- Remote control: the DNP is managed directly from Copenhagen. However, there appears to be a need to improve the 'remote control' of the programme, so as to maximise the impact of the country programme interventions. Generally, consideration needs to be given to enhancing the role of Danish Embassies where these exist, since they are in situ and can play a critical role in relation to project development, quality control, as well as donor coordination. The DNP's general quality control procedures could be enhanced through more frequent missions to the countries in question, as well as through development of programming manuals and templates to be used systematically to improve reporting and reduce re-inventing of the wheel at programme level, etc.

The above presents some initial thoughts and reflections; the Final Report of the evaluation is due by the autumn of 2011 and will present more structured and formal analysis and recommendations for the DNP and its economic development activities.

## **7. Aid Effectiveness in Ukraine**

*Laura Garagnani*

Ukraine endorsed the Paris Declaration in 2007. However, the 2011 survey monitoring progress on achieving Paris Declaration commitments will show that, in practice, Ukraine struggles to utilise international donor assistance effectively.

Whilst the principles of the Paris Declaration and Accra Agenda might, in theory, seem more straightforward to adopt in a country like Ukraine, the reality is very different. This is surprising given the well-developed infrastructure, technically skilled personnel and long track record as a beneficiary of donor assistance. The following is an analysis of EU aid effectiveness in Ukraine based on the five principles of the Paris Declaration: Ownership, Alignment, Harmonisation, Mutual Accountability and Results.

### **Ownership**

Ownership and political will is probably the biggest challenge. A shift of focus in terms of policy priorities has altered the landscape in which we provide assistance. Until the presidential elections in 2010, the broad scope of the EU/Ukraine Association Agenda (AA) represented the policy framework for most international development assistance. Now, with the exception of DCFTA and visa liberalisation, there is little evidence to suggest that any other EU related reform is a policy priority under the Yanukovich regime. The National Economic Reform Plan (NERP) 2010–14 adopted last year now represents the framework for policy reform in Ukraine. It is also presented as a National Development Strategy, although it is too narrow in its focus to be recognised as such. We need to consider carefully how to respond to this development and in which areas we remain engaged. Should we adopt a more focused approach to achieve greater commitment from the beneficiary?

There is no clear division of labour within beneficiary institutions covering EU integration or high-level counterparts with whom to deal. Whilst the Ministry of Economy acts as the National Coordination Unit, the EU also has an interest in working closely with the MFA, the Bureau for EU integration, the Ministry of Justice, the Ministry of Foreign Trade and the Presidential Administration. We await the full

outcome of administrative restructuring to see how this changes. The appointment of a first vice prime minister responsible for EU integration is a positive development.

Despite passing messages at the highest level the reality is that we struggle to achieve the bare minimum of commitment to our programming e.g. NIP signature, financing agreement.

### **Alignment**

In the context of Ukraine, a confusing and fluid policy framework makes it difficult for donors to align their activity, which poses the question: what do donors align behind? NERP or the AA?

Unfortunately, the mechanisms that allow alignment to occur only exist to a limited extent. Despite agreeing to a new, albeit unweildy, government plan, the donor structure remains based on the AA priorities of 2010 and implementation to date has been virtually non-existent. Reasons for this include a lack of political will, limited absorption capacity, dysfunctional administrative procedures and restructuring, and no clear division of responsibility amongst beneficiary institutions.

A lack of development capacity remains a big problem within government which will be exacerbated by the administrative restructuring with many departments facing a 25% reduction in staffing. This underlines the importance of making the assistance provided more efficient in the form of, for example, joint programming and common reporting requirements.

### **Harmonisation**

Until the government is in a position to lead the coordination process effectively, the donor community is continuing its efforts to develop a common and more complementary division of labour. The major donor group is progressing steadily with efforts to endorse a sector wide approach in 14 sectors based on government priorities. Member States are developing a similar approach on geographic and thematic issues such as the joint initiative on the Crimea. There is also evidence showing greater use of joint missions to reduce the burden on beneficiaries.

