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## 9<sup>TH</sup> ANNUAL NORTH SOUTH EUROPE ECONOMIC FORUM

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### SUBSIDIES IN EU ACCESSION COUNTRIES

Dr. Dietmar O. Reich

Distinguished Guests, Ladies and Gentlemen,

Turkey's application to join the European Union and its acceptance as a candidate country have yielded bountiful political, cultural and financial challenges and benefits. Various facets of the accession process for Turkey and other candidate and potential candidate countries have been discussed throughout this conference. Numerous presentations and discussions have raised issues and examined projects designed to promote and develop Turkey and many other countries, particularly in the Balkans and Eastern Europe.

Yet one question has been common to each of these fantastic projects: *Where are we going to get the funding?* Without funding, a project is nothing more than a fantastic idea. Especially in the current economic climate, a related question might and perhaps should be, *"Is there any state or EU funding available?"*

For governments and ministries faced with deciding which of these fantastic projects to support, the questions might be, *"How do we choose between them?"* and, *"Is there EU funding available so that we can help ensure the success of a greater number of projects?"*

Today I would like to talk briefly about some of the options.

You may have heard about various so-called EU "pre-accession and accession funds" supplying aid to various projects in the past. These funds include Phare, ISPA and SAPARD,

the Turkey pre-accession instrument and CARDS for projects in the Western Balkans. With so many different sources of funding, it was difficult sometimes to work out what funding or scheme applied when and where and to which type of project.

Since 1 January 2007, these programs have been replaced and amalgamated into one program: IPA. This stands for the "Instrument on Pre-Accession". The IPA is the financial instrument for all pre-accession activities funded by the European Commission. It therefore applies to all pre-accession funding granted to accession states Croatia, The Former Yugoslav Republic of Macedonia and Turkey, as well as to pre-accession states Albania, Bosnia and Herzegovina, Montenegro, Serbia and Kosovo.

The funding available under the IPA is not insignificant either. EUR 7.58 billion in financial assistance has been earmarked by the European Union for the Western Balkans and Turkey for the period 2007 to 2011. These funds are divided between the eight countries based on their size, the stage of their accession negotiations, and their capacity to implement the funding.

There are five basic "strands" under which the funding is granted:

1. Assistance for transition and institution building
2. cross-border cooperation
3. Regional development (in particular transport, environment and economic development).
4. Human resources, and
5. Rural development.

The three EU candidate countries (Croatia, Turkey and the Former Yugoslav Republic of Macedonia) are eligible for all 5 strands of IPA. In contrast, the five potential candidate countries are only eligible for the first two strands of transition and institution building and cross-border cooperation at this stage.

According to the multi-annual institutional financial frameworks drawn up for each of these countries, for 2009, EUR 66.1 million has been set aside for Kosovo, Serbia will get EUR 194.8 million, Croatia, EUR 151.2 million and a staggering EUR 566.4 million has been earmarked for Turkey. Clearly, funding is available for suitable projects. The real question is, *"How can we get access to some of the funding for our project?"*

In general, there are two main ways for a company to receive some of the aid. First, where the country has decided on a course of action, such as the "training of personnel" or the "construction of a railway line and tunnel from A to B", there will normally need to be a tender, especially if certain thresholds are met. You could regularly follow the invitations to tender, submit a tender for any appropriate projects and, hopefully, win. Some of these

tenders can even involve quite substantial funding! This is particularly the case where large infrastructure projects are involved. When applying for a tender it is important to ensure that all the requirements in the tender documents are fulfilled so as to avoid the bid being rejected on formal grounds, rather than for substantive or financial reasons.

Second, and this applies in particular to regional and rural development projects, you can go to the appropriate authority and "pitch" your idea. Sometimes calls for tenders are even calls for ideas. These of course can also be used to develop and implement a project from scratch with the authority. If you are going to take this often more rewarding approach it is important remember to demonstrate which elements of the IPA it aims to fulfil and how the project fulfils these requirements so as to help the authority decide which funds can be allocated to the project.

Looking at this issue from the other side, from the perspective of the government or ministry, the question is "*How do we choose which project should be granted funding?*" I know there are others in the audience and with more experience who could answer this question much better than I could, so I will leave it up to them to share their experiences.

In addition to EU funding, state funding and sometimes combined EU-national funding is available. This may be in the form of tax advantages or duty-free imports, or it could be a low-interest loan or a direct payment. However, without going into detail about the funding types and sources in each country, it is impossible to cover this topic properly in such a forum. I will therefore leave it up to the experts from each of the accession and pre-accession countries to provide more specific details on this issue.

In addition to funding available under IPA, there are specific funding instruments at EU and national level for specific sectors and activities. These include energy, the construction of certain infrastructure particularly with regards transport, and Research and Development (R&D). As it is more generally applicable, I would like to focus on various sources of R&D funding for the next few minutes.

One of the biggest sources of funding for R&D at EU level is the FP7, the Seventh Framework Program for Research, which runs until 2013. This program provides grants for research in the EU, the candidate countries, the EFTA States of Norway, Iceland and Liechtenstein, as well as Switzerland and Israel. It co-finances research, technological development and demonstration projects. Projects are chosen on the basis of calls for proposals. The program has a total budget of over EUR 50 billion.

In order to qualify, the project must have "European added value". This means, for example, that the projects are often carried out by consortia with members from various Member

States or accession countries. Forums like the North South Europe Economic Forum are a good starting place to find consortia members.

FP7 funds research falling into 5 main categories: cooperation, ideas, people, capacities and nuclear research. The biggest of these is cooperation, which is worth two-thirds of the budget. It includes research in key areas such as health, food, agriculture, information technologies, nanoscience, energy, environment, transport, space and security. Funding can cover 50% of the research, or even up to 75% where SMEs (small and medium-sized enterprises) are involved. In some cases, such as the management of a consortium, up to 100% of the eligible costs can be covered by FP7.

FP7 is not the only source of R&D funding at EU level. Any market-driven project aimed at the development of a new product, process or service for release onto the market within 2 years of project completion can receive funding under Eurostars. In order to receive funding under Eurostars there must be at least two participants from participating countries, such as Germany and Turkey, and the majority of the research work must be carried out by an SME. Where these requirements are fulfilled, the project can receive funding for up to 75% of the eligible costs or EUR 1 million.

Research grant opportunities also exist at national level. Clinical trials in Germany can be funded under the DFG program, which will finance up to 100% of the costs. The German Pro Inno II scheme may also provide funding for a research project. German SMEs can be eligible for up to 50% or EUR 300,000 funding under this scheme. Cooperation projects with SMEs from other countries are also allowed.

These different programs make it clear that the structure of the researcher or research consortium or body can have a significant effect on the amount of funding received. SMEs, for example, are generally eligible for 25% more funding than other participants under FP7. This can have a significant effect on the financing and thus the success of the project!

Combined funding is also possible. Certain projects may, therefore, be eligible for funding under both FP7 and IPA or under EU and national funds. Care should be taken to ensure compliance with the relevant funding rules and to structure the project properly so as to maximise the possible level of funding.

In short then, your action plan should be:

1. Identify the possible project.
2. Identify the relevant national and EU financing options.
3. Where an invitation to tender exists, submit a tender, observing all deadlines and formal requirements.

4. If an appropriate tender does not exist, approach the government to pitch your idea, clearly stating how it will further develop the country and fulfils the requirements of the particular national or EU funding programs.

I wish you all good luck and thank you very much for your attention.