



## The EU Economic and Investment Plan for the Eastern Partnership Countries: Prospects and Challenges

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The economy of the Eastern Partnership (EaP) countries has been strongly affected by the COVID-19 pandemic, and the low level of vaccination of their populations hampers its recovery. Before the upcoming EaP summit in December this year, the EU has proposed the Economic and Investment Plan (EIP) to help its partners. The plan has the potential to develop the digital economy and support enterprises, but infrastructure investments may be limited by prevalent corruption in the region. Its success also will depend on the acceleration of vaccination, which could be facilitated by an increase in the vaccine supply from the EU.

In July, the European Commission (EC) and the head of EU diplomacy, Josep Borrell, proposed the Economic and Investment Plan for the EaP, an initiative aiming to mitigate the negative socio-economic effects of the COVID-19 pandemic. Over the next five years, the EC may allocate up to €2.3 billion for it, which, combined with loans from international financial organisations, could generate investments of up to €17 billion (see table). The plan provides for support for all EaP states, including Belarus on condition of its democratic transition. The EC will consult EIP within the EU and with partner countries before the EaP summit.

**COVID-19 and the EaP.** The COVID-19 pandemic has worsened the economic situation of all EaP countries, especially Armenia, Moldova, and Georgia. According to the World Bank (WB), in 2020 real GDP in these countries fell by 7.6%, 7%, and 6.2%, respectively, and by 4.3% in Azerbaijan, 4% in Ukraine, and 0.9% in Belarus. In particular, Georgia has suffered from mobility restrictions, as tourism generates 7.5% of its GDP. In all EaP countries, the budget deficit and public debt increased, and the highest increases of both indicators were recorded by Armenia, Georgia, and Ukraine. Their debt level exceeded 60% of GDP, and the deficit increased by over 4 pp (9.8% of GDP in Georgia, 6.2% in Ukraine, 5.1% in Armenia).

The social situation of the EaP countries has also deteriorated. According to the WB, in 2020 the poverty level

increased by 4–7 pp in Armenia, Georgia, and Moldova. The unemployment rate increased slightly in the majority of EaP countries (by 0.5–1.4 pp.), but it reached 20% in Armenia and 12% in Georgia. Nevertheless, official statistics do not reflect the real picture of the worsening of the social situation. The high level of informal employment of workers in the EaP region means that many people have lost their jobs without the possibility of receiving social benefits. The situation of households has probably also worsened due to the decline in remittances from economic migrants, which in most EaP countries generated over 10% of GDP in 2019 (except for Belarus and Azerbaijan).

In the short term, the recovery of EaP economies will depend—apart from global and environmental conditions—on the level of vaccination of the population against COVID-19. All EaP states are struggling with vaccine shortages and low public confidence in vaccination (especially in Georgia and Ukraine). The number of vaccine doses provided by the EU via COVAX (about 2.6 million, i.e., 50% of the contracted supplies) is below the needs of the EaP countries. According to Our World in Data, 28.8% of the population in Azerbaijan was vaccinated with at least one dose, 14.1% in Belarus, 13.6% in Moldova, 8.6% in Georgia, 8.2% in Ukraine, 4.1% in Armenia, while in the EU and EEA it is 70.6%.

**Opportunities and Challenges.** The increase of financing loans in local currency and advisory services for micro-

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small- and medium-sized enterprises (SMEs), with up to 250 employees, is important due to their significance for the labour market. Apart from Belarus and Azerbaijan, in 2020 the SME sector generated 64–70% of jobs in businesses in other EaP countries. Its share in added value (the difference between the market value of all products and services and the actual costs of their production) amounted to over 60% in Armenia, Georgia, and Moldova, and 53% in Ukraine. Importantly, SMEs have experienced large financial losses because of the pandemic. According to the EC data, in Ukraine, 84% of such companies experienced a decrease in turnover, and 25% of them reduced staff. In order to increase the number of EC aid recipients, it will be important, however, to grant loans to micro-enterprises (employing one or several people), as they constitute the vast majority of SMEs in the EaP region. For example, in Armenia, 40% of SMEs are sole proprietorships, and in Ukraine, 80%, while SMEs in these countries employ on average 2–3 people. Until now, loans co-financed by the EC have been granted mainly to companies employing an average 8–9 employees. In all EaP countries, low productivity, insufficient digitalisation and internationalisation of the SME sector will, however, remain a challenge for its development.

The EU's support for the digital transformation of EaP countries will be important due to the gaps in infrastructure and education of society in this field. In 2019, on average, 88% of the region's population had access to 4G networks, and the number of fixed broadband subscribers was 19 per 100 people, compared to 99% and 36 per 100 in the EU, respectively. Almost a third of the population of Georgia, Armenia, Ukraine, and a quarter of Moldova do not use the internet regularly. Access to the internet is unequal, especially among women in Moldova and Azerbaijan, or in the entire region among the disabled, the elderly, the rural population, the poor, and those living in areas affected by armed conflicts. The chance for the EIP lies in good prospects for the development of digital innovations. Although there are many systemic barriers, the IT sector is dynamically developing in most EaP countries. The best positioned in this respect are Ukraine, and still Belarus despite the outflow of workers in this industry in 2020, and they are followed by Armenia and Moldova. In 2020, ICT services accounted for a quarter of all Ukrainian services export, and a fifth for Belarus. According to the Global Startup Ecosystem 2021 ranking, the highest positions in the development of digital startups among EaP countries were for Ukraine (34), Armenia (65) and Belarus (67).

