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Heini Ailio

UTILIZATION OF DIRECT EU FUNDING IN SOUTHWEST FINLAND

– Funding period 2007–2013



TURUN AMMATTIKORKEAKOULU
TURKU UNIVERSITY OF APPLIED SCIENCES

Heini Ailio

UTILIZATION OF DIRECT EU FUNDING IN SOUTHWEST FINLAND – FUNDING PERIOD 2007–2013

This thesis studies the utilization of direct EU funding programmes in Southwest Finland. The main aim of this study is to find out how well the direct EU funding programmes are known among the key organizations and companies in the study area. The target is to research the use of programmes during EU funding period 2007- 2013 in order to identify new possibilities for the next funding period.

The idea for my thesis was invented in TURKU-Southwest Finland European Office in Brussels, where I did my internship for six months. To my knowledge, similar study has never been made in Southwest Finland before. The timing for the study is ideal because of the ending of EU funding period 2007–2013 and the beginning of the new period 2014–2020 this spring. For the 2014–2020 period the national allocation from Structural Funds was reduced in Finland by 25% as compared to the 2007-2013 period. This means that the operators in Southwest Finland have to utilize the direct EU funding programmes even more effectively, in order to benefit from the EU support also in the future.

This study was made by interviewing seven different operators in Southwest Finland actively using different sources of EU funding. The results show that a lot of eagerness can be found among the operators towards direct EU funding. Each of them admitted that among the other benefits, a directly funded EU project would bring significant strategic added value for the whole organization. However, excluding few exception, most of the answers complained about lacking resources, mainly money and personnel. Several repliers also thought that the information about EU funding and the international partners were hard to reach and find. Yet the common opinion was that if the goals are clear, the right funding programme can be found.

KEYWORDS:

Direct EU Funding, Southwest Finland, European Commission, Funding period, Access to finance, SME

Heini Ailio

EU:N ERILLISOHJELMAT VARSINAIS-SUOMESSA – OHJELMAKAUSI 2007–2013

Tämä opinnäytetyö tutkii suoraan Euroopan Komissiolta myönnettävää EU-rahoitusta Varsinais-Suomessa. Tarkoituksena on selvittää, miten hyvin EU-rahoitusta aktiivisesti käyttävät yritykset ja organisaatiot tuntevat erillisohjelmia ja miten niitä on jo hyödynnetty. Päämääränä on kartoittaa EU-rahoituskauden 2007–2013 ohjelmien avulla uusia mahdollisuuksia seuraavalle rahoituskaudelle 2014–2020.

Tutkielman aihe kehitettiin harjoittelupaikassani Varsinais-Suomen Eurooppa-toimistossa Brysselissä keväällä 2013. Selvityksen ajankohta on ihanteellinen juuri vaihtuvan rahoituskauden takia, ja tietojeni mukaan vastaavanlaista tutkimusta ei ole enemmin tehty Varsinais-Suomessa. Motiivini tutkimukseen löytyy rakennerahastojen myöntämän kansallisen rahoituksen 25 % vähenemisestä Suomessa tulevalle rahoituskaudelle. Tämä ajaa toimijat Varsinais-Suomessa käyttämään entistä enemmän Euroopan Komission suoraan rahoittamia erillisohjelmia rakennerahastojen sijaan.

Tutkielma toteutettiin haastatteleamalla seitsemää Varsinais-Suomen Eurooppa-toimiston yhteistyökumppania. Tulokset osoittavat, että tutkinta alueella löytyy runsaasti innostusta ottaa osaa EU:n erillisohjelmiin. Suoraan Komission rahoittama projekti toisi kaivatun ulkoisen rahoituksen lisäksi myös huomattavasti strategista lisäarvoa koko organisaatiolle. Positiivisesta suhtautumisesta huolimatta suurin osa haastatelluista kuitenkin harmitteli resurssien puuttumista, joka hankaloittaa hakemisprosessiin osallistumista. Monet myös pitivät kansainvälisten kumppanien ja rahoitusinformaation löytymistä hankalana. Yleinen mielipide kuitenkin oli, että tavoitteiden ollessa selvät, oikea rahoitusohjelma on löydettävissä.

ASIASANAT:

Suora EU-rahoitus, Erillisohjelmat, Ohjelmakausi, Euroopan Komissio, Varsinais-Suomi, Pk-yritys

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LIST OF ABBREVIATIONS (OR) SYMBOLS

EAFRD	European Agricultural Fund for Rural Development
EC	European Commission
ECF	European Cohesion Fund
ECOKNOWS	Effective use of ecosystem and biological knowledge in fisheries
ELLAN	European Later Life Active Network
ELY Centre	Centre for Economic Development, Transport and the Environment
EMFF	European Maritime and Fisheries Fund
ERDF	European Regional Development Fund
ESCAPE	Ex-Situ Conservation of Finnish Native Plant Species
ESF	European Social Fund
EU	European Union
Fp7	Seventh Framework Programme for Research and Technological Development
GNI	Gross National Income
ICT	Information and Communication Technologies
LG	Large-sized firm
LLP	Lifelong Learning Programme
NEF	Online software for negotiation
SME	Small and Medium-sized Enterprise

1 INTRODUCTION

1.1 Background

The idea for my final thesis came from my work placement, TURKU-Southwest Finland European Office in Brussels. In the early stage of my internship, I had discussions with my employer concerning my future thesis. She was willing to participate in a commissioned thesis if I found an interesting topic related to our offices interests. As a result, I started to get interested in EU funding and wanted to research it more. I also found out that direct EU funding programmes have never been studied before in Southwest Finland. Soon we realized that we could come out with a very important and interesting study.

1.2 Research objectives

The timing for the research is ideal because of the changing EU funding period. The funding period 2007–2013 is coming to end and the new EU funding programmes for the 2014–2020 will be presented in the spring 2014. There will be many changes in the programmes as the new programmes have to meet the objectives of the Europe 2020 Strategy. For example the new Erasmus+ framework will bring together several former programmes (Lifelong Learning, Youth in Action and five other international programmes including Erasmus Mundus and Tempus) (Europa Media, 2013b).

Some other programmes will be united as well, and the different types of funding provided by the existing programmes will be brought together into a single coherent modern framework. Hence by uniting smaller programmes into bigger entities the budget of The European Commission for 2014–2020 will be used more efficiently and the issues driven by the EU will come across more powerfully (Europa Media, 2013b).

Consequently the direct funding programmes will become more important in the future when searching for external funding for projects. Most of the organizations in Southwest Finland have been using both structural funding and direct EU funding for their projects and researches. However, now when the opportunities for structural funding will decrease for the next funding period, the organizations and companies will need even wider knowledge about the direct funding programmes.

In practice this means that operators like TURKU-Southwest Finland European Office could provide even more training and information about the direct EU funding programmes during the next funding period. This way the organizations and their projects in Southwest Finland area can benefit from the EU support also in the future.

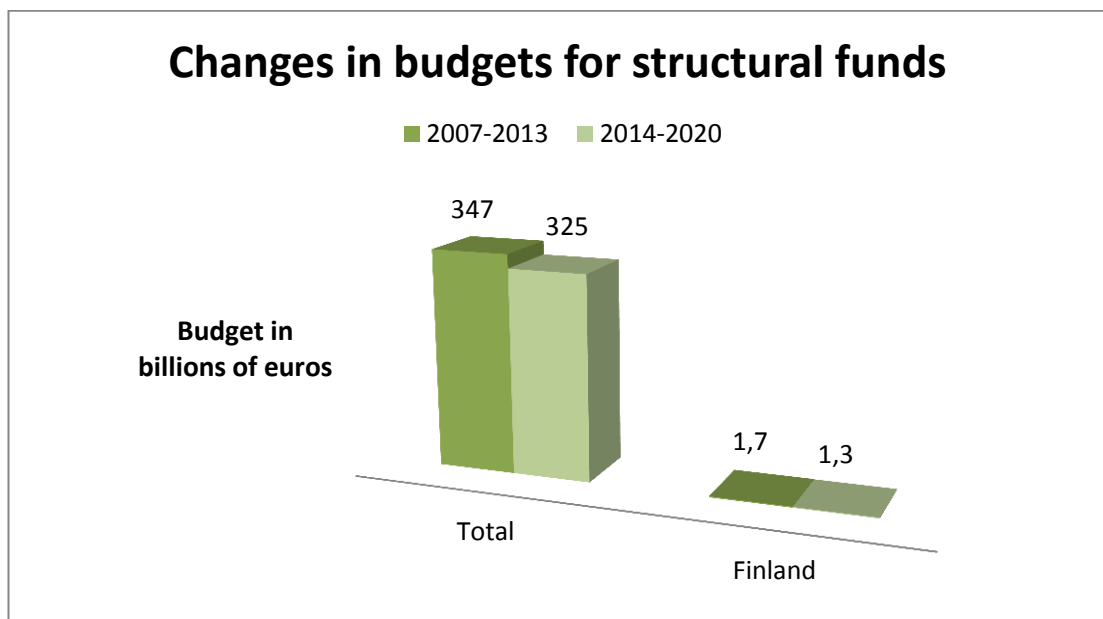


Figure 1. Change in budgets for structural funds.

