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New Europe Center
Kyiv, Ukraine

MONEY FROM EU:

HOW TO MAKE THE MOST OF EUROPEAN FINANCIAL INSTRUMENTS?

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FOREIGN DIRECT INVESTMENTS (FDI) VS THE ACCESS TO EU PROGRAMMES AND FUNDING OPPORTUNITIES

Before the presentation and analysis of available funding opportunities that Ukraine could benefit from, it is necessary to start with the basic question about the ultimate goal of such an analysis:

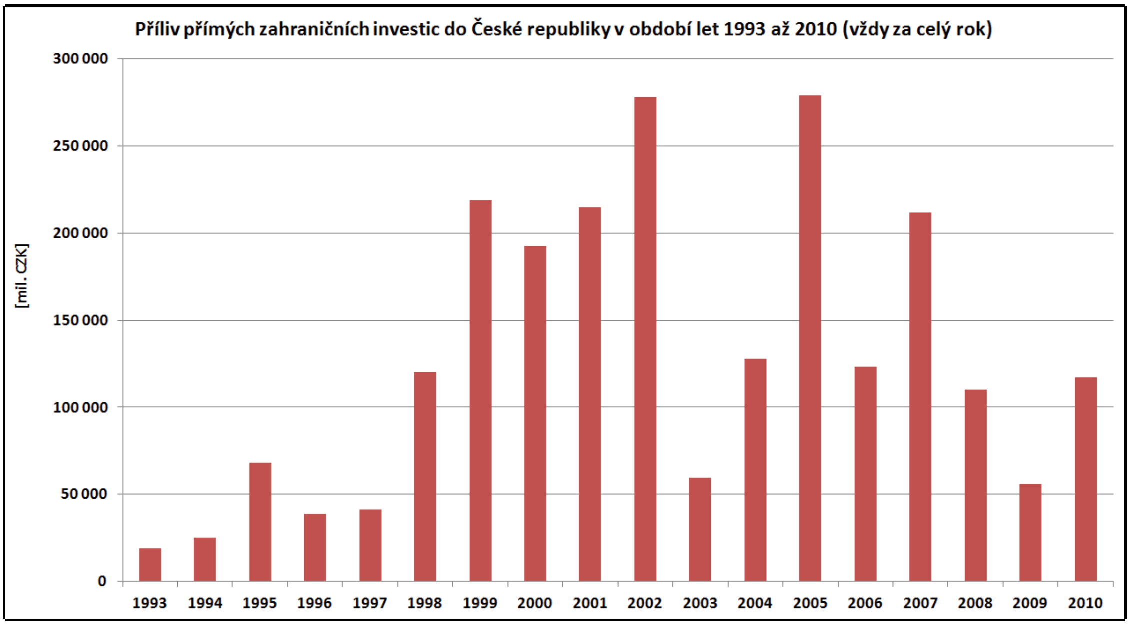
- Should it just be an objective in itself to get as much as available EU funding? or
- Should these funding opportunities be considered as one of several instruments that stimulate economic growth and the increase of living standards in the country?

The lesson learned of Central European countries (CECs) that joined the EU in 2004 shows that these were not the EU funds that contributed the most to the growth of the GDP in the pre-accession period.

These were the foreign direct investments (FDIs) that played a crucial role in the pre-accession period as a GDP growth main factor. As can be seen in the case of the Czech Republic, the largest inflow of FDIs occurred after 1998 and then around 2002. There is a correlation of these two waves with important geopolitical decisions: Czech accession to NATO (1998) and the accession to the EU (2004).

These two geopolitical events meant for foreign and multinational companies that CECs would be a sort of a safe haven with a favourable business climate for their investments, because of reforms and legislation that were adopted and implemented to meet respective requirements and standards of both the NATO and the EU. In that way, foreign companies felt that their investments are well protected and guaranteed in CECs because of the similarity of their legal and institutional affinities that these investors knew from "old" member states of the EU/NATO.

