



Enlargement contributions

to the states that joined the EU in 2004 and 2007

On 26 November 2006, the Swiss electorate voted in favour of the new Federal Act on Cooperation with the Countries of Eastern Europe and the CIS. This is the legal basis for permitting Switzerland to continue its commitment to the development of Eastern Europe, specifically through

- continuing to support democratic, social and market economy reforms in the former Communist states of Eastern Europe and the former Soviet Union (traditional aid), and
- helping these states reduce the economic and social disparities in the enlarged European Union (Switzerland's enlargement contribution to the EU 10 and its enlargement contribution to Bulgaria and Romania).

The aim of Switzerland's enlargement contributions is to support specific projects - as was the case with its traditional aid to Eastern Europe. Switzerland has earmarked a total of CHF 1 billion for projects to be carried out in the ten countries that joined the EU in 2004, the EU 10. They are Estonia, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia, the Czech Republic, Hungary and Cyprus.

As for Bulgaria and Romania and given the approval of the Federal Parliament, Switzerland plans to contribute further CHF 257 million to these two countries, which joined the EU on 1 January 2007.

Projects are approved over a maximum period of five years (commitment period), however, payment for them is expected to be made over ten years. The enlargement contributions will be completely financed out of the federal budget, which means that they will not result in additional taxes or new debt.

This commitment in support of the new EU member states is an expression of Switzerland's solidarity with the rest of Europe. At the same time it is an investment that is in Switzerland's own interest: a successful European policy based on bilateral negotiations with the EU depends to a great extent on Switzerland being seen as a partner that is aware of and ready to accept its responsibilities and to share a part of the burden for the development of Eastern Europe. The contribution will also help to improve business opportunities for Swiss firms in the emerging markets of Eastern Europe. In addition, Switzerland's support will contribute to improving living conditions and to increasing security at home. Economic and social improvements in these countries will help reduce emigration, criminal activities, and environmental problems.

General overview

The Swiss government and parliament recognise the importance of the EU's eastward enlargements in 2004 and in 2007 as major steps towards greater security, stability and shared prosperity on this continent. In addition to the *political advantages* of a more secure and stable Europe, Switzerland stands to benefit *economically* from the development of growth markets in Eastern Europe and the extension of its bilateral agreements to these economically dynamic regions. The successful integration of the new EU member states in pan-European structures is therefore also *in Switzerland's interest*.

Although the new EU member states have made considerable progress in transforming their societies and economies since the end of the Cold War, they still *lag behind* the states of Western Europe in a great many areas. It is with this in mind that, in 2004, the Swiss government proposed in a policy statement *a contribution* to help reduce the economic and social disparities in the enlarged EU as an gesture of solidarity with the EU. The contribution, which would be subject to the approval of parliament and the electorate, has become known as the *enlargement* or *cohesion* contribution. Parliament and the electorate approved the Federal Act on Cooperation with the Countries of Eastern Europe and the CIS in 2006, thus providing the necessary legal basis to support this commitment. Parliament approved the framework credit for the enlargement contribution to the EU 10 on 14 June 2007. This enlargement contribution applies exclusively to the 10 states that joined the EU in 2004, and amounts to a total of CHF 1 billion. However, Switzerland also wants to support the most recent EU enlargement – Bulgaria and Romania joined the EU on 2007 – with an additional contribution of CHF 257 million.

The funds made available through the framework credit can be drawn upon during a *five-year commitment period*. The contributions will take the form of specific projects and programmes, to be selected and brought to a successful conclusion by Switzerland, *autonomously* but in close collaboration with the partner states. Switzerland's commitment is not to be understood as participation in the EU's cohesion policy¹.

Switzerland's two enlargement contributions make up a substantial *part of Swiss policy on the EU*. They are an act of acknowledgement by Switzerland of its shared responsibility in Europe, and they are of the greatest importance for the continued success of Switzerland's bilateral approach to relations with the EU. With these contributions, Switzerland is continuing the support that it used to provide the Eastern European countries that joined the EU in 2004 and 2007 within the framework of its traditional aid to Eastern Europe in the 1990s (transition assistance), and which amounted to CHF 1.106 billion (EU 10: CHF 700m; BG: CHF 211m; RO: CHF 195m).