Figure 1 emphasizes how the budgets for structural funds changed for the funding period 2014–2020. Funding for regional and cohesion policy (structural funds) in 2007–2013 amounted €347 billion, 35,7% of the total EU budget. The complete budget proposed for the period 2014-2020 was €325 billion. In Finland

the funding received decreased from €1,7 billion into €1,3 billion which equals 25% less than in the previous funding period. (FINLAND - Results of the negotiations of Cohesion Policy strategies and programmes 2007–13 2014, 3; Kestävää kasvua ja työtä 2014–2020 Suomen rakennerahasto-ohjelma, 2014, 51)

1.2.1 Research questions

The questions sent to the interviewees concentrate on the EU funding periods 2007–2013 and 2014–2020. The main aim of these research questions is to find out how actively the operators in Southwest Finland have been taking part in direct EU funding programmes and how well they are familiar with the programmes of the current and upcoming funding period. I also try to map out what kind of experiences and viewpoints the organizations have of direct EU funding by interviewing them about the challenges and benefits related to EU projects. The following problems will be observed:

- Have the companies and organizations taken part in direct EU funding programmes in Southwest Finland?
- How familiar these companies and organizations are with current and future EU programmes?
- What challenges exist in participating in directly funded EU projects?
- What benefits exist in participating in directly funded EU projects?

1.3 Structure of the thesis

The introduction of my thesis answers to the question of why I have chosen this topic, which is represented through some background information and research objectives. The research questions follow this part.

The second section of this thesis discusses the basics of EU funding. As the topic can be hard to understand if previous research has not been done, I tried to simplify the main themes as well as possible and use figures that help perceive the subject. In this section I start by representing the simplified structure of EU funding, including direct grants and structural funds.

Even though the thesis's main topic is direct EU funding, I found it important to introduce the structural funds and do some comparison with direct grants in order to help the reader absorb the concept of EU funding. It also helps to understand, why for example INTERREG programmes are only partly direct EU funding programmes. In addition to this, I introduce the most important direct EU funding programmes and EU funding application process. I finish the chapter by telling how the SMEs get financing for the EU projects.

The third part is called research methodology. In this section I tell about my research methods, research process as well as source material. In the findings part I display the research results by using multiple figures with written explanations.

The research results and research questions are analyzed in discussion part. In this section, I also identify the key factors for a successful application process and review the reliability and validity of the research. In the final section I present my study conclusions, sum up my thoughts about the research process as well as give hints for possible future studies.

2 APPLYING EU FUNDING

2.1 EU funding

The European Union is founded to enhance political, economic and social cooperation between the twenty-eight independent member states (EUROPA, 2014c). The Union provides both direct and indirect funding for a wide range of projects and programmes. The grants support fields such as research, education, health, consumer protection, protection of the environment, humanitarian aid, etc. There are strict rules for managing EU funding and tight control over how funds are used. The purpose is to ensure that the funds are spent in a transparent and accountable way. The concept of EU funding can be considered complex, since there are many different types of programmes managed by different bodies. More than 76% of the EU budget is managed by the member countries. (EUROPA ,2014a.)

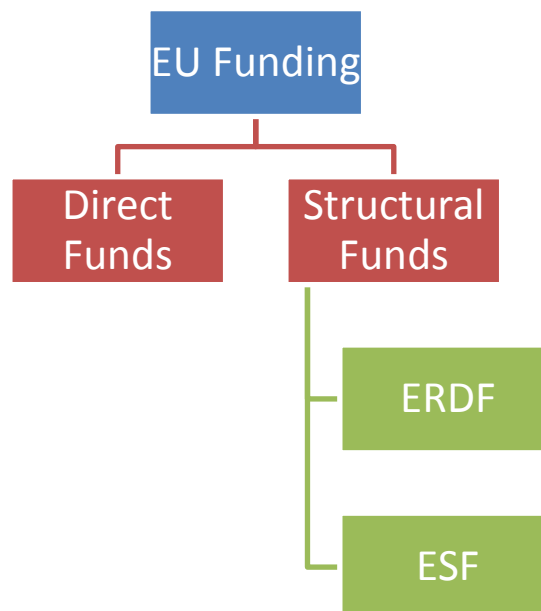


Figure 2. Different levels of EU funding.

EU funding can be divided into two categories: direct funding and structural (indirect) funding. Whereas direct funding contains multiple different

programmes, structural fund is commonly divided into two categories: European Regional Development Fund (ERDF) and European Social Fund (ESF). European Cohesion Fund (ECF) is also included in structural funds, but as the funding is concentrated only for developing countries in the European Union, the fund does not concern Finland. Other two smaller structural funds are the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF) (Europa Media, 2013a).

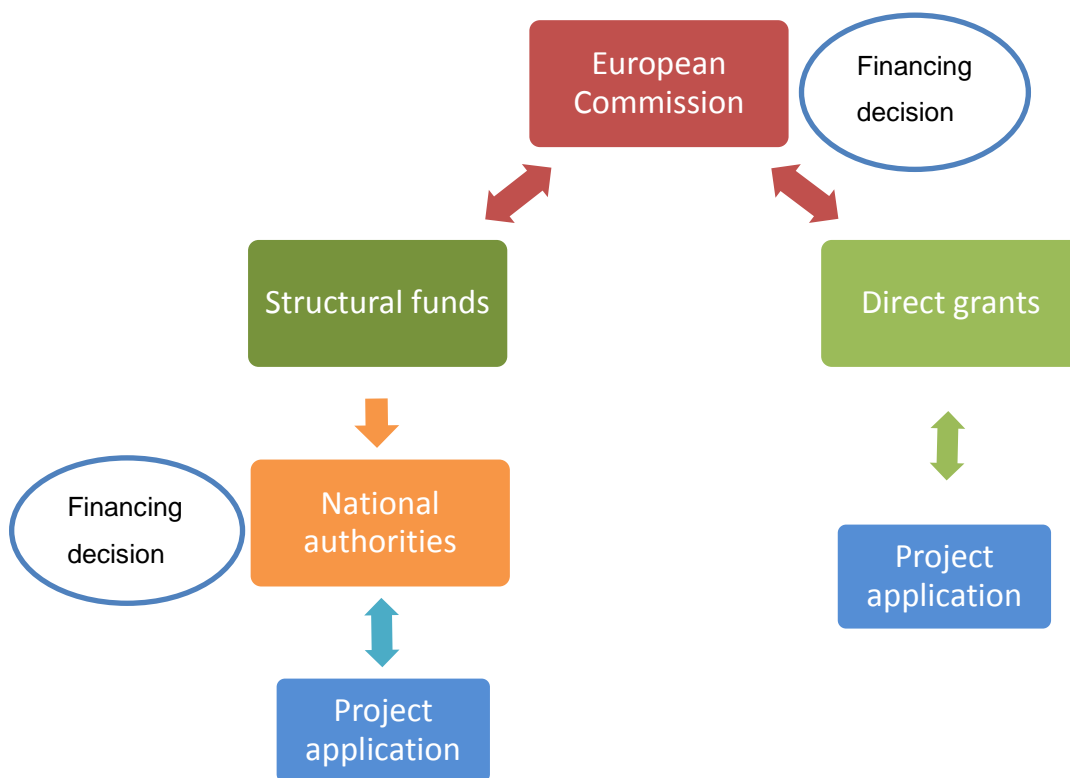


Figure 3. Distinctions between structural funds and direct grants when applying for funding from the EC.

