

The Swiss enlargement contribution in a changed environment – now and in the future

Eight years after the People and the Cantons approved the federal law on the cooperation with the Eastern European countries, the enlargement contribution has become an important part of Switzerland's European policy. Around 300 projects are currently being implemented. After CHF 1 billion had been committed to the EU-10 countries, all of the framework credit of CHF 257 million approved by Parliament for Bulgaria and Romania was also committed for priority projects by the end of November 2014. On 11 December, Parliament will discuss the framework credit of CHF 45 million to Croatia, which joined the EU on 1 July 2013. Of all the changes in the environment of the enlargement contribution, the appreciation of the Swiss franc has had the largest impact up to now.



As part of the SME project in Romania, a company received a loan for purchasing a machine tool that automatically cuts 3D advertising products into size using modern control technology. Photo: SDC/SECO

Despite sometimes difficult economic and political conditions in a few of the partner countries, the implementation of the enlargement contribution (EC) is progressing well overall. Only one of the 210 EC projects in the EU-10 countries¹ can no longer be realised.² All others should be completed by mid-2017 at the latest. The majority of the projects indicate that the original goals will be met or even exceeded. However, various factors that are hard to control have slowed down the progress of

numerous projects, including reorganisations, the change of key persons and the reduction of staff in the administration units responsible for the EC (e.g. in Hungary and Poland), but also protracted tenders and appeals. In addition, delays in the forwarding of project progress reports mean that in many cases Switzerland can only reimburse the expenses pre-financed by the partner countries with great delays. *Chart 1* shows the EC per EU-10 country and the status of the payments.

EU-10: The appreciation of the Swiss franc as an operational challenge

The Swiss franc appreciated significantly compared with the partner countries' currencies (euro, zloty, Czech koruna, etc.) due to the financial crisis in 2007/2008. This development was only stopped when the lower limit of 1.20 was implemented for the translation of Swiss franc into euro by the Swiss National Bank in September 2011. The appreciation of the Swiss franc



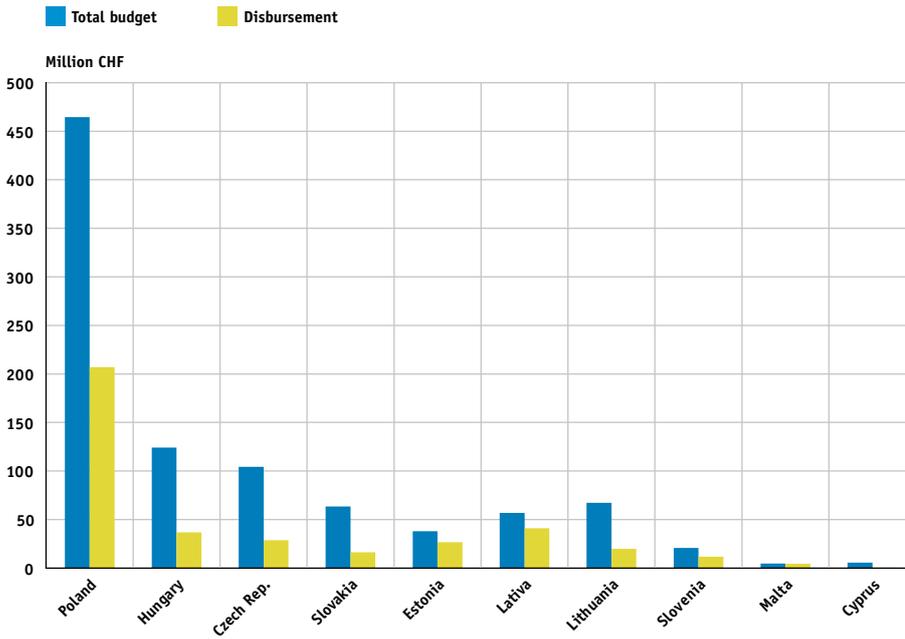
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Chart 1