**Mutual accountability**

Another particular area of concern, largely flowing from the problems noted above, is alignment. Moreover, the absence of harmonisation and alignment plans makes assessing progress against targets unworkable. Having endorsed the Paris declaration, Ukraine is currently making progress in meeting its partnership commitments. It will be important that it uses this exercise as a platform to develop a more systemic approach to achieving these.

**Management of results**

A clear focus on capacity development as the primary purpose of EU technical assistance coupled with a well established Results Oriented Monitoring process reflects the intent of the EU (and many other donors) for a more result-oriented approach. However, this is for the most part a donor-driven exercise with little evidence of the government developing result-oriented reporting or monitoring frameworks on their own initiative. Facilitation of a new, government-owned, donor assistance database is an opportunity to develop this.

**What is working?**

It is too early to assess the impact of Sectoral Budget Support (SBS) operations to deliver policy reform, however the signs are promising. Even the process of meeting eligibility criteria is helpful in facilitating a sector-based approach behind which other donors can align. With the EU as the only donor to provide budget support, SBS disbursements make a tangible contribution to helping the Ukrainian government meet its Paris Declaration targets such as predictability of aid, the use of country systems etc.

Lobbying in the major donor group to get key donors aligned behind a sector approach and rudimentary division of labour has been successful. This will be essential in order to maintain momentum whilst the Ukrainian government looks to reform the Government–Donor coordination structures. Making the transition to a government-led process will need sustained effort from both sides, but the government donor assistance database is a useful first step.

Joint and/or complimentary programmes with EU member states e.g. Sweden on the environmental sector and others on a joint initiative for Crimea have proven helpful. The smaller (and more flexible) programmes of Member States are working

well in tandem with larger Commission mechanisms such as twinning and Sectoral Budget Support. A key lesson learned has been to adopt a more inclusive round of briefing and consultations when developing new initiatives. British and Polish involvement in the preparatory phase of the CIB is a good example of this. By making this more systemic at an early stage the EU, its Member States and other donors can look to make greater use of joint programming and shared strategies.

Promoting strong coordination at the working level on a sub-sector basis in areas such as Energy and Public Administration Reform is crucial. Where there is the will and capacity within government to manage donors, the government should seek to replicate best practice in other ministries. This work will naturally inform the reorganisation of Government-Donor structures.

## **Conclusions**

A few conclusions can be drawn from these reflections.

First of all, greater government ownership of our assistance must be secured through a genuine and unequivocal commitment to agreed policy goals: we need a clearer lobbying strategy to create leverage for policy reform. We need to work 'smarter' to ensure that EU integration (and the reforms it delivers) is at the forefront of the government's policy agenda and not something to which they pay lip service. The EU must have a clear understanding of areas of common interest, i.e. the synergy between AA vs. ERP and that non priority issues for the Ukrainian government, i.e. rule of law, democratisation and civil society development, are not overlooked.

Secondly, the approach must be tailored to the environment in which the EU works. It is not always appropriate to base the approach on the principles of flexibility and compromise. This can be perceived as indecisive, weak and lacking in credibility. Recent experience has demonstrated what can be achieved by maintaining a robust, conditions-based approach, closely linking policy dialogue with delivery of our development assistance. Where possible, these conditions should be agreed with other donor partners.

Thirdly, the EU must continue to promote the sector approach even in the absence of effective Government-donor coordination structures. Getting buy-in from officials at the working level (bottom-up) compliments the top-down approach. This provides the platform upon which other donors can align. We must tune and refine

our budget support operations in order to achieve this, rather than reverting to a project approach. Focus must be on the eligibility criteria, consistent measurements of key assessment areas and the use of SMART indicators. The EU shouldn't be afraid to pull the plug or stop implementation in case conditions are not met.

Finally, the EU must work to facilitate closer involvement of civil society in the development and implementation of sector strategies. It is crucial to look for opportunities for greater CSO inclusion through both policy dialogue and service delivery to achieve greater transparency and accountability. Another important task is to manage the expectations and perceptions the government and civil society have of each other.