The main difference between direct and indirect funding is the way the funding is applied from the European Commission. Already the titles tell that direct grants are applied directly from the EC whereas with structural funds there is an intermediary between the project application and EC.

Therefore in structural funding the money for the project is received from the national authorities. (European Commission, 2014a) In Finland the national authorities are for example the ELY Centres (Centres for Economic Development, Transport and the Environment) and the Ministry of Employment and the Economy (Ely-keskus, 2014; European Commission 2014b).

2.2 European Structural Funds

The Structural Funds and the Cohesion Fund are the financial tools of European Union regional policy which are intended to narrow the disparities in development among regions and Member States. The Funds participate in establishing the goal of social, economic and territorial cohesion. (EUROPA, 2014b.)

For the period 2007–2013, the budget allocated to regional policy amounted to around € 348 billion, comprising € 278 billion for the Structural Funds and € 70 billion for the Cohesion Fund. This represented 35% of the Community budget and was the second largest budget item. (EUROPA, 2014b.)

ERDF (European Regional Development Fund)

The European Regional Development Fund is the European Union's main financing tool for strengthening economic and social cohesion in the EU by stabilizing imbalances between regions. The ERDF's key priority areas are: innovation and research, the digital agenda, small and medium-sized enterprises (SMEs) and the low-carbon economy. Budget for the funding period 2007–2013 was €201 billion. (European Commission, 2014e.)

ESF (European Social Fund)

The ESF's aim is to improve employment and education opportunities across the European Union. The European Social Fund invests in people also by improving the situation of the most vulnerable people at the edge of poverty. Budget for the funding period 2007–2013 was €76 billion. (European Commission, 2014f.)

ECF (European Cohesion Fund)

The European Cohesion Fund is aimed at developing Member States whose Gross National Income (GNI) per inhabitant is less than 90 % of the EU average. Its purpose is to decrease economic and social inequalities and to promote sustainable development. Budget for the funding period 2007–2013 was €70 billion. (European Commission, 2014g.)

For the 2007–2013 period, the Cohesion Fund concerned Bulgaria, Romania, Croatia, Cyprus, Portugal, the Czech Republic, Estonia, Slovakia, Greece, Hungary, Latvia, Lithuania, Malta, Poland and Slovenia (European Commission, 2014g).

2.3 Direct funding

European Union's grants provide direct financing from the European Commission, while structural funding is available through programmes that are managed at national level. The Commission's direct financial contributions are made to help implement different kinds of projects in the European level. The projects are usually executed in the form of co-financing (usually 50%). (European Commission, 2013a.) In the project there must be several international partners from the European Union area. Open application from the EU area normally takes place once in a year. The competition for the financing is rough as the percentage of passing is around 25. (Taipale & Oliva, 2012, 1.)

Each programme includes a bit different rules and requirements. Some of the programmes require for example more partners than others and some require more self-financing in order to be applicable for the funding programme. A few programmes even accept countries outside the EU (for example Russia) to take part in the projects. (Taipale & Oliva 2012, 5.)

Direct EU funding is normally 35-100% of the overall financing (structural funding always less than 100%) depending on the project and funding programme. The size of the projects vary from 15 000 euros to tens of millions

of euros. Direct EU funding programmes can be used for financing many kinds of developing projects in different sectors. (Taipale & Oliva, 2012, 1.)

Direct grants promote the interests of the European Union. For example innovation strategy, youth strategy and information society were taken in consideration in direct EU funding programmes 2007–2013 (European Commission, 2014c). During the funding period 2007-2013, programmes linked to research & technology, education, health and Baltic Sea area were especially popular in Southwest Finland (Taipale & Oliva 2012, 5-36).

2.3.1 INTERREG

INTERREG is an initiative that aims to improve cooperation between regions in the European Union. One of its main targets is to reduce the influence of national borders in order to enhance equal economic, social and cultural development in the whole EU. Even though an INTERREG programme requires international cooperation, it is only partly a direct EU funding programme, because it is financed under the ERDF, a structural fund. The fourth INTERREG programme in history and thus programme for the funding period 2007–2013 was called Interreg IV. (Taipale & Oliva, 2012, 5.)

The three INTERREG subprogrammes are called INTERREG A, INTERREG B and INTERREG C (Taipale & Oliva, 2012, 5).

2.3.1.1 Central Baltic INTERREG IV A programme

The Central Baltic INTERREG IV A Programme 2007–2013 is a financing tool for cross-border cooperation in the central Baltic Sea area covering regions from Sweden, Estonia, Åland, Latvia and Finland. The programme allocated around €96 million of project financing during the years 2007-2013. (Talve, 2014.)

The Central Baltic programme has three common priorities:

- Safe and healthy environment
- Economically competitive and innovative region
- Attractive and dynamic societies. (Talve, 2014.)

As an example, during the funding period 2007–2013 Central Baltic IV A programme funded a project called Knowsheep – Developing a Knowledge-based Sheep Industry on the Baltic Sea Islands, the purpose of which was to support the sheep industry in the archipelago area (University of Turku, 2014).

For the funding period 2014–2020 the Central Baltic Programme will be called Central Baltic V A programme (ateneKOM, 2014).

2.3.1.2 Baltic Sea Region Programme (INTERREG IV B)

The Baltic Sea Region Programme funds projects for cooperation in the Baltic Sea Region and promotes transnational cooperation through regional development. The total budget for the funding period 2007–2013 was €222,8 million. (Eu.baltic, 2014a.)

The Baltic Sea Region Programmes' four common priorities are:

- Fostering innovations
- Internal and external accessibility
- The Baltic Sea as a common resource
- Attractive & competitive cities and regions.(Eu.baltic, 2014b.)

As an example, INTERREG IV B Programme funded a project called BaltFood during the funding period 2007–2013 that helped to support the competitiveness of food industry in Baltic Sea area (BaltFood, 2014).

For the funding period 2014–2020 the name of the INTERREG IV B Programme will be changed into INTERREG V B Programme (ateneKOM, 2014).

2.3.1.3 Innovation & Environment Regions of Europe Sharing Solutions (INTERREG IV C)

INTERREG IV C funds projects for interregional cooperation across Europe. The general objective of the INTERREG IV C Programme is to improve the effectiveness of regional policies and instruments. (Interreg4c, 2014.)

€302 million was available for project funding under two priorities:

- Innovation and the knowledge economy
- Environment and the risk prevention. (Interreg4c, 2014.)

During the funding period 2007–2013 the University of Turku acted as a partner in an INTERREG IV C project called Hybrid Parks. The aim of the project was to combine abilities, create synergies and enhance the performance of parks for sustainable development policies. (Hybrid Parks, 2014.)

For the funding period 2014–2020 the programme will be called INTERREG V C (atenoKOM, 2014).

2.3.2 Seventh Framework Programme for Research and Technological Development (Fp7)

The 7th Framework Programme is the EU's funding instrument for growth and employment. The objectives of the Fp7 have been grouped into four categories:

- Cooperation
- Ideas
- People
- Capacities. (Fp7peoplenetwork, 2014.)

There exists a specific programme for each of the objectives above that correspond to the main areas of EU research policy. All of the programmes work together to promote and ensure the scientific excellence of research activities. Budget for the funding period 2007-2013 was around €50 billion. (Fp7peoplenetwork, 2014.)

As an example, the Seventh Framework Programme has been funding a project called ECOKNOWS – Effective use of ecosystem and biological knowledge in fisheries during the funding period 2007–2013. The general aim of the ECOKNOWS project was to improve the use of biological knowledge in fisheries and management. (Ecoknows, 2014.)

For the funding period 2014-2020, the EU Seventh Framework Programme for research and technology will transform into a programme called Horizon 2020 (Horizon 2020 projects, 2014).

2.3.3 Lifelong Learning Programme

The Lifelong Learning Programme (LLP) is adapted to the EU's needs in terms of education and training. It is an umbrella programme integrating various educational and training initiatives and thus enables individuals at all stages of their lives to experience stimulating learning opportunities across Europe. The budget for the period 2007–2013 was nearly €7 billion. (EACEA, 2014.)

Lifelong Learning Programme is divided into four sectorial subprogrammes:

- 1) Comenius for schools
- 2) Erasmus for higher education
- 3) Leonardo da Vinci for vocational education and training
- 4) Grundtvig for adult education. (EACEA, 2014.)