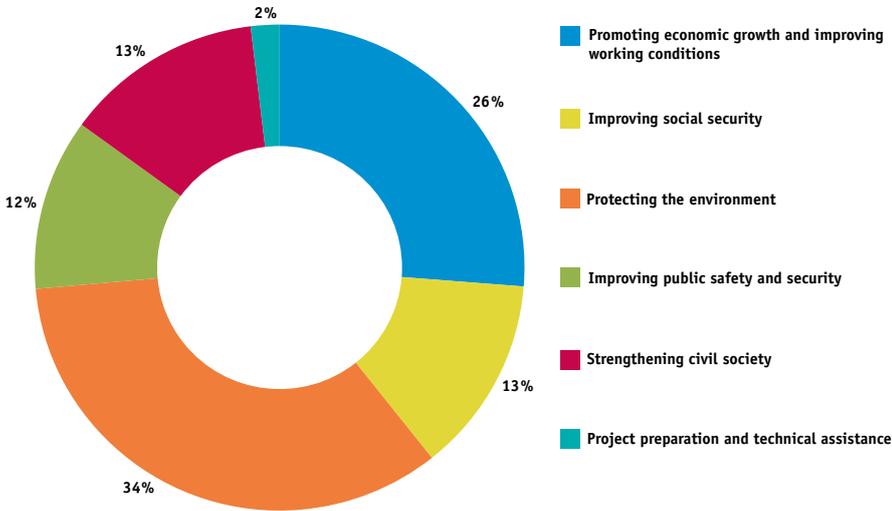
Enlargement contribution by geographic region and payment status
As of November 2014



Source: SDC, SECO / Die Volkswirtschaft

Chart 2

Distribution of the enlargement contribution to Bulgaria and Romania by project goal
As of November 2014



Source: SDC, SECO / Die Volkswirtschaft

meant that the local budgets of the projects approved by that time were significantly higher than originally expected. Whereas the CHF 1 billion EC to the EU-10 translated to EUR 605 million when it was approved by Parliament on 14 June 2007, this figure had risen to EUR 829 million by the end of September 2014. Thanks to the Swiss franc appreciating by 30% to 40% in all partner countries, it was possible to approve additional projects until the end of the commitment period of the EC EU-10 on 14 June 2012 and to expand ongoing projects.³

The example of the *Renewable energies for the Primorska region* project in South-west Slovenia shows how the leverage effects of the cooperation programme are significantly increased by this development. The project originally intended to fit solar panels to a sound barrier on the H4 motorway over a stretch of almost 650 metres and to install biomass heating systems in twelve public buildings. Today, the solar panels provide power for the majority of street lighting in the Town of Sempeter pri Gorici and the heating systems supply heat to 29 public buildings in the entire region. The project partners decided to use the additional project funds created by the appreciation of the Swiss franc for endeavours such as installing heat insulation in the same twelve buildings to lower their energy consumption in the long term. The additional project funds therefore resulted in an unforeseen and significant expansion of the project scope as well as considerable energy cost savings.

The savings created by currency gains were utilised for useful and purposeful expansions of the furthest advanced projects of the EC EU-10. The other projects will still be adjusted until around the end of 2015. The EC concept has proven to be sufficiently flexible to accommodate such unexpected challenge. However, the evaluation of the numerous project adjustment proposals, amendments to project agreements and the assessment of additional tenders created a considerable additional workload for Swiss staff, which had to be compensated internally. As one of the measures to save personnel costs it was resolved to replace the local Swiss managers of the EC offices in Riga, Bratislava, Budapest and Prague with a programme manager of the Swiss Agency for Development and Cooperation (SDC) or the State Secretariat for Economic Affairs (SECO) from Bern. In addition, the hired technical consultants will be used increasingly for assessing project documentation, tenders and conducting on-site controls of the risky projects.

Contribution for Bulgaria and Romania has been fully pledged

The entire amount of CHF 257 million (CHF 76 million for Bulgaria and CHF 181 million for Romania) was successfully pledged by the end of the five-year commitment period for the EC Bulgaria and Romania on 7 December 2014. Like during the cooperation programme with the EU-10, the 28 projects and 13 thematic funds (including numerous individual projects) focus on five major objectives with the aim of reducing economic and social disparities (see *Chart 2*).