Financing the contributions

Financing the enlargement contributions will have no effect on the federal budget since payments for the enlargement contribution will be compensated for within the budget. The Confederation will not create additional debt, and no new demands will be placed on Swiss taxpayers. Moreover, Swiss development cooperation with the poorest countries in Africa, Asia and Latin America (Assistance to the South) will not be affected in accordance with the wishes of Parliament.

In detail, the financing of the *Enlargement contribution to the EU 10* is carried out as follows: On average, 100 million Swiss francs have to be paid every year. Experience has shown that for a five-year commitment period during which projects can be submitted, it will take approximately ten years for all projects to be completed and paid for. The Federal Council has proposed compensating the contribution as following:

- 60 per cent or an average of CHF 60 million p.a. will be compensated for through savings in "traditional" aid to Eastern Europe, mainly by terminating support for states that no longer qualify as developing countries in accordance with the criteria of the Organisation for Economic Cooperation and Development (OECD)
- 40 per cent or an average of CHF 40 million a year will come from the Federal Treasury.

However, in June 2007, Parliament decided to increase the framework credit for cooperation with Eastern Europe, which took account of this compensation, by a further CHF 80 million to CHF 730 million to avoid cutting aid to developing countries in Eastern Europe.

It can be assumed that Parliament will stick to the principle of not financing the enlargement contribution at the expense of public development assistance. For this reason, the Federal Council proposes financing the enlargement contribution to Bulgaria and Romania fully through the general federal

¹ The objective of the EU's cohesion policy is to ensure the internal cohesion of the community with the help of structural assistance and through efforts to reduce economic and social disparities between member states and regions. The instruments of cohesion policy, which include the Cohesion Fund introduced in 1994, absorb about a third of the EU budget.

budget. With a payment horizon of ten years, the general federal budget will have to pay out an annual average of approximately CHF 26 million.

Financing from the general federal budget will not lead to any additional taxes or new debt. Already the additional revenues generated as a result of the bilateral agreements with the EU clearly exceed the costs. Revenues for the Federal Treasury from the taxation of the savings of EU citizens subject to taxation (Agreement on the taxation of savings) amounted to more than CHF 120 million in 2006 alone².

EU enlargement eastwards in 2004 and in 2007

Ten new states became members of the European Union on 1 May 2004: Estonia, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia, the Czech Republic, Hungary and Cyprus. With the entry into the EU of Bulgaria and Romania on 1 January 2007, the so-called "eastwards enlargement" was terminated. Although the economies of all the new member states are very dynamic (average annual growth rates in real GDP of 5.5% between 2001 and 2007; Bulgaria also 5.5% and Romania 6.1%), the average per capita income of the EU 10 (purchasing power standard) is currently only about 68% of the EU average (EU 27) although this figure ranges from 50% in the cases of Latvia and Poland to about 90% with Cyprus and Slovenia.

Per capita income in Romania and Bulgaria however is only about 35% of the EU average. In order to close the social and economic gap with the new member states, between 2007 and 2013 the EU will spend within the framework of its cohesion policy with the EU 10 as well as Bulgaria and Romania a total of CHF 230 billion, or CHF 33 billion per year (http://ec.europa.eu/regional_policy/atlas2007/fiche_index_de.htm). Of this Bulgaria will receive CHF 11 billion (2007-2013) and Romania CHF 31 billion. (http://ec.europa.eu/regional_policy/policy/fonds/pdf/annexe-recto.pdf).

The three countries of the European Economic Area (EEA), Norway, Iceland and Liechtenstein, will contribute about CHF 1.65 billion to the EU 10 over a period of five years, of which the main part of CHF (1.6 billion) will be paid by Norway. Their contribution to Bulgaria and Romania amounts to approximately CHF 100m (euro 60m) per year.