The four key activities focus on:

- Policy cooperation and innovation
- Languages
- Information and communication technologies - ICT
- Dissemination and exploitation of results. (EACEA, 2014.)

As an example, Lifelong Learning programme funded a project called ELLAN - European Later Life Active Network during the funding period 2007–2013. The aim of the project was to share and distribute good practice and innovation related to ageing. (Webgate, 2014.)

For the funding period 2014–2020 Lifelong Learning programme will become part of the Erasmus+ framework (Erasmusplus, 2014).

2.3.4 LIFE+

LIFE+ is a financial instrument dedicated to funding actions of a uniquely environmental nature. The general objective of LIFE+ is to contribute to the implementation, updating and development of EU environmental policy and legislation by co-financing projects with European added value. LIFE+ programme for the funding period 2007–2013 had a budget of €2.143 billion. It consisted of three components: LIFE+ Nature and Biodiversity, LIFE+ Environment Policy and Governance, and LIFE+ Information and Communication. (Europa Media, 2013c.)

During the funding period 2007–2013, LIFE+ funded as an example a project called ESCAPE - Ex-Situ Conservation of Finnish Native Plant Species. Projects aim was to increase the amount of the ex-situ (protection of an organism outside its native habitat) conserved plants and to develop methods for nature conservation. (Luomus, 2014.)

For the funding period 2014–2020 LIFE+ programmes's name will be changed into LIFE and the programme is designed to be more structured, strategical and flexible (European Commission, 2014d).

2.4 Grant application process

Creating a project application which aims at getting direct grants from the European Union can be a time-consuming and challenging process (Power Cluster, 2014). Figure 4 summarizes the application process for direct EU funding, with the help of a timeline.

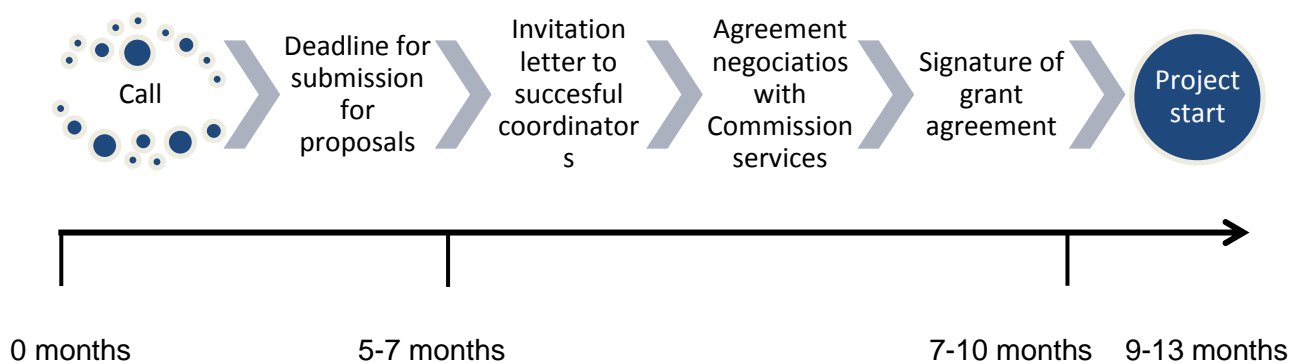


Figure 4. Timeline of the applying process.

After the call for project proposals, the successful applicants have to wait for the invitation letter for at least 5-7 months. All in all, from the first call for proposals, it can take up to 9-13 months until the actual project starts. A call for proposals usually takes place once a year. (Power Cluster, 2014)

Applying for EU funding is an extremely competitive process. Although an outstanding project is an absolute necessity for the project evaluators, the skills to sell your idea and knowledge of the EU policy context are equally important. The capabilities to manage and deliver your project after the possible funding will also be taken in consideration when making the financing decision. (Independent EU Affairs Consultants and Investors, 2013.)

Figure 5 describes the steps in process how to apply funding from the EU. The following section clarifies what is done in each step.

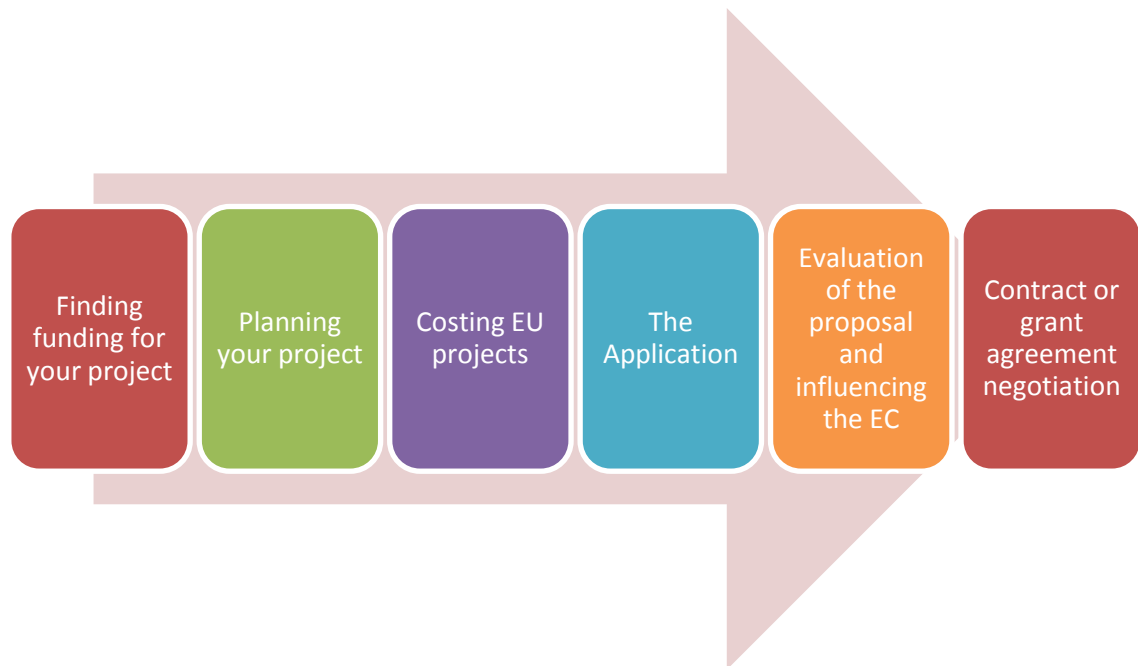


Figure 5. Applying process for direct EU funding.

Finding funding for your project

The internet is usually the best source for finding updated information about EU funding opportunities (University of Leicester, 2014). Good partner networks (mouth-to-mouth information) also help finding information.

Planning your project

Different calls and topics have different priorities and applicability criteria's, which are described in the call documents. All direct EU funding opportunities also require international collaboration which means finding partners in other EU countries. Often finding these potential collaborators is the first obstacles for the applicants when accessing the funding. (University of Leicester, 2014.) Researching and comparing similar projects, formerly funded by the EU, might reveal essential information related to your own project (Taipale & Oliva, 2012, 1).

Costing EU projects

Each EU programme will have different reimbursement rates and indirect costs. The specific EU programmes and calls for project proposals define what projects and costs are eligible for co-financing. The costs can include for example staff costs and dissemination costs directly linked to the project. Some of the programmes have set rates and others are dependent on the type of activity. (University of Leicester 2014.)

The application

An online application is the most used form of application when applying for EU funding. The duration is normally at minimum 3 months from the call publication to the deadline. (University of Leicester 2014.) The application must reason well why the project should be financed with direct funding instead of national level funding. Therefore the European Union level of the project, the common goals, priorities and requirements of this project should match with the ones of the funding programme. (Taipale & Oliva 2012, 1.) As the co-financing proposal will be subject to an in-depth evaluation, the application must be prepared comprehensively and consult all the relevant programme documents (University of Leicester 2014).

Evaluation of the proposal and influencing the European Commission

The evaluation of the proposal is done remotely by independent peer review. This means that lobbying for a proposal at the European Commission level does not have much impact. The times when it might be valuable to contact the EC are for example; for advice on interpretation of topics, to lobby for the inclusion of a topic in a work programmes or to make them aware of the applicant's high-class research capabilities and its importance on European or worldwide level. (University of Leicester 2014.)