The challenge for the EC will be the implementation of transport and energy investments. [The high level of corruption in most EaP countries](#), especially at the high

political level, in the area of public procurement and in the judiciary, limits the transparency of investments and slows down their realisation. In the Transparency International Corruption Perception Index in 2020, Georgia was ranked 45<sup>th</sup>; Armenia, 60<sup>th</sup>; Belarus, 63<sup>rd</sup>; Moldova, 115<sup>th</sup>; Ukraine, 117<sup>th</sup>, and Azerbaijan, 129<sup>th</sup> (out of 180 countries). Although the EC emphasises that the implementation of reforms in these areas will be part of the EIP, the possibilities of exercising pressure by the EU are limited. An example is the partial results of the anti-corruption reforms in Ukraine, blocked by, among others, the rulings of its constitutional court. Moreover, the volume of planned investments is significantly below the needs of the EaP region. The EC wants, for example, to co-finance the construction of 3,000 km of roads and railways by 2025, but according to the WB's assessments, most of the transport infrastructure in the entire region is in poor condition. The scale of environmental investments is also small in view of the region's environmental challenges (see table). Forecasts for EaP countries indicate that by 2030 the number of used cars will double, freight traffic may increase by 30-50%, and CO<sub>2</sub> emissions generated by transport will double.

**Conclusions.** The EIP priorities mostly respond to the challenges of the EaP countries' socio-economic development, but the level of financing for infrastructure investments covers their needs only to a small extent. The plan's greatest potential lies in supporting the development of the digital economy and enterprises. Due to the dynamically developing IT sector and number of SMEs in the region, the relatively small EC financing may bring the expected results in this area. The condition for the effective implementation of infrastructure investments will be the implementation of anti-corruption reforms by the EaP states. The programme lacks measures to increase the supply of COVID-19 vaccines to the region, although accelerating the vaccination process is the biggest challenge for the region.

During the EIP consultations with the Member States, France and the Netherlands may demand the investments be conditional on the introduction of strict measures regarding their transparency. The Nordic countries might seek to increase support for social groups particularly affected by the pandemic (women, children from rural areas). The quite modest package of support for a democratic Belarus (€870 million) might become a controversial issue for the Baltic states and Poland, which may ask to supplement EIP activities in the area of health, for example, through campaigns for vaccination and launching the EU mechanism for sharing COVID-19 vaccines with the EaP region.

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## Main Elements of the Economic and Investment Plan

<b>Transport (at least €4.5 billion)</b>
Construction or modernisation of 3,000 km of priority roads and railway lines Implementation of sustainable urban mobility plans in 30 cities
<b>Financial aid for SMEs (at least €2.9 billion)</b>
Loans and advisory services for 500,000 SMEs, including: – at least €1.5 billion in local currency loans – €720 million in loans for women running businesses Issuance of green bonds (up to €1.4 billion)
<b>Competitiveness of SMEs and integration of EaP companies with the EU (€1 billion)</b>
Integrating SMEs into EU supply chains and promoting trade diversification (€500 million) Increase of EU-Eastern Partnership's cross-border e-commerce by 50% Investments in the agricultural sector (at least €500 million)
<b>Infrastructure, services and digital skills (€1.5 billion)</b>
Development and/or modernisation: – broadband internet infrastructure (at least 80% of households) – digital services (at least 80% of public services) – digital innovation, including startups (€100 million)
<b>Sustainable energy (at least €3.4 billion)</b>
Improving energy efficiency in public and residential buildings—at least 25,000 households are to reduce their energy consumption by at least 20% Development of energy infrastructure between the EU-EaP region Increasing the share of renewable energy in the EaP countries energy mix by 10 pp.

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<b>Environment and climate (€1.33 billion)</b>
Modernisation of water supply, sanitation, and water management in river basin districts (at least €750 million) Improving municipal services, air quality and green urban areas (€485 million) Development of a circular economy and waste management (at least €100 million)
<b>Health sector (up to €600 million)</b>
Support for the vaccination process, including the introduction of COVID-19 vaccines and infrastructure Development of digital tools and e-services
<b>Human capital (up to €1.3 billion)</b>
Support for education reform, including in higher, primary, and vocational education Student exchanges under the Erasmus+ programme and other mobility programmes (70,000 people)
<b>Flagship initiative for a democratic Belarus</b>
Financial assistance for 20,000 SMEs (at least €350 million for loans and increasing export opportunities) Improving transport connections and facilitating trade at the EU-Belarus borders, e.g., modernisation of the road crossing on the Belarusian-Lithuanian border (at least €200 million) Support for innovation and digital transformation, e.g., establishing the EaP IT school in Minsk (up to €20 million) Supporting a green Belarus—energy efficiency, waste management, and infrastructure (up to €200 million) Investing in a democratic, transparent, and responsible Belarus, e.g., grants for NGOs (up to €100 million)

Source: own compilation.