Swiss interests

Development cooperation with Eastern Europe is Switzerland's contribution to the security, stability, and prosperity of the continent, socially as well as economically. The quality of this support has received international attention, *enhancing Switzerland's image abroad*. The enlargement contribution is an integral part of Switzerland's policy of safeguarding its interests in Europe, a policy which so far has been successful:

- *Reaffirming the bilateral approach*: the implementation of existing bilateral agreements and the negotiation of new agreements is not always an easy matter. Indeed, both sides must be ready to find compromise solutions. The success of Switzerland's efforts to defend its interests in Europe also depends on the ability to project itself as a partner aware of its responsibilities and ready to share the cost of Europe's development. Good relations and cooperation with the EU is crucial, since about a third of every franc earned by Swiss entrepreneurs comes from trade with the 27 EU states.
- *Economic investment*: every franc spent on aid has the effect of increasing prosperity in Switzerland³: *to begin with*, development cooperation leads to *direct financial returns* in the form of supply contracts and mandates, many of which go to Swiss companies⁴. *Secondly*, Switzerland's aid efforts increase the visibility of Swiss companies and thus their chances of being considered for other public procurement contracts, not least in the context of the programmes of international development banks and the EU Structural and Cohesion Funds ("*door-opening*" factor). *Finally*, the Swiss economy in general benefits from the development of Eastern Europe's growth markets, including at the level of employment. In the next few years these countries will work hard to close the enormous gap, e.g. through the development of infrastructure with the help of EU financial assistance. Rapidly growing purchasing power makes these countries *interesting markets of the future* for Switzerland's export industries, notably machine manufacturers, pharmaceutical companies and the financial services sector. This directly helps to *preserve existing employment and create new jobs* in Switzerland. The trade in

³ According to a recent study («Effets économiques de l'aide publique au développement en Suisse», University of Neuchâtel / IUED Geneva, 2004) every franc spent on aid adds 1.5 francs to Switzerland's gross domestic product (GDP).

⁴ In the context of aid to Eastern Europe for the financing of infrastructure (so-called tied aid), supply contracts worth around CHF 780 million have gone to Swiss firms since 1990.

goods with the East-European EU member states (excluding Bulgaria and Romania) makes up about 3% of Switzerland's foreign trade. Although relatively modest (but still bigger than that with China), it has been developing very rapidly at an average annual *growth rate* of around 13% over the last decade. Switzerland has run a substantial and constant foreign trade surplus with these countries: in 2007, almost CHF 2 billion. With Bulgaria and Romania, Switzerland also has a trade surplus of around CHF 650 million (2007) and the trade potential with these countries is considerable: trade with Bulgaria and Romania is developing very dynamically at an average annual growth rate of 15% (2001-2007), in particular as a result of Swiss exports of pharmaceuticals, chemical products and machines.

- *Security*: concrete projects will improve living conditions in these countries and lead to greater security and stability in the region: poverty and weak state institutions, phenomena that are still common in Europe's peripheral regions, add up to political risks that affect Switzerland directly in a number of ways including *illegal migration* and *cross-border criminal activities*. Nor does *environmental pollution* stop at the border. Swiss-financed projects will help to clean up contaminated sites, improve the quality of air and water, and conserve species diversity.

Enlargement contribution to the EU 10

The *Memorandum of Understanding (MoU)*, which Switzerland and the EU signed on 26 February 2006, contains all the details concerning the Swiss enlargement contribution, including its intended geographical distribution and the ways in which it may be used.

Distribution: The way in which the funds are to be distributed between the 10 countries is based on the arrangements set out in the agreement already concluded between Norway and the EU on bilateral programmes in support of the 10 new member states. The exact sums earmarked for each of these partner countries is shown in the table below.

Country	CHF million	Country	CHF million
Poland	489.020	Latvia	59.880
Hungary	130.738	Estonia	39.920
Czech R.	109.780	Slovenia	21.956
Lithuania	70.858	Cyprus	5.988
Slovakia	66.866	Malta	2.994

If periodical monitoring of the cooperative efforts shows it to be necessary, an additional CHF 2 million will be made available for new high-priority projects.

Priority areas: Projects may be either regional, national or cross-border in scope. Cooperation may be bilateral, multi-bilateral involving co-financing with other donors, or multilateral in collaboration with institutions such as the European Bank for Reconstruction and Development. Swiss projects will focus *above all* in areas where the needs of the partner states are most urgent; *secondly*, in areas where Switzerland has particular experience and proven expertise; and *finally*, in areas where the EU is either not active or only to a limited extent. The four priority areas agreed between Switzerland and the EU are described below.