Contract or grant agreement negotiation

Contract or grant agreement negotiation can be a long process and usually involves completing Grant Preparation Forms in NEF (the online software for negotiation). Depending on the programme and the number of partners, the negotiation can take between one month and two years. The consortiums invited to negotiate a contract will usually receive an invitation letter which will contain an indicative timetable for the negotiations. (University of Leicester 2014.)

After the agreement

The following steps after the agreement include for example employing the staff and managing the project (University of Leicester 2014).

2.5 Sources of finance for EU projects

The financial issues and budgets play in a big role when talking about EU projects. In order to be applicable for an EU project, the firms' capabilities for financing and managing the project have to be well proven and calculated in the applying form sent to the EC.

EU Projects financed directly by the European Commission require self-financing from the participants. This means that the firms have to invest their internal financing from their own income to the project, instead of acquiring it from external sources such as investors or lenders (Business Dictionary, 2014). Yet, most of the organizations taking part to these projects use both external and internal funding to gather these needed resources.

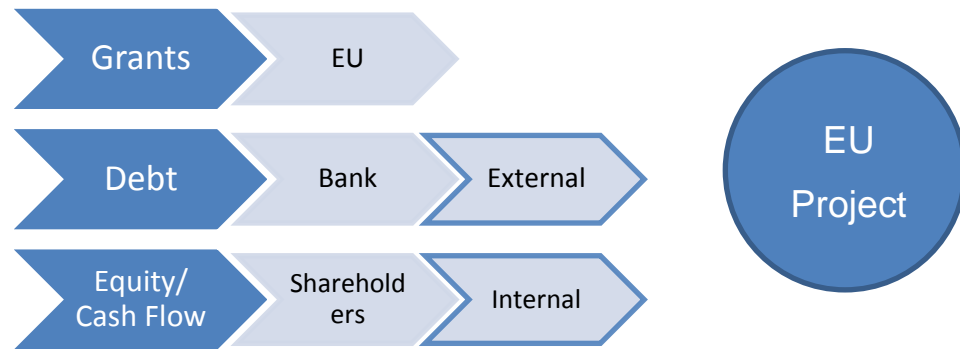


Figure 6. The types of financing for an EU project.

In overall, a directly funded EU project can be financed by three different types of funding; grants, external financing and internal financing. The direct grants are received from the European Commission after the application process, the external financing for example from the banks in forms of debt and the internal funds from firms own equity or cash flow.

2.5.1 SMEs' problems for accessing to finance

Most of the companies and organizations interviewed for this study were small and medium sized enterprises (SMEs). For them, access to finance is a key determinant for business start-up, development and growth (including internationalization and EU projects) (SMEs' Access to Finance survey, 2013a).

SMEs have very different needs and face different challenges when it comes to finance issues compared to large businesses. Whereas large enterprises have ready access to equity capital markets, for the vast majority of small businesses they are not accessible. The lack of equity capital invested in small firms makes SMEs more reliant on other sources such as bank lending. (SMEs' Access to Finance survey, 2013a.)

The last years have been challenging times for accessing to finance for firms. Especially SMEs have been struggling, as they are more reliant on external financing than large-sized firms (LGs). The economic crisis starting from year 2008 caused that the banks were less willing and able to provide financing for SMEs. And as the economy of the EU is very much dependant on the

performance of SMEs, these significantly tightened credit supply conditions weakened the future sights of the whole European Union. As a preventive measure to block even wider crisis, SME needs were brought into particular focus in European policy making for the years of crisis. (SMEs' Access to Finance survey, 2013a.)

The following survey called SAFE (Access to Finance of Small and Medium-sized Enterprises) shows how access to finance has remained among the two most cited pressing problems currently facing SMEs for the last years, with 15% of EU SMEs naming finance as a major concern (figure 7). (SMEs' Access to Finance survey, 2013b.)

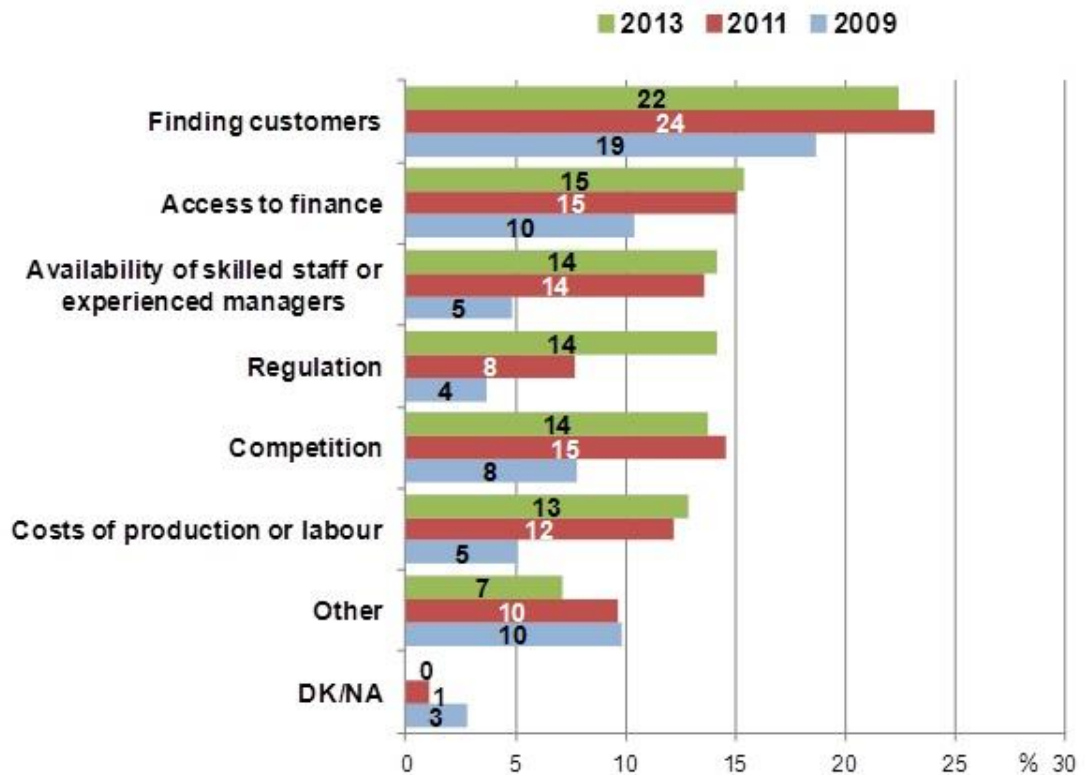


Figure 7. The most pressing problems of the SME's (SMEs' Access to Finance survey, 2013b).

Access to finance was mentioned as the most pressing problem especially by the countries strongly affected by the economic crisis (Greece, Cyprus, Ireland, Portugal etc.) (European Commission, 2013b).

Decrease in using internal funds and increase in using external funds

High percentage of the EU SMEs use both internal and external funding to fund their projects. However, about 50% of the EU SMEs rely only on external financing, whereas tiny minority uses only internal funding (SMEs' Access to Finance survey, 2013c). As mentioned before, mostly large businesses are concentrated in using internal funds as they are more likely to have more equity etc.

However, during the years of crisis there appeared to be a sizeable downward shift in SMEs using internal funds to finance their activities (according to the survey done by the EC and the European Central Bank). In total, there was a 25 percentage points decline from year 2009 to 2011, as in 2009 49% of EU SMEs reported using internal funds while in 2011 only 24%. (European Commission, 2013b.)

There are two potential explanations for the decline:

- The wider macroeconomic conditions (crisis 2008-2012) and thus challenging environment for the SMEs to gather earnings; and
- SMEs have become better or more innovative at accessing external sources of finance. (European Commission, 2013b.)

While the use of internal sources has decreased, the use of external financing (bank overdrafts, leasing/ hire purchase/ factoring, trade credit and bank loans) has naturally increased. It is although an interesting fact due to the continuing tightening of credit standards since 2009. (European Commission, 2013b.)

SMEs access to finance in Finland

Despite the problems across the EU, Finland continues to score well above the EU average as regards access to finance for SMEs. The strong performance is reflected in practically all domains of SME finance. In terms of access to credit, Finland also scores above average on most of the indicators. (SBA factsheet for Finland, 2013.)