The majority of the funds are used for environmental projects (34%) or projects that support economic growth and improve working conditions (26%). Around 13% each is used for increasing social security and strengthening civil society. The rest is used for strengthening public safety (12%) and supporting the partner countries in the preparation and implementation of projects by providing technical assistance (2%). As is the case with regard to the EU-10, Switzerland also makes the final decision about the approval of projects for the EC to Bulgaria and Romania. In some cases, Switzerland had to expend great effort to improve the quality of the projects during the course of the approval process.

A diverse portfolio

Even though the EC focuses on the objectives described above, the partner countries' specific requirements make the project portfolio rather diverse. These are some examples.

Box 1

Ensuring the correct use of funds issued under the enlargement contribution

The funds must be used correctly in all countries of the international cooperation in order for this cooperation to be successful. Switzerland has implemented various measures to ensure the correct use of funds, including the close monitoring of the project selection process in the partner country, the assessment of tenders and contracts awarded and the monitoring of the project implementation. The payment mode also provides a certain security: the partner countries must make upfront payments. If irregularities are suspected, Switzerland can halt repayments.

Careful project selection

The National Coordination Unit of each partner country is responsible for selecting the projects. An independent body, consisting of representatives of the National Coordination Unit, the relevant ministries and non-government organisations, checks the selection criteria and methods. Switzerland may take part in meetings of this body in an observational capacity.

Switzerland decides about the financing of the projects. Risks relating to misappropriation and corruption are addressed during the project review stage.

Assessing the awarding of contracts

Supply and service contracts are awarded in accordance with WTO, EU and national law. The National Coordination Unit must comply with the applicable rules and confirm in writing the independence of all involved in each public tender. The tender documents also include an integrity clause in which all parties undertake to act correctly (not to commit acts of corruption). Switzerland has access to all documents relating to the awarding of the contract. For tenders over CHF 500,000, in particular, Switzerland may peruse the tender documentation prior to it being

published and participate as an observer in the evaluation committee.

Regular reports and audits

The institution executing the project (*executing agency*) is responsible for checking the services rendered. It reports back to Switzerland on the progress of the project and the services billed at least every six months. The National Coordination Unit checks and confirms that the reimbursement claims are correct. Switzerland has access to all relevant documents.

A certified organisation carries out a financial audit for each project at the end of the project at the latest. Switzerland is provided with the results of all audits, their summaries, conclusions and recommendations.

Close monitoring locally

The SDC and SECO have established offices in Warsaw, Riga, Budapest, Prague, Bratislava, Bucharest and Sofia. These monitor and assess the projects locally. Employees at these offices know the local conditions and have direct contacts.

Switzerland also awards contracts to external experts. They employ their professional knowledge to assess the feasibility studies and tender documentation and evaluate the services provided during project visits.

Stopping payments in cases of suspicion

All contributions to projects and programmes are usually pre-financed with funds from the partner states' budgets. Only once Switzerland has received and reviewed the reimbursement claims previously reviewed and confirmed by the National Coordination Unit will it release the payments. If irregularities are suspected, Switzerland is entitled to stop payments and claim back any wrongfully attributed contributions.

Projects in Romania

- *Energy efficiency and renewable energies:* Switzerland provides Romania with CHF 40 million for the launch of the *Energy City* concept, which originates from Switzerland. The *Energy City* label is a management concept that provides proof of performance for municipalities that implement a sustainable communal energy policy. The supporting association *Trägerverein Energiestadt Schweiz* contributes its long-standing experience and expert knowledge and helps with the establishment of a Romanian support association. Switzerland also gets involved in energy-related infrastructure projects on the basis of the development of an energy action plan. This includes improving the efficiency of district heating systems, introducing LED street lighting, renovating schools to be more energy-efficient, promoting electric mobility and procuring electric buses. Switzerland also participates in a fund aimed at spreading the *Energy City* concept throughout the country and supporting energy-related activities in Romania's structurally weak regions.
- *Investment loans for SMEs:* Many Romanian SMEs find it difficult to obtain credit from business banks as they lack guarantees. Switzerland therefore contributes CHF 24.5 million to a loan fund. This fund provides SMEs in the manufacturing, tourism, healthcare or clean-tech industries with secured loans of up to CHF 100,000. The goal is to strengthen the competitive position of the SMEs and create jobs with these investment loans.
- *Promoting public safety in rural communities:* Switzerland contributes to improving the services provided by the police force in 97 rural communities, strengthening the public's trust in the policy and lowering crime rates. It employs the approach of *community policing*, which focuses on prevention and finding solutions. Special focus is on promoting communications between the police and disadvantaged sections of the population such as the Romany population. The Swiss contribution amounts to around CHF 2 million.
- *Better education and healthcare for Romany people:* Ten to twelve million Romanies are living in Europe today, around one million of them in Romania. Most Romanies live in worse conditions than the rest of the population. Switzerland contributes to providing better integration for Romany children in the existing education system and to