Table 1: Annual flows of FDIs to the Czech Republic (1993–2000), in CZK mln



Source:https://is.muni.cz/el/1431/podzim2013/Z0138/um/44084665/04_Text_Prime_zahranicni_investice_a_jejich_vliv_na_regionalni_rozvoj.pdf

This transformative power of Euro-Atlantic integration thus eventually led to economic growth, which then had the impact also on the improvement of the social and economic situation of individual citizens.

Recommendation #1: Ukrainian government should not focus as its key priority on the maximisation of future use of various EU funds that are available to associated countries. This should not be the objective in itself. The priority should be given to the prompt transformation of both legal and institutional frameworks that would attract foreign investors. The effective use of respective EU funds should be directed towards this objective: a careful and strategic choice and focus on such EU funds that have the largest transformative potential for Ukrainian legal and institutional frameworks.

EXPERIENCE FROM PREVIOUS PRE-ACCESSION PROCESSES

The following presentation of two EU enlargements and respective pre-accession EU assistance, namely the case of CECs and Western Balkans EU accession, serve the purpose to illustrate and present both the basic financial instruments as well the development and trends in their further evolution up to today.

CECs pre-accession funding (1990–2003)

The main funding programme for the CECs preparations for the EU accession was **PHARE** (Poland and Hungary Aid for Restructuring of the Economies) programme. It was then accompanied by two other programmes: SAPARD and ISPA.

These programmes focused primarily on creating conditions (institutional, legislative, administrative capacities) for the future fastest and most efficient use of EU Structural Funds, to enable rapid adaptation of the CECs economies to the EU standards and procedures, to increase the competitiveness of CECs companies and reform of the public administration.

- **PHARE**

It can be also argued that the PHARE programme focused primarily on such projects that serve the purpose to prepare public administration institutions for accession to the EU. This pre-accession assistance was used by the CECs since 1990. Closer to the date of the accession (1 May 2004) a significant part of the annual budgetary allocation from the PHARE programme was devoted to institutional preparation for the future drawing of funds from the EU Structural Funds

The PHARE programme, in general, consisted of **three components**:

1) The PHARE **national programmes** for individual CECs, to reform the state administration and the smooth adoption of common European legislative standards (acquis communautaire). Another very important part of the National Programmes (under PHARE) were investment projects in the field of economic and social cohesion, which were used to prepare the structures and institutional framework for subsequent use in the Structural Funds.

2) Cross-border cooperation programmes (CBC PHARE) were meant to prepare the candidate countries for future participation in the INTERREG Community Initiative (internal EU CBC projects. Projects under these programmes were focused on investments in candidate countries border regions (infrastructure, transport, tourism) and, as such, were meant to support cross-border cooperation, people-to-people exchanges, removal of barriers and obstacles for local businesses

3) The PHARE multinational programmes provided additional support for the mutual cooperation among the candidate countries and to prepare them for the future modes of cooperation with each other within the EU. Supported projects aimed at the promotion of joint management and implementation of cooperation projects between individual candidate countries.

- **SAPARD** (Special Accession Program for Agriculture and Rural Development)

It was a special programme for agriculture and rural development. This pre-accession instrument has been used by CECs since 2000, when the accession date was already determined. Its main objective was to prepare candidate countries to administer and benefit from the EU agricultural funds provided under the Common Agricultural Policy (CAP) – subventions to farmers, price support, interventions on the market, etc. The priority was given to the smooth implementation of financial procedures and control mechanisms that the EU required for the CAP.

- **ISPA** (Instrument for Structural Policies for Pre-Accession) Program

This programme mainly focused on financing large projects in the field of environmental infrastructure and trans-European transport networks. In the environmental field, assistance was provided in the areas of water pollution, air pollution and waste management. In the area of transport infrastructure, the programme provided investments in the reconstruction, renovation, construction and interconnection of national transport networks in EU TENs (Trans-European Networks).