3 RESEARCH METHODOLOGY

3.1 Research Design and Process

This thesis is a commissioned thesis, done in cooperation with Krista Taipale, the Head of Office at TURKU-Southwest Finland European Office. The main aim of this study was to research how well the organizations in the Southwest Finland area are familiar with the direct EU funding programs.

The process of this thesis was built by the following steps:

1. Literature review and getting acquainted with the topic. Focus on EU funding, direct EU funding programmes and funded projects in Southwest Finland.
2. Reading and understanding TURKU-Southwest Finland European Office's EU funding guide, written by Krista Taipale and Päivi Oliva in 2012.
3. Contacting and interviewing the operators in Southwest Finland area.

3.2 Literature Review

The basics about direct EU funding I learned from TURKU-Southwest Finland European Office's EU funding guide, which is exclusively targeted to the stakeholders of the Office. The guide presents the most important direct EU funding programmes in Southwest Finland of the funding period 2007-2013, highlights the most important facts concerning the funding process and gives important tips for the applying process.

To my knowledge and based on my research, there are no written publications that would apply particular theories to the concept of EU funding or which would help perceiving EU funding better than the European Commission's websites (the primary source for EU financing). Consequently, this thesis does not include any theoretical framework or multiple written publications, but most of the information is based on internet sources.

In addition to the Commission's websites, multiple websites, for example websites and newsletters of the Finnish Ministry of Foreign Affairs of Finland, gave me essential information about the programmes during my research. I similarly studied statistics from websites such as the Regional Council of Southwest Finland's and Ministry of Employment and the Economy to learn what kind of programmes were funded before. In addition I utilized different kinds of material available in the Office in Brussels. All in all, I found that using the internet as a main source was a very effective and also reliable way to get updated information concerning EU issues.

3.3 Quantitative and Qualitative Method

Quantitative research relies on numerical analysis conducted through the use of diagrams and statistics, (Saunders et al., 2012, 547) which helps us exploring, presenting, describing and examining relationships and trends within data (Saunders et al., 2012, 472).

In comparison to quantitative research, qualitative research uses non standardized data classified into categories (Saunders et al., 2012, 547) and means are derived from words, not numbers (Saunders et al., 2012, 546). The basic idea is to try to understand human behavior.

By using a so called mixed-method (combination of qualitative and quantitative data) the evaluation is more profound as the limitations of one type of method are balanced with strengths of another. This way the understanding is improved by integrating different ways of knowing. (Khawaja Khalid et al., 2012, 16.)

3.4 Data Collection

For collecting data I used both qualitative and quantitative methods by contacting 12 of the most important cooperators and stakeholders of TURKU-Southwest Finland European Office. All the findings of this research were translated from Finnish into English.

The questions were planned in cooperation with my former employer Krista Taipale. They include both open and closed questions for the purpose of getting clear data as well as more detailed information. Most of the information will be used in this thesis and the rest for the analysis gathered for TURKU-Southwest Finland European Office.

The investigation questions were added in the interview request that I sent to my candidates by e-mail. They were given options to have a face-to-face interview, answer by e-mail, or by phone. I found it useful to learn how to collect data in different ways. The answering deadline was finally extended from one month into several months due to companies' busy schedule.

My focus group was the organizations in Southwest Finland that have experience in participating in EU projects. Most of them have been using structural funding instead of direct funding because of its complexity. The purpose of these questions was to examine how the organizations experience the direct EU funding and which programmes are most utilized and known. I have also tried to clarify if the repliers find the applying process as complicated as it is commonly perceived to understand.

With these results and answers the cooperators like TURKU-Southwest Finland European Office will be able to spread even more accurate and useful information about EU funding and organize effective training sessions.

4 FINDINGS

In total eight answers were received for my research from seven different companies and organizations:

- one from Koneteknologiakeskus
- one from the University of Turku,
- one from the Entrepreneurs of Southwest Finland
- one from the City of Salo
- one from Turku Science Park
- one from the Centre for Economic Development, Transport and the Environment (ELY Centre) of Southwest Finland
- and two from The Regional Council of Southwest Finland.

In case of more than one answer from the same organization, I combined them into one answer in order to get a perspective from the organization as a whole. For the investigation questions six and seven the repliers were able to choose or invent several answering options instead of choosing one.

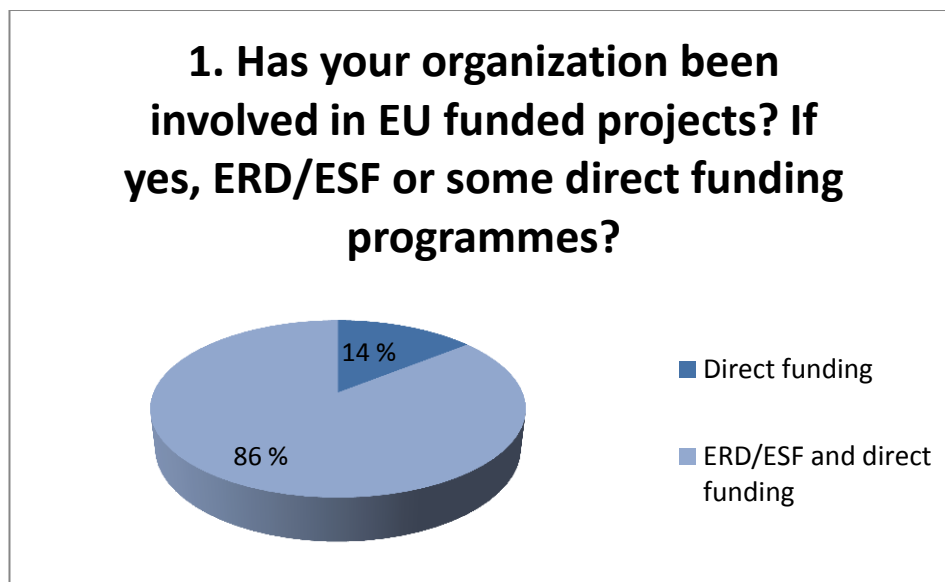


Figure 8. Participation in EU funded projects.

All of the interviewees had been involved in direct EU funding programmes and most of them had also been involved in ERDF and ESF funded projects. Altogether, 86% of the organizations had taken part in both directly and indirectly funded programmes and 14% only in direct funding programmes.

Of the direct EU funding programmes, especially Central Baltic and the Seventh Framework Programme were widely utilized. Also other INTERREG programmes, Life Long Learning (Leonardo, Comenius, Erasmus) LIFE+, Europe for Citizens, and Competitiveness and Innovation Framework Programme were familiar to organizations.

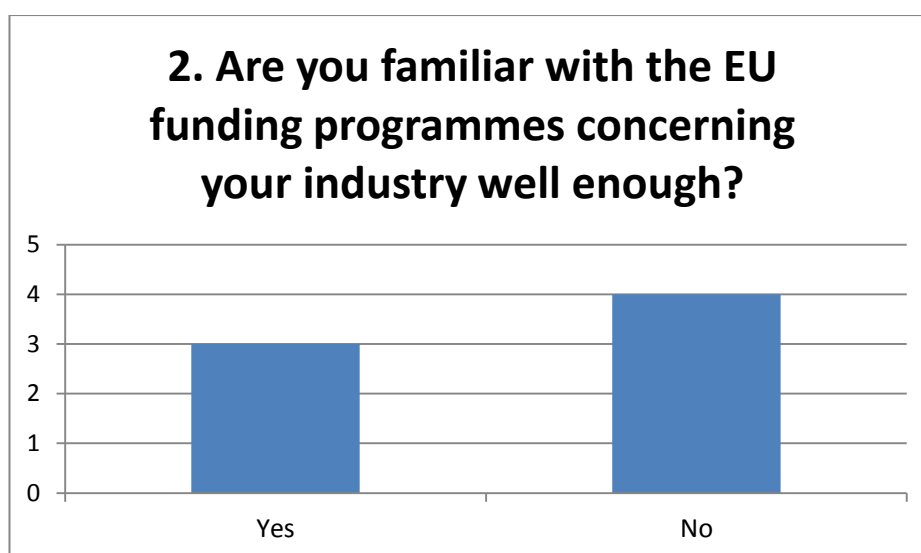


Figure 9. Familiarity with EU funding programmes.

The answers for the question number two were strongly divided. However, an answering option “yes and no” would have been the most popular one if it existed.