Thanks to a Sciex scholarship, the 33 year old doctorand Pavlina Sasheva researched the production of healing agents in plants during a one-year stay at the University of Zurich.

Photo: SDC/SECO

ensuring that students receive targeted support in line with the curriculum for their age group. The Romany population is also provided with improved access to healthcare and social services as well as preventive healthcare. Switzerland supports three projects of this kind totalling CHF 10 million.

Projects in Bulgaria

- *Improved public transport system in Sofia:* The transport company *Basler Verkehrs-Betriebe* is delivering 28 used trams to Sofia to improve the efficiency of the outdated public transport system, reduce traffic jams and greenhouse gas emissions and improve people's access to public transport. Switzerland also promotes the implementation of a study with the aim of optimising the connection between the tram and Metro networks in Sofia. The Swiss contribution amounts to around CHF 2.55 million.
- *Public procurement:* In many countries, public institutions are key customers due to their large procurement volumes. Switzerland supports Bulgaria with around CHF 0.5 million in the launch and implementation of a sustainable procurement strategy based on the EU's recommendations to its member states. The procurement process should take account of aspects such as finances and, in particular, ecological and social sustainability. A clearly structured public procurement process also counteracts the risk of corruption.

- *Promoting a dual vocational training system:* Companies and public institutions rely on well-qualified employees to remain competitive and to successfully implement their goals. With the experience of the Swiss Federal Institute for Vocational Education and Training, Switzerland supports the dual vocational training system in Bulgaria to ensure that it better matches requirements in the labour market. Swiss experts provide training for Bulgarian teachers and apprentices' superiors as well as other measures. The Swiss contribution amounts to around CHF 3 million.
- *Home nursing and care:* The project aims to improve the quality of life of chronically ill or disabled elderly people throughout Bulgaria. To achieve this goal, plans are to make home nursing and care services an integral part of the healthcare sector. The project also accounts for the needs of the Romany community and other minorities. Support is given for the launch of a comprehensive medical and social home care system that provides long-term help for the elderly and is based on the Swiss *Spitex* model. Four municipal home nursing and care centres have already been opened. Plans are to now also adjust the legal framework conditions necessary for implementing the model throughout the country. Switzerland is contributing CHF 2.5 million to this project.

The projects in Bulgaria and Romania must be completed by the end of 2019 at the latest. The key objective is now to quickly conclude agreements for the latest approved projects so that the partner institutions can start the tenders for the necessary equipment and services as soon as possible. In addition, the planned and successful implementation of the projects and the purposeful use of funds still have to be ensured (see *Box 1*).

Continuation of the enlargement contribution?

Following the approval of the Council of States, the National Council will discuss the enlargement contribution to Croatia in the amount of CHF 45 million on 11 December 2014 (see *Box 2*). If this EC is approved, Switzerland will treat Croatia the same as the twelve other new member states that have joined the EU since 2004.