ISPA funding was made available to candidate countries since 2000. After the EU accession, CECs were then eligible to use the Cohesion Fund as well as the European Regional Development Fund.

Below are the figures how much financial support was given to the Czech Republic (10 mln inhabitants) from these pre-accession programmes:

- Through the PHARE programme, the Czech Republic was receiving annually €60 to 70 mln per year during the 1990s. Since 2000, the annual average of EU assistance has increased to more than €100 mln (in 2002, €103.8 mln were allocated to the Czech Republic, in 2003 – €114.18 mln).

- All in all, during the duration of the PHARE programme, the Czech Republic thus gained access to a total of €1.034 billion throughout 1990–2003.

- Until the end of 2003 (the last pre-accession year), €244.3 mln had been allocated under ISPA programme.

- As far as the SAPARD programme is concerned, the Czech Republic was receiving annually approx. €22.1 mln before it acceded to the EU.

- EU Community programmes, which aim to boost intra-EU projects and exchanges in particular areas of cooperation. Since 1997 (7 years before the EU accession) the Czech Republic, like other candidate countries, received the gradual access to EU Community programmes (mainly in the area of youth, support for SMEs, culture, energy efficiency).

Candidate countries were at the beginning covering the costs of the entry tickets (participation fees) for these EU Community programmes from national budgets. Gradually, over the time, when not all PHARE funding was fully used, the agreement with the EC was made that it could cover part of the entry ticket costs. Eventually, in the case of the Czech Republic, it did not account to more than 50% of these entry costs.

All in all, the Czech Republic contributed to these EU Community programmes over the period of 1997–2000 with the total amount of €24mln. However, it is very challenging to determine the level of „return of these investments", since Czech entities could have participated in the community projects led by partners from other EU Member States, where these projects were formally receiving this EU funding from.

All in all, the total allocation of the pre-accession assistance for the Czech Republic (a country 4 times smaller than Ukraine) amounted to €60-70 mln prior up to the year 2000 and then increased to €200 mln annually.

However, this annual figure (€60–200 mln) of the EU pre-accession assistance to the Czech Republic cannot be simply compared if absolute numbers and amounts are being compared. The quality, logic and nature of the EU assistance for Ukraine is different than in the Czech pre-accession example. The EU has mobilised more than €17bln in grants and loans since 2014. The prime objective was the support of the reforms agenda, while in the Czech case it was the preparation for EU membership. Most of that amount of €17bln has been provided to Ukraine in forms of loans provided by the European Investment Bank or European Bank for Reconstruction and Development and in forms of macro-financial assistance (also low-interest loans).

However, if the EU grants for Ukraine are calculated separately, then, according to unofficial estimates[1], their level amounted in 2014–2019 to €1.5bln, eg. some €250mln annually, and this figure is already comparable to and even higher than the EU level of financial support to the Czech Republic in the pre-accession period.

Western Balkans

After the EU enlargement by Croatia, the EU has replaced previous pre-accession programmes with the single instrument – with the Instrument for Pre-Accession Assistance (IPA).

The major difference from CECs enlargement process was that it did not primarily focus on building necessary institutions, increasing and improving administrative capacities (for post-accession administrating EU policies and financial instrument) as well as the creation of the respective legal framework for the EU membership, but it shifted to the realm of investments into socio-economic fundaments of candidate countries, who mainly represented Western Balkans and Turkey.

This shift seems to reflect the decreased political will and support among the EUMS for further

1 Yevhen Anhel, Who is aiding Ukraine?, *https://3dcftas.eu/op-eds/who-is-aiding-ukraine*

EU expansion and enlargement. The enlargement process as such has been put on a hold.

So far, there were three editions of the IPA reflecting three multiannual financial perspectives: IPA (2007–2013), IPA II (2014–2020) and newly prepared IPA III (2021–2027).