- *Security, stability and reform*, e.g. the development of administrative capacities; border security measures; improvements in procedures for dealing with immigrants and with matters of asylum; modernisation in the administration of justice; development of institutions to combat corruption and organised crime; nuclear security; regional development initiatives in peripheral and disadvantaged regions.
- *Infrastructure and the environment*, e.g. renovation and modernisation of basic infrastructure such as energy, drinking water, sewage, waste disposal and public transport; reduction of pollution; disposal of toxic waste; cross-border environmental initiatives.
- *Promotion of private enterprise*, e.g. development of the private sector with the emphasis on small and medium-sized enterprises (SMEs); easier access to financing; promotion of industrial production in accordance with the principles of sustainable development; better regulation of the financial sector; protection of intellectual property.

- *Human and social development*, e.g. technical and vocational training; research and development (scientific exchange programmes, scholarships and grants, cooperation in applied research); healthcare (modernisation of hospitals, reform of health insurance systems, etc.).

Implementation of the enlargement contribution to the EU 10

Following approval of the framework credit in the Federal Parliament on 14 June 2007, the Federal Council signed individual bilateral framework agreements with each of the 10 partner countries on 20 December 2007. These agreements define both the ways and means for cooperation and the type of project for which Switzerland is ready to provide support. A list of possible project areas is contained in the Memorandum of Understanding signed with the EU.

The contribution will be implemented as follows: National Coordination Units have been set up in each of the 10 partner countries to receive the project applications, verify that they are complete and are in conformity with the criteria set out in the framework agreement, and then forward them to the competent Swiss authorities, i.e. the Swiss Agency for Development and Cooperation (SDC), and the State Secretariat for Economic Affairs (SECO). These bodies will again vet the applications before deciding which projects are to be financed. The SDC and SECO can only consider projects that have been forwarded by the National Coordination Units for their consideration.

It will be possible to begin implementing the first project applications in the first quarter of 2008. For more detailed information consult the following website: www.swiss-contribution.admin.ch.

Enlargement contribution to Bulgaria and Romania

On 20 February 2008, the Federal Council approved an additional enlargement contribution to support projects in Bulgaria and Romania amounting to CHF 257 million. The contribution to these countries however must first be approved by the Federal Parliament in the form of a framework credit. A decision is expected to be reached on this question in the second half of 2008.

The implementation, i.e. the payment of the enlargement contribution to Bulgaria and Romania is expected to cover a period of ten years. The average annual support for these two countries of about CHF 26 million corresponds more or less with the transition assistance Switzerland had previously earmarked for these countries and which was terminated in 2007 with their accession to the EU. The amount of the contribution is also set on the basis of those made by comparable states such as Norway. Norway's contribution to Bulgaria and Romania amounts to 25.7% of the contribution which it has made to the EU 10. This proportion of Switzerland's contribution of CHF 1 billion is approximately CHF 260 million or CHF 26 million a year.

Similarly to the enlargement contribution to the EU 10, the general procedures such as distribution scale and the overall areas of activity are to be set out in a memorandum of understanding with the EU. The actual nature of the bilateral cooperation and the country-specific focal themes will be set out later in bilateral framework agreements with Bulgaria and Romania.

Further contributions

Additional support is *possible in principle* in the framework of the Eastern Europe Cooperation Act. The provisions of the Act are clear however, and restrictive. In the *first* place, the Act itself mentions no further obligations, and in accordance with the Constitution any additional contributions, in the form of framework credits, are subject to the decision of Parliament. *Secondly*, the validity of this Act is just 10 years, renewal being subject to an optional referendum. And *finally*, the Act exclusively concerns the former Communist states of Eastern Europe – plus the expressly stated exceptions of Malta and Cyprus – nor could it serve as a legal basis for enlargement contributions elsewhere, to Turkey for example.

Information

General Website: www.swiss-contribution.ch

Information on European policy questions:

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Information on programme development, relations with partner states and the implementation of enlargement contributions

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