## 8. More for More in the Neighbourhood

*Nicu Popescu*

The revolutionary upheaval in the southern neighbourhood and the failure of reforms in most of the eastern neighbourhood are begging for a revised EU approach to the neighbourhood policy (ENP). In March the EU presented some ideas on 'a partnership for democracy and shared prosperity' with the southern Mediterranean. Some time in May the EU will also present a full review of the ENP. A central concept of the updated ENP is the idea of 'more for more' – the EU should give *more* political and financial support to those neighbourhood countries that implement *more* reforms and are *more* democratic.

'More for more' stands for a more meritocratic ENP. It should lay the basis for proper differentiation between neighbours, not based on geographic criteria but based on their performance. The concept is also supposed to change the way the EU is spending its money. Currently the EU pre-allocates most of its assistance to specific neighbourhood states (almost irrespective of their reform performance) in 7-year budgetary cycles. 'More for more' is supposed to make it easier to shift more EU assistance from one neighbourhood state to another, depending on their reform performance. Overall, the concept of 'more for more' is laudable and fair, but also quite slippery..

To begin with, the concept is not that new. Back in 2006 the EU launched a so-called *governance facility* – a pool of money that was supposed to be spent on the 1–2 most reformist neighbours. That was a 'more for more' in all but name. Morocco and Ukraine (Moldova joining later on) got most of it. The 'governance facility' funds were 'more', but still too little to alter reform trajectories in the neighbourhood states. And many reforms were not that sustainable, if not reversible, as the case of Ukraine showed. To be truly effective 'more for more' might need to be 'much more money, for many more reforms' to have an impact.

### Geopolitics vs. 'more for more'

'More for more' runs up against geography and geopolitics as other key criteria for capturing EU attention. Geography is unbeatable in many ways. Belarus will always preoccupy more minds in the EU than Armenia, and Tunisia will preoccupy more

minds than Jordan. In a sense, the real geographic division inside the neighbourhood policy is not only between states that are south or east, but also between states that are closer or further away from the EU. In this sense the ENP states of Moldova, Ukraine, Belarus, Tunisia and Morocco are likely to be higher on EU radar screens than Azerbaijan, Syria, Jordan or Armenia, irrespective of the pace of reforms.

Even though the 'more for more' concept is pushing the debate in the right direction by focusing primarily on reform delivery, not geography, the tensions between the two approaches will persist. In a non-paper France, Spain, Greece, Cyprus, Slovenia and Malta called for a re-allocation of funds from east to south. Such an approach is a clear-cut challenge to the 'more for more' approach. Instead of calling for supporting reforms, this letter calls for supporting the south.

Then there are the other geopolitical priorities. A situation like that of Palestine is probably exempt from the 'more for more' approach. Palestine is by far the biggest recipient of EU assistance in the neighbourhood, yet this assistance has been tied less to reforms and democracy, and more to state building and the Middle East peace process. EU assistance to Palestine is EUR 75/per person/per year, which is three times more per capita than Moldova gets, five times more than Jordan and ten times more than Tunisia under Ben Ali.

### **What is more and what is less?**

'More for more' will run into tensions of what to consider *more* in those cases where democracy and reformism do not go hand in hand. In 'more for more', the second *more* actually subdivides into two types of 'more' – one stands for 'more reforms' and the other for 'more democracy'. Consider the following cases: Orange Ukraine was democratic, but not reformist. Georgia – was reformist, but less democratic. In the south – Lebanon is pluralist; Tunisia (under Ben Ali) was reformist, but less pluralist. When such divisions exist – assessing what is *more* can become tricky.

Then, the question is whether 'more for more' also means 'less for less'. This opens all kinds of questions related to how far the EU can go in expanding sanctions, pressures, negative conditionality and other forms of coercion against problematic states in the neighbourhood. I have serious doubts that the EU has any appetite or desire to match 'more for more' with 'less for less'.

Another question is who will define what is more? Neighbourhood states might often consider they deserve more than they get. Their reading of their reform performance might be more optimistic than that of the EU. 'More for more' is hard to quantify because the notion of *more* is relative.