The key areas of IPA support are:

- the rule of law, fundamental rights and democracy;
- good governance, alignment with the EU legislation, good neighbourly relations and strategic communication;
- green agenda and sustainable connectivity;
- competitiveness and inclusive growth;
- territorial and cross-border cooperation.

The IPA III for Western Balkans candidate countries consists of the following elements and initiatives:

- *Economic and Investment Plan for the Western Balkans*: with a budget of €14.162 bln its main aim is to invest in the infrastructure, transport, renewable energy, Green deal-related initiatives, private sector (SMEs). These interventions would be further supported by the Western Balkans Guarantee facility, which should unlock additional potential investments of up to €20 bln in the next decade.
- *Support to the Western Balkans in tackling COVID-19 and the post-pandemic recovery* – this is an emergency package put together by the European Commission worth €3.3 bln that were partly relocated from the IPA III and also raised with or through the provision of EU macro-financial assistance, the support from international financial institutions including the European Investment Bank.

  Part of this funding also comes from the EU Solidarity Fund, which was made accessible to countries that are negotiating their accession to the EU, as well as from the Instrument contributing to Peace and Stability (IcPS).

However, it should be stressed here, that the IPA is accessible only by candidate countries so Ukraine could use its funding mechanisms and structure only as a source of inspiration.

On the other hand, the structure of funding provided to Ukraine under the *Neighbourhood, Development and International Cooperation Instrument (NDICI)* follows similar logic and patterns as the IPA and, as such, consists of three groups of interventions: geographic (national) programmes, thematic programmes and rapid response actions. However, a similar funding operations like the EU Structural funds is not foreseen under this mechanism.

EU COMMUNITY PROGRAMMES AND OTHER EU FUNDING INSTRUMENTS

Ukraine has recently joined two important programmes: Horizon and Creative Europe. However, there are few other important EU (community) programmes, to which Ukraine should try to seek access as long as there is a window there opened to third (associated/candidate) countries. Similarly, to those two Community programmes (Horizon and Creative Europe) Ukraine should soon rejoin such programmes as Fiscalis (overall budget €269 mln) and Customs (€950mln) in the new financial perspective (2021-2027) since Ukraine participated earlier in the preceding programmes (Fiscalis 20 and Customs 20).

Ukraine has been already participating in other EU Community programmes like Erasmus+, EU4Health, and few others. It is advisable to continue to seek similar participation in other EU Community programmes, since such participation would allow Ukrainian entities and individuals to a) establish links and cooperation with their counterparts in EU Member States, b) access to new financial sources and c) to latest information/know-how/research/solutions and trends in various fields.

Above all, in 2021 the EC decided not only to open these EU Community programmes to EaP countries, but even to cover 50% of the "entry ticket", eg, the fee to be paid by participating countries.

The other EU Community programmes worth considering for the access by Ukraine are:

- *Digital Europe Programme*, with the budget of almost €8bln, with the key objective and focus on supporting digital transformation and green transition.

- *InvestEU*, this programme is aimed to leverage additional private and public funding (at least €372bln for 2021–2027 with own funding from the EU budget of €26.2bln) for Innovation and job creation, to provide funding at least 30% to meeting climate objectives. The programme is earmarked for EUMS and EU subjects. However, the EU has recently presented a similar initiative for EaP countries, the Economic and Investment Plan, and some flagship initiatives for Ukraine with a budget of €6.47 bln, that is supposed to come from both the EU and other public/private sources. The idea is to provide such EU funding (like for banking loan guarantees) that would unlock and provide access to such non-EU (private) funding.
The European Commission would then argue that there is no need for Ukraine to join this Community programme, since it is being offered a similar alternative.

- *Connecting Europe Facility*, again, this programme (with a budget of €20.73 bln) is funding projects and initiatives presented by the EUMS and EU entities. Its objective is to support more connectivity within the EU in three key areas: energy, transport and telecommunications. There is a 60% objective to support climate objectives.

