OFF TARGET:
The case for bringing regional policy back home

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EXECUTIVE SUMMARY

- In 2003, the then UK Chancellor, Gordon Brown, said that the time was ripe to "bring regional policy back to Britain." However, the Coalition has dropped the previous Labour Government's commitment to devolve regional spending back to the UK and to focus EU structural funds exclusively on the less developed EU member states.

- Over the 2007-2013 EU budgetary period, the UK is contributing roughly £29.5bn to the EU's structural and cohesion funds, and getting back around £8.7bn, making it the third largest net loser from the funds, after France and Germany.

- The structural funds can have a positive impact in individual cases if combined with good public administration and pro-growth policies, as the example of Ireland in the 1990s shows. However, there is no conclusive evidence that the structural funds have had an *overall* positive economic effect on Europe's economy. There are still a number of problems with the funds, including an unsatisfactory correlation between funding and results.

- Most fundamentally, involving all member states in EU regional spending, irrespective of their relative wealth, is economically irrational. As the Commission itself has admitted, this exercise creates "considerable administrative and opportunity costs."

- Firstly, it can channel funds away from where they can have the most *comparative* impact, as richer member states already attract investment, which, at worst, can be crowded out by the structural funds. Secondly, in richer member states, the structural funds mostly serve to redistribute income *within* the same regions. We estimate that of the UK's overall contribution, 70% goes to other member states, only 5% is redistributed across regions, with the remaining 25% being redistributed *within* the same region in which the funds were raised. This begs the question what the added economic value of the structural funds is for Britain.

- Of the 37 regions in Britain under the EU's classification system, 35 are *net* contributors to the structural funds, with only West Wales and Cornwall net beneficiaries. This means that some relatively poor areas lose out substantially.

- For example, we estimate that the West Midlands, which has the lowest disposable income per capita in the UK, pays £3.55 to the structural funds for every £1 it gets back. Merseyside, which has a disposable income of 88% of the UK average, pays in £2.88 for every £1 it gets back. All the regions in the North East pay in more than they get back, as does Northern Ireland (£1.58 for every £1 it gets back). All sub-regions in Scotland are likewise net losers from the structural funds.

- Some regions that are under the UK average for disposable income per capita pay far higher contribution ratios than those above the average; for example Devon (94% of the average) pays £6.58 for every £1 it gets back, while Herefordshire, Worcestershire and Warwickshire (105% of the average) pays £4.49.

- As proposed by the previous Labour Government, limiting the funds to EU member states with income levels at 90% or below the EU average could create a win-win situation. Such a move would instantly make the funds easier to manage and tailor around the needs of the poorest regions in the EU. We estimate that 22 or 23 out of 27 member states would also either pay less or get more out of the EU budget, as the funds would no longer be transferred between richer member states. This option could therefore attract strong political support in many capitals.

- To illustrate: if this policy had been adopted for the present EU budgetary period (2007-2013), France would have emerged as the biggest winner from focussing the funds on the poorer states, cutting up to €12.8bn from its net contribution to the EU budget over seven years. The UK comes second, saving up to €5.1bn (£4.2bn) over seven years. Importantly, all new member states except for Cyprus (and Slovenia under one possible scenario) would also save money on their contributions to the EU budget, with Poland gaining the most.

- Italy, Spain and Greece would all lose out substantially, but they are already set to get a smaller share of EU subsidies as recent enlargements continue to erode their net receipts. More importantly, to cope with the eurozone crisis, these countries need far more responsive and better targeted support than is currently being offered by the structural funds.

- Devolving regional policy should involve the Coalition promising to ring-fence the £8.7bn that it currently receives via the EU's structural funds for continued regional and regeneration spending around Britain. In addition, it could pledge to re-invest its projected saving of up to £4.2bn under the 90% threshold back into regional development. This would mean that virtually all UK regions would experience a rise in the amount of subsidies they receive by around 45%. For example, Cornwall could get an additional £207 million over seven years under such an arrangement.

- However, the UK must also ensure that it replaces the structural funds with something that works radically better. This could include adding a second pillar to the existing Regional Growth Fund which would see potential projects competing for an enhanced pot of cash. Rather than the current raft of, at times contradictory, objectives, the disbursement should be more heavily premised on which project has the strongest business case. The focus would be on results, rather than getting the money out of the door, as is often the case at present.

Box 1: EU Regional policy and the structural funds in brief

The EU's structural and cohesion funds are aimed at helping poorer regions in the EU catch up with richer ones, but also cover a number of other side objectives as well, such as 'social cohesion' and competitiveness along the lines of the Lisbon Agenda. They are the second largest item in the EU budget, accounting for roughly one third of total expenditure: €348.4bn over the current seven year budgetary period.[1]

The structural funds are financed directly from the EU budget, to which all member states contribute. Despite being geared towards narrowing regional disparities, all regions in all EU member states – even the richest – are eligible for at least some degree of funding.

The scope of this report covers three specific instruments: two structural funds – the European Regional Development Fund (ERDF) and the European Social Fund (ESF) - and the separate Cohesion Fund which is limited to member states with a national income below 90% of the EU average, with Spain qualifying for transitional support. In addition, a small share of funding is earmarked for projects aimed at boosting cross-border cooperation. There is no one-to-one relationship between these funds and their various objectives - for example, all of the funds have "convergence" as an objective. In this paper, the term 'Structural Funds' (SF) refers to the ERDF and ESF, while 'Structural and Cohesion Funds' (SCF) refers to all three. This is an important distinction because when we discuss the devolution of the funds back to the UK, we refer only to the structural funds as Britain is not eligible for support from the Cohesion Fund.