Repliers felt that especially general information about EU funding that would reach all parts of the organization, and not only the focus groups, was lacking. The Regional Council of Southwest Finland and the University of Turku were the best oriented with new funding programmes. The Regional Council was well familiar with the programmes mainly because they act as national authorities.

Most of the interviewees felt that it was hard to access more detailed information about the funding programmes. Reasons for the hard access to information were found from the lack of resources (money and lobbying staff) and complicated programmes. Also lack of time and resources were mentioned as reasons for not following the new programmes intensively. It was seen that with more training and supervising, or even with an existing project or an idea of it, it would be easier to start to examine new programmes.



Figure 10. Leader or/and a partner in an EU funded project.

Most of the interviewees had operated as a partner in EU funded projects, 86% in total. Similarly 43% of the repliers had acted as leaders as well as a partner in projects. Only 14% had taken part in a project only as a leader. Most of the organizations are even now involved in EU funded projects.

4. How well are you familiar with the direct EU funding programmes of the funding period 2014–2020?

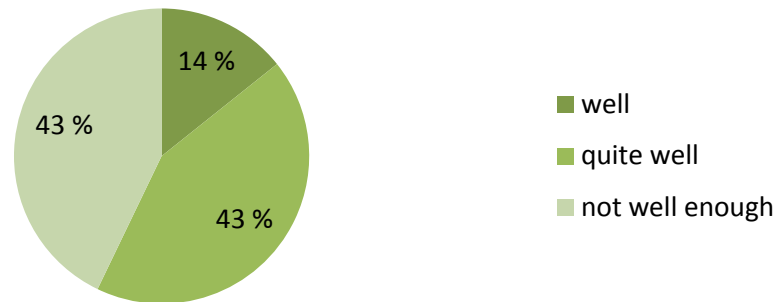


Figure 11. Familiarity with EU programmes 2014–2020.

In total 86% of the repliers felt that they were “quite well” or “not well enough” familiar with the direct EU funding programmes of the funding period 2014–2020. Only 14% of the repliers admitted that they are well familiar with the programmes. During the interviews not all of the new programmes had yet been approved by the European Commission.

The fifth investigation question for this thesis was: **What kind of knowledge or training does your organization need in order to get maximum benefit from the direct funding programmes 2014–2020?**

The opinions for the fifth question differentiated a lot depending on the organization. All in all people had many ideas for developing the EU training sessions. Most of them agreed that the basic information and training about the EU funding programmes is needed: basic rules of applying, tips about how to apply, focus, throughput percentage, reporting after receiving the funding, and what kind of programmes normally get funded. Some answerers were also interested in knowing what kind of projects the area of Southwest Finland would need the most.

In addition, the repliers were interested in getting more detailed information about certain programmes and maybe even create themes for training sessions. One idea was a proper EU training agenda which would ease marking down the most interesting training sessions. People were also wondering if some people in Southwest Finland had merits for certain programmes and could organize trainings for the others. A local forum was suggested as a way to create connections and share experiences. Brain storming also produced an idea about short “morning coffee news splash” online that would represent particular EU programmes. According to one answerer, a good addition to the existing training sessions would be the examination of the websites of the EC.

As the organizations have more or less different needs it is hard to create one big unity that would benefit everyone in Southwest Finland area. All in all people were quite happy for the existing training available from the TURKU-Southwest Finland European Office.

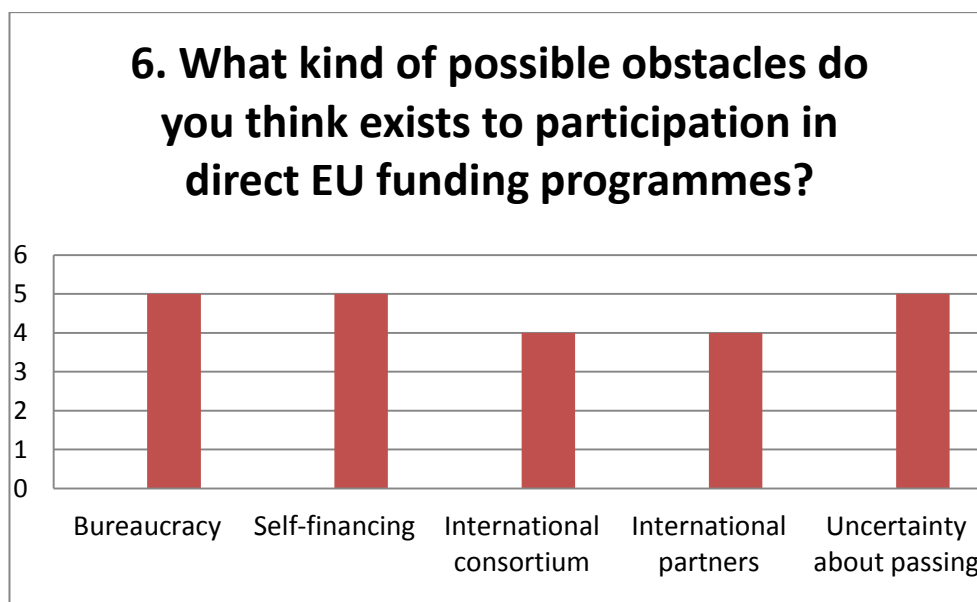


Figure 12. Obstacles to participation in direct EU programmes.

All of the examples given above were considered serious obstacles to participation in direct EU funding programmes. Most of the repliers said that bureaucracy is one of the main problems in the application process, but also mentioned that people working with matters related to EU funding are often used to it. However, for some bureaucracy was seen even so frightening that it might reduce remarkably the amount of potential applications.

Almost all of the interviewees mentioned the importance of external financing. Without external financing the operators often cannot perform the tasks given to them. The extra funding would also give the operators more resources to concentrate better on different parts of EU funding. Especially financing from the city plays a crucial role for many operators.

Most of the answerers found it difficult to find international partners, even though many of the organizations have familiar teams to work with and old partners from former processes. Uncertainty about applications passing was a serious hurdle for many of the respondents. Naturally the applicants did not want to waste time and resources and some of them were even questioning if they should not even try applying when the passing is so unlikely.

One of the obstacles mentioned outside the answering options was the very long decision time from the European Commission. In practice this means that the need for the funding has to be foreseen in a very early stage because the actual money from the Commission might arrive months later after the approval of the application.

Other obstacles mentioned for participating in direct EU funding programme: lack of time and resources, lack of knowhow for administrating the application process, fear that the administrative tasks of the project will swell into unmanageable entity (bigger than the original project itself), the lobbying required for the projects and too structured contents for the programmes (the projects do not have freedom to solve the actual problems but to meet the criteria's of the programmes from word to word).



Figure 13. Strategic added value from EU project.

All the answerers agreed that a directly funded EU project would bring significant added value to the whole organization. The question was conducted as an open question without answering options but the international contacts and partners gained from the cooperation were seen as the most valuable advantage. With new international contacts the organizations are able to create concrete cooperations for projects and this way help member enterprises to internationalize as well.

All in all internationalization was seen as a very positive effect in economy and people wished to see it more in all kinds of facilities; in schools on different levels, enterprises, development organizations etc. Connections towards the European Commission were seen valuable as well.

Many organizations were also searching for improved reputation by participating in direct EU programmes. Well-executed project was seen as showing the professionalism of the organization. The operators also wanted to bring forward their activity in EU projects.

The interviewees were interested in sharing experiences about EU funding with other operators in Southwest Finland area – naturally most often with partner operators rather than competitors. All in all many repliers seemed to have need in sharing information and comparing experiences with each other and possibly get partners for future EU projects.

Other strategic added values mentioned were: learning in the process, getting used to long-term approach and getting the “drive on” in applying for EU funding.

5 DISCUSSION

The initial goal of this thesis was to discover the direct EU funding opportunities in Southwest Finland by executing a study among the local operators, and as a result to help TURKU-Southwest Finland European Office to develop their services. In this part I open the results with the help of research questions introduced in the beginning of this thesis.

Have the companies and organizations taken part in direct EU funding programmes in Southwest Finland?

Even though direct EU funding is commonly perceived as a complex process, the research findings show that each of the companies interviewed had taken part in direct EU funding programmes – as partners or as leaders. The most utilized programmes were the INTERREG programmes, which aim to improve the cooperation between regions around the Baltic Sea.