- *Citizens, Equality, Rights and Values* programme – this programme (budget of €1.56 bln), as its title suggest, has a goal of promoting rights and European values mainly through projects implemented by civil society organisations. Another focus is on civic participation, the fight against violence, discrimination.

- *Integrated Border Management Fund* – the support through this fund (€7.39 bln) goes, for example, to the purchase of necessary equipment, development of IT, software solutions, trainings. Despite the fact that this fund is primarily designed for the EUMS, Ukraine could offer its participation in these activities, though Ukraine is also receiving significant material assistance from the EU through other financial mechanisms.

- *European Space Programme* – this EU programme (the total budget of €14.88bln) focuses on the use of space technologies in increasing and improving efficiency in other sectors like agriculture, transport, telecommunications. Here,
  Ukraine has a large potential (know-how, technologies, skilled human resources, track record in the space industry) to contribute to joint EU efforts in this field.

- *Internal Security Fund* – this programme is meant to increase the security situation within the EU in such areas as the fight against terrorism, organised crime, radicalisation, cybercrime, etc.
  Again, Ukraine can significantly contribute to the achievement of these objectives and could offer herself as an important partner in these efforts and, therefore, could use these arguments in attempts to join this programme.

- *European Defence Fund* is a key instrument (with the budget for 2021–2027 multiannual financial perspective of €7.95 bln) fostering the cooperation between companies developing defense capacities and technologies. Though it is opened to the companies from the EUMS, it would be worth exploring the possibility for Ukrainian companies to participate in these consortia given the latest boom and achievements of the Ukrainian defence industry. This knowledge, experience, research and development conducted by Ukrainian companies should be of interest to the European defense sector.

Recommendation #2: Ukrainian government should look at those EU Community programmes that it is not participating in yet and decide whether they represent added value for Ukraine. If the answer is affirmative, the initial consultations with the EC should start[2]. It is also advisable to reserve respective financial allocations for respective "entry tickets" fees. A proper calculation and estimation of both costs and benefits of participation in such programmes should be made prior to such a formal request for joining these programmes. The possible scenario, under which Ukraine contributes more to such a programme than it gets out of it, should be avoided.

Many EU funds are, however, restricted only for the EUMS and, as such, cannot be accessed by third, non-member countries. These include European Social Fund+, Cohesion Fund, European Regional Development Fund, Recovery and Resilience Facility, various agricultural funds (like the European Agricultural Guarantee Fund).

Ukraine will again have the access to various Cross-Border Cooperation (CBC) programmes, whose new editions are to start in the new financial multiannual financial framework 2021–2027. Namely, there will be again funding opportunities in the border regions bordering with both EUMS and EaP countries: Poland, Hungary, Slovakia, Romania, Belarus and Moldova.

These CBC programmes should be complimentary co-funded on the other side of the border (with the EUMS) via INTERREG EU Community programme.

Next, there are also regional financial instruments funding various regional strategies supporting the preservation and cooperation of EUMS as well as neighbouring countries at the level of EU macro-regions: Danube, Alpine, Adriatic Ionian and Baltic Sea. Ukraine is

2 Unfortunately, I do not have the inisght whether some activities in this regard have been done by Ukrainian authorities. It might be so that similar consultations might be already taking place.

already participating and even presiding this year in the the first one, *EU Strategy for the Danube Region*.

Ukraine has been also partiallyreceiving the funding from *the Instrument contributing to Peace and Stability (IcPS)*. Its main focus is on conflict prevention, peacebuilding, crisis response, cyber security and crisis preparedness.

Last, but not least, Ukraine has been also benefiting from the *EU humanitarian assistance provided by the ECHO*.

RECOMMENDATIONS:

The following recommendations are based on practical experience gained during the EU service and are rather of an informal and internal nature.