For the EU, strengthening economic and social cohesion remains one of its key objectives. The admission of new member

Box 2

Enlargement contribution Croatia

In view of the limited amount (CHF 45 million) and the short commitment period of just over two years due to the expiry of the federal law on the cooperation with the Eastern European countries at the end of May 2017, SDC and SECO will focus the cooperation programme with Croatia on just a few topics and projects. During the negotiations of the bilateral framework agreement with Croatia at the beginning of 2015, Switzerland will also ensure that a substantial part of the funds will be used in structurally weak and/or war-disabled areas, thus strengthening internal cohesion. Investments in these areas may be made in the regions' water supplies or waste water systems, for instance. Programmes that strengthen the bilateral relationships between Switzerland and Croatia (e.g. in the research sector or for institutional partnerships) as well as civil society will be supported.



Today, around 4,500 tonnes of toxic pesticides are still stored in Bulgaria. The country will use the CHF 19.9 million from the enlargement contribution for disposing of these substances and to redevelop outdated warehouses.

Photo: SDC/SECO

Box 3

Information regarding the publication

SECO, SDC: Interim report for the end of the commitment period in Bulgaria and Romania 2009–2014, internet: www.swiss-contribution.admin.ch > The Swiss contributions > Publications.

The publication provides an overview of the initial phase of the enlargement contribution for Bulgaria and Romania and takes stock of the goal to reduce social disparities in the enlarged European Union.

- 1 Poland, Hungary, Czech Republic, Slovakia, Estonia, Latvia, Lithuania, Slovenia, Malta, Cyprus.
- 2 The City of Pardubice in the Czech Republic withdrew a previously approved transportation project in September 2014 because its completion within the deadline by mid-2017 could no longer be guaranteed due to unforeseen project adjustments and protracted rezoning processes.
- 3 Switzerland does not incur any currency risks as it has pledged its contributions in Swiss franc. Switzerland would not have had to provide any additional funds if the Swiss franc had depreciated to the same extent as it appreciated compared with the partner countries' currencies during the same period. The partner countries, however, would have either had to increase their co-financing contributions of at least 15% correspondingly or discontinue several projects.
- 4 The Swiss Federal Audit Office (SFAO) has carried out three audits (SECO in 2009, Swiss contribution to Romania in 2012 and Swiss contribution to the Czech Republic in 2013) related to the EC up to now. Due to the fact that implementation is delayed in various countries, the SFAO audited specially selected risk areas of the EC design. The audits found that the overall EC system is transparent and purposeful and designed to meet the objectives set. The SFAO is currently also conducting a performance audit in which it is examining numerous individual modalities of the implementation in greater detail. The report will be published in the second quarter of 2015.

states and the continuing struggle with the effects of the economic and financial crisis make this goal more important than ever. The fact that the EU has resolved to provide cohesion funds totalling EUR 353 billion in the period from 2014 to 2020 reflects the importance of this goal. Of this amount, 55%, or EUR 194 billion, goes to the EU-13 (EU-10 plus Bulgaria, Romania and Croatia). Cohesion support will therefore continue to account for around one third of the EU budget in the coming years.

Projected onto one commitment year, the Swiss EC accounts for 0.75% of cohesion funds provided by the EU to the EU-13. It amounts to around two third (65.9%) of Norway's support to the EU-13, provided bilaterally and via the EFTA/EEA financing mechanism. Up to now, Switzerland has approved its funds as a one-off contribution with a commitment period of five years. In contrast, the EU and EFTA/EEA countries (Norway, Liechtenstein and Iceland) have so far always seamlessly renewed their contributions on the expiry dates of their commitment periods.

At the end of 2010, the EU already expressed its wish for Switzerland to continue the enlargement contribution. Following the approval of the "Stop mass immigration" initiative on 9 February 2014, the Federal Council stated that it aims to maintain and further develop Switzerland's close and important relationships with the EU and its member states. Any renewal of the contribution should be decided in view of the further development of overall relations with

the EU. Both previous experiences with and the requirements of the partner countries should be a part of these deliberations.

SECO and SDC will request an external overall evaluation of the EC in 2015 to obtain a better view of the EC from the outside as well as an independent assessment of these experiences. The idea of this evaluation is not just to justify Switzerland's contribution but also – in addition to the recommendations of the Swiss Federal Audit Office⁴ – to provide further indications of how its strategic focus and operational implementation could be improved even further if it were to be continued. ■