How familiar these companies and organizations are with EU programmes?

Neither current programmes nor future EU programmes were particularly well known among the organizations. Mainly certain teams inside the organizations specialized in EU issues were well familiar with the ongoing programmes. Understandably next funding periods' programmes were mostly unclear for the repliers as most of them were not yet released during the interviews. However, both cases were also affected by the lack of resources inside the companies.

What challenges exist in participating in directly funded EU projects?

The problem mentioned most often concerning participation in direct EU funding programmes was financing. Many of the organizations were lacking self-financing which is one of the requirements for international projects. In addition to money problems and getting partners, there exists "frightening factors" like bureaucracy and uncertainty about passing that do not directly affect applicants' own doings. However, these factors are not worrisome for nothing and they have to be taken seriously.

What benefits exist in participating in directly funded EU projects?

It was seen that a directly EU funded project would bring multiple benefits for an organization. Excluding the funding itself, grown professional reputation and all forms of internationalization were seen as very positive side effects of direct EU funding. Operators were also eager to strengthen the bonds between partners and share experiences in order to learn and support each other

5.1 Guidelines for a successful application process

The stakes are always high when taking part in the EU funding application process. A lot of effort has to be put into project planning, and still the concrete chances that the application will pass the final evaluation is one out of four. But even though this is not the ideal starting point for a project planning, trying is seemingly worth the risk.

Based on my literature review and research findings, I was able to identify the key factors to be taken in consideration when applying for direct EU funding and conducting a successful application process:

1. Recognizing the existing funding opportunities
2. Good self-analysis about your own project
3. Being determined and courageous
4. Finding out about the facts (deadlines, budgets, requirements etc.)
5. Designing a good project plan

First of all, it is important to know the existing opportunities for receiving funding for your own project. This demands accessible information and also dedication from the project manager. The information is not always easy to find and the paper work can require some determination. But as mentioned in the interviews: “usually the right funding programme can be found when the goals are clear”.

The project manager should be able to identify the strong points and weaknesses of the project. Essential is to see, if the problem is relevant on the European Union level and to research similar projects that have been funded before. Also innovativeness is one of the most important features of the project.

In the interviews it came out that the applicants hesitate to take part in the application process also because of factors, like bureaucracy and unlikely passing of the application. As the unknown is what is frightening, it could be that if people had a clearer image about the application process, the threshold to participate in application process would not be so high. This means that the facts (throughput percentages, deadlines, requirements) should be more visible and accessible to a bigger crowd.

Most importantly, the project should not be left without execution because of the unfinished preparations done in a hurry; unorganized application papers with missing budgets, tables etc. However, this is the most common reason to European Commission to reject applications.

5.2 Reliability and validity of the research

Reliability of a research means that the results of the research can be repeated. Validity of a research means that the conclusions made out of results are trustworthy. In order to make sure that the results are as valid and reliable as possible, all the possible primary sources were contacted for this research.

Even though the majority of the organizations contacted were reached, not all of them were able to answer my questions. This important fact makes the research less reliable. However, the data gathered was more or less similar among the repliers and one or two more repliers probably would not have changed the results remarkably.

I consider my sources reliable for the reason that most of the consulted websites referred to European Commissions' websites which are the original sources for European Union funding. I also double checked that the information found from other than EC's sites exists in multiple sites related to EU funding.

The questions including closed yes/no answers were sometimes hard to categorize when the answer rather belonged in the category “yes and no”. Also the fact that all the research results and most of the written sources have been translated from Finnish into English makes the data more exposed to errors.

What makes this research partly unrepeatably is that the survey was made when most of the programs for the funding period 2014-2020 had still not been published by the European Commission. Therefore the questions concerning the past funding programs (2007-2013) would be repeatable but not the ones concerning the future funding programs 2014-2020. However I think this research gives a good overall look and represents good thoughts about the situation of direct EU funding in Southwest Finland.

6 CONCLUSIONS

The target of this thesis was to research the use of direct EU funding programmes 2007- 2013 in order to identify new possibilities for the next funding period. When taking in consideration the amount of received ideas for development, I think this study managed to reach its targets successfully.

As mentioned before, with enough resources the organizations and companies would be happy to take part even more in direct EU funding. I believe that with improved EU funding training sessions, which would guide people to access the information more effectively, the number of project applications could increase. Other kind of gatherings and networking would also help the operators in Southwest Finland to share experiences and information about the ongoing and future projects. This might keep EU funding as a topical issue and activate the people to take part even more in the projects. Then again, the operators in Southwest Finland might rather be competitors than partners to each other, which brings us to the importance of finding international partners.

As we know, in order to perform a comprehensive research about the funding opportunities, apply and finally execute an EU funded project, a lot of resources will be needed; including time, money and staff. And although the companies would greatly benefit from the outcome of the project, unfortunately for many of them the lacking resources are often insurmountable obstacles. Moreover, due to the ongoing recession, there will be most likely even less resources in the future for specialized research, such as that made on EU funding.

This means that despite the wide interest and enthusiasm towards direct EU funding, the opportunities to invest in EU projects might decrease even from the current state. However, only the future and the ongoing economic situation will show the things to come. Finally all lies on competitiveness of the applicants when talking about achieving direct financing.

At least for the funding period 2014–2020, the structural funds will most likely stay as popular financing tools for EU projects since the national authorities are probably more easily approachable than the great European Commission.

However, alternative options have to be taken in consideration in times like this and when adapting to the situation, people might end up developing themselves and eventually even benefit from it. I think the direct EU funding programmes have good opportunities in Southwest Finland, if all the pieces fall into place.

6.1 Challenges in the research process

The biggest challenge in the research process was adopting an entirely new topic andⁱ becoming an expert in it in order to perform my research and conclusions. The preliminary preparations were the most time consuming part of the process.

As the topic was new to me and most of the information had to be translated into another language, I had to be very careful in avoiding material errors. I was also concerned to leave a too shallow impression when gathering a large amount of theory into a coherent summary.

Another issue encountered was the extended deadline for collecting the answers from my candidates. Due to companies' busy deadline for the autumn, the original deadline extended greatly from what was planned.

6.2 Closing words

Despite the confronted challenges, I very much enjoyed the research process. I was happily surprised of how positive response my survey received among the respondents. The organizations were eager to take part to my survey as well as learn more about the direct EU funding programmes. I found the world of EU funding very interesting yet at the same time very complex. Consequently most of the information studied for this research was not utilized in the thesis itself but needed for the basic understanding of the EU funding.

When conducting this research I was pleased to know that the findings were to be useful for my former workplace. All in all I consider the process of writing this thesis as a good opportunity to learn about writing, researching and handling a wide amount of theory. The conclusions of the study might have been more or

less different if it was done by an experienced person, who has gone through the actual application process. However I hope I have done a satisfying job as a student researcher and given a good outsiders point of view.

6.3 Suggestions for further research

A similar study is fully repeatable for the next EU funding period 2014-2020, in six year time. Another interesting topic for a study could be to research what kind of projects the European Commission has funded in (Southwest) Finland. The study could also include the projects financed from the structural funds. This kind of comprehensive research could give essential information and needed statistics for project planning for the future applicants.

I would recommend the future researchers to contact the interviewees early enough in order to get a satisfying amount of data for a valid research. The study is also hardly conductible, if the concept of EU funding is not studied before.

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Investigation questions

- 1) Has your organization been involved in EU funded projects and which EU programmes? If yes, ERDF/ESF or some direct EU funding programmes?
- 2) Are you familiar with the EU funding programmes concerning your industry well enough? 1) yes 2) no. If the answer is no, what are the reasons for that (insufficient information sources, lack of resources for following the funding programmes and orientating oneself, etc.)?
- 3) Has your organization operated as a leader or/and a partner in an EU funded project?
- 4) How well are you familiar with the direct EU funding programmes of the funding period 2014-2020?
- 5) What kind of knowledge or training does your organization need in order to get maximum benefit from the direct funding programmes 2014-2020?
- 6) What kind of possible obstacles do you think exists to participation in direct EU funding programmes (for example the required self-financing, high level of bureaucracy, required international consortium, finding international partners, uncertainty about passing of the project because the fierce competition, etc.)
- 7) What kind of strategic added value would a project funded by a direct EU programme bring to your organization or to your own work?