1 The EU officials always like to hear that any requests by third countries regardless of what they might be are linked to national strategies, national strategic documents, needs assessments, etc. Any Ukrainian requests for gaining the access to EU funding programmes/instruments should be based on a thorough and factual argumentation and definition of national strategic interests (in joining these programmes). There should be a logical link between national strategies and the opportunities offered by the respective EU financial instruments.

2 It is also advisable to define any "European added value" of the possible Ukrainian participation in such EU programmes. This means that the Ukrainian authorities, when applying for participation in these programmes, should be able to present any previous and/or existing Ukrainian contributions/projects/research/achievements in areas concerned to the overall "European cooperation". In practical terms, Ukraine should be able to offer concrete and tangible examples of its contributions to ongoing European cooperation projects, which it could share with the other EU Member States (or other participating countries). Ukraine indeed can offer a lot of know-how and expertise in many fields (IT, space industry, engineering, machinery, agriculture), which might be of great interest to other European partners. Therefore, before requesting access to new EU financial programmes, the so-called stock-piling exercise, which could collect the maximum amount of concrete examples of domestic programmes/projects/initiatives, should be done. The list of these concrete examples should be then presented to the EU (and its Member

States) as a strong and convincing argument that Ukraine would not only gain financial support from such funding instruments, but could share a large number of valuable and concrete ideas/projects/research/know-how with the EU. Thus, the principle of reciprocity (mutual benefits) of Ukrainian access to that funding would be strongly endorsed.

3 The potential access to different EU funding instruments is also increasing other funding opportunities. This would unlock further economic potential, eg. that the participation of Ukraine in such programmes would have a multiplication effect for both the Ukrainian economy and directly/indirectly also for the EU. In simple words, the small "investment" (from the EU funding programmes) would eventually results in larger dividends.

4 The EU officials would also be more prone to support the Ukrainian participation in EU funding instruments if similar equivalents are existing in Ukraine, eg. if similar funding schemes and instruments do exist in the Ukrainian state budget, for example, in the area of regional development (like the EU Structural funds), agriculture (similar national funding mechanisms used in Ukraine like currently in the EU), energy efficiency, etc. Thus, adding EU funding would bring bigger and faster results. This is the argument of the economy of scale. Similarly, it could be then also argued that Ukraine has successfully tested these schemes, prepared necessary implementing mechanisms and administrative capacities, domestic entities got familiar with these mechanisms, etc.

5 Mentioning Ukrainian ambitions to get as close to the EU and its standards as possible (but without mentioning the ultimate goal of Ukraine to become the EU member) could be another effective move serving the Ukrainian interests. EU officials and institutions would find it difficult to decline Ukrainian requests, which are well-argued, based on facts, previous track record, the demonstrated and proven added value of Ukrainian participation in concrete programmes. Politically, it might be more feasible for them to allow access to Ukraine to these instruments rather than to have public deliberation on possible Ukrainian EU membership.

6 When trying to get the EU finding, Ukraine should be able to confirm its readiness to pay the "entry ticket" from the national budget for participation into these EU programmes.

7 The example of other non-EU countries (especially from the Western Balkans) that have been granted access to EU programmes, which are still closed for Ukraine, might be also carefully exploited. Ukraine can cautiously argue that such precedent might be eventually extended also to Ukraine and other EaP countries.

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ABOUT NEW EUROPE CENTER

The New Europe Center was founded in 2017 as an independent think-tank. Despite its new brand, it is based on a research team that has been working together since 2009, at the Institute for World Policy. The New Europe Center became recognized by offering high-quality analysis on foreign policy issues in Ukraine and regional security by combining active, effective work with advocacy.

The New Europe Center's vision is very much in line with the views of the majority of Ukrainians about the future of their country: Ukraine should be integrated into the European Union and NATO. By integration, we understand not so much formal membership as the adoption of the best standards and practices for Ukraine to properly belong to the Euroatlantic value system.

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