The EU tried to methodically identify what *more* is back in 2006 but such criteria were hardly a compass for EU action. The EU forgot its criteria almost as soon as they were published. This time, perhaps, an aggregated monitoring mechanism run by a coalition of European and neighbourhood NGOs lumping together all kinds of indicators and indexes – from the cost of doing business, the Economist democracy index, Freedom House's freedom in the world index, and Transparency International's corruption perceptions index – could help to at least partly de-subjectivise the notion of 'more'. Such a monitoring mechanism could also monitor whether 'more' is done not just by the neighbourhood states, but also by the EU.

### **How to get more?**

Finally, the most important question is where to find money for 'more is more'? With a few EU member states on the verge of bankruptcy, and a few others unwilling to pay for those on the verge of bankruptcy – increasing spending for foreign policy is rather unlikely. So most of the action will be reduced to nasty battles between proponents of spending in the south with proponents of spending in the east. However, the EU should start redirecting funds not so much between the eastern and southern neighbourhood, but rather from the non-neighbourhood to the neighbourhood.

'More for more' is a useful principle to be applied not just in the neighbourhood, but across all the countries where the EU gives assistance. And some other countries should not receive EU assistance at all. Why should the EU spend money in the BRIC countries (except for student exchanges and public diplomacy)? The BRIC governments are all on shopping sprees in the EU and elsewhere, investing in projects that many EU countries cannot afford, whereas the EU still offers them development assistance ...

Recently the UK cut development assistance to 16 countries (including Russia, China, Vietnam, Serbia, Bosnia, Cameroon, Indonesia, Kosovo, Moldova etc). India was not one of them. Yet this provoked a debate as to why a UK that is about to fire 11,000 Ministry of Defence personnel including soldiers just returned from

Afghanistan, cannot afford a space program and a nuclear program and is forced to share aircraft carriers with France due to lack of funds, should offer development assistance to an India that has a space program and a nuclear program? Certainly paying for past colonialist abuses and alleviating poverty are serious considerations. But the point is worth raising.

The EU keeps offering preferential lending and direct development assistance to BRIC countries. It is not that much, but it is still a bad investment. Its political impact is zero. The same money would almost double the EU assistance to countries like Georgia or Tunisia. On the Shanghai World Expo alone, China spent EUR 39 bn (USD 55 bn), which is more than three times the amount of money the EU plans to spend in the whole of its neighbourhood in the seven years between 2007 and 2013. Russia's planned Nord and South Stream pipelines would also cost more than two times the amount of EU assistance to the neighbourhood in seven years.

It is true that development assistance to the BRICs is decreasing. But the picture is starker with lending money. The European Investment Bank financed the construction of Beijing Airport before the 2008 Olympics with EUR 500 million and another half a billion for other projects. As the EIB website says, the Bank's "AAA credit rating enables it to obtain the best terms on the market. As a not-for-profit institution, the EIB passes on this advantage in the terms it offers to the beneficiaries of its loans in both the public and private sectors." The EIB is supposed to "make a difference to the future of Europe and its partners by supporting sound investments which further EU policy goals". It is not clear how lending to modernise Beijing airport for the Olympics helps achieve that goal, whereas lending a billion to develop neighbourhood countries would make a bigger difference.

The era when the EU was the biggest bag of money in the world has ended. Others have more money than ever before, and the EU has less. Alleviating poverty cannot be a higher priority for the EU than for the governments of the BRIC countries. It is time for the EU to focus its spending closer to home – where it needs to and can have an impact. And even if the EU starts spending *more* in the neighbourhood countries that deserve it, the even more difficult question is whether the EU has the will and the unity to become *more* of a political and security actor in this region as well.

## **Contributors**

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Since 2010 Lene Espersen has been Minister for Foreign Affairs of Denmark. Prior to this, she was Minister of Economic and Business Affairs (2008–2010) and Minister of Justice (2001–2008). She has been a Member of Parliament for the Conservative Party since 1994, and the leader of the Conservative Party from 2008–2011. Lene Espersen has a degree in Economics from Aarhus University.

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