There is a significant body of literature looking at the benefits or otherwise of regional policies aimed at helping poorer areas to catch up with richer ones, be they top-down or bottom up, and/or more interventionist or more market-orientated. This paper is not a contribution to that debate, but rather an assessment of the effectiveness and desirability of active EU involvement in regional and regeneration programmes via the structural funds. The question is not one of whether to dismantle policies and spending programmes aimed at helping relatively poor areas – which this paper considers to be necessary – but how they can become most effective.

1 2007 – 2013 EU Multiannual Financial Framework
http://ec.europa.eu/budget/figures/fin_fwk0713/fwk0713_en.cfm

1. EU STRUCTURAL FUNDS: CURRENT STATE OF PLAY

1.1. The UK Government's position has changed

Although it has made few public references to it, the Coalition's position on reforming the EU budget appears to have changed in comparison to that of its predecessor, arguably marking a softened stance in EU talks. The Coalition has effectively three objectives in the negotiations on the EU's next long-term budget:

- Steadfastly protecting the UK rebate from further reduction,
- Freezing the overall size of the budget,
- Achieving reform through 'downward pressure' – with less money available, the cash available must be spent better.

In contrast, the previous Labour Government was explicitly in favour of bringing regional spending back to the UK. In 2003, former Chancellor and Prime Minister Gordon Brown wrote:

> *"When the economic and social, as well as democratic, arguments on structural funds now and for the future so clearly favour subsidiarity in action, there is no better place to start than by bringing regional policy back to Britain."*[2]

In 2003, Alan Johnson, then a junior Minister at the Department of Trade and Industry, also noted that exempting richer member states from EU regional spending, "would concentrate EU activity where it can add most value." He said:

> *"Devolving the delivery of regional policy in support of common objectives to Member States would entail less red tape and bureaucracy…We believe that actually we could introduce huge cuts in bureaucracy and rid ourselves of the frustration of dealing with that process by having a properly structured, debated and set out method, whereby, richer European Union countries did not go through that wasted process."*[3]

A number of subsequent Government policy papers also argued this point including a Treasury note in 2008, which stated that "Structural Funds in the richer Member States should be phased out."[4]

This aim is not part of the Government's negotiating position on the EU's next long-term budget (to run from 2014 to 2020), and on the whole, such language has not found its way into the Coalition's statements on Europe, although Deputy PM Nick Clegg did say in a recent interview that:

> *"My view is that we can do a lot to help countries like Poland by not spending structural funds in other parts of the EU where they are not needed that much."*[5]

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2 *The Times*, 'As the EU expands, we must repatriate some of the power from Brussels' 6 March 2003 http://www.thetimes.co.uk/tto/law/columnists/article2045877.ece

3 Alan Johnson MP: 'London's Perspective' - Consultation on the future of EU Structural Funds post-2006, speech delivered on 6 May, 2003 http://webarchive.nationalarchives.gov.uk/+/http://www.dti.gov.uk/ministers/speeches/ajohnson060503.html

4 HM Treasury, 'Global Europe: vision for a 21st century budget' June 2008 http://www.hm-treasury.gov.uk/d/global_europe190608.pdf, page 17

5 *The Economist*, 'An interview with Nick Clegg' 30 September 2011 http://www.economist.com/blogs/eastern-approaches/2011/09/britain-and-europe

Box 2: UK regional policy before the structural funds

Up until the 1980s, the UK's approach to regional policy was heavily state centric; businesses wishing to invest in less advantaged areas were targeted with loans, grants, and other incentives, while nationalised industries were an integral part of the process. This changed with the passing of the 1980 Local Government, Planning and Land Act, which established Michael Heseltine's Urban Development Corporations. These switched the focus from wide swaths of the country to more targeted pockets of depravation with growth potential, and mixed state-funded infrastructure with private sector investment.

The UK became a pioneer in this area and achieved notable success in urban regeneration, in particular of the London docklands. The Labour Government continued many aspects of this policy, but it also re-introduced a larger-scale approach with the establishment of the Regional Development Agencies (RDAs), whose objectives largely mirrored those of the EU's structural funds. Another significant development in regional policy under Labour was devolution, which transferred a range of competencies, including the administration of the funds, to the new Scottish, Welsh and Northern Irish administrations.

Under the Coalition, regional policy has been seen as an integral part of achieving the overall objective of 'rebalancing' the UK economy away from its significant reliance on financial services and the City of London,[6] even if overall funding has been cut back as part of the deficit reduction programme. The Coalition was not convinced of the effectiveness of the RDAs, and replaced them with Local Enterprise Partnerships with additional Enterprise Zones[7], which aim to promote economic growth at the local level through partnerships between local authorities and businesses. The Coalition has also set up a separate Regional Growth Fund which operates on a national scale, and which targets areas and communities currently dependent on the public sector to make the transition to private sector-led growth and prosperity.[8]

The current EU-driven policies therefore do not attempt to achieve anything above and beyond what the UK has tried before, and what could not be done in the absence of EU funding and guidelines. In fact the period during which the UK's regional policy was arguably at its most successful was when it was innovative, adaptive, and consciously moved away from the EU's preferred model of targeting wide areas, targeting specific pockets of poverty, particularly in urban areas, instead.

1.2. What are the objectives and eligibility of the structural funds?

The funds have three specific objectives, which in turn are targeted at particular regions depending on their eligibility.

Convergence: Financed from all three funds, this objective accounts for 81.5% of total spending. It aims to help both the least-developed member states, and less-developed regions within member states to catch up with the rest of the EU. Regions with a GDP that is below 75% of the EU average are eligible, while a number of regions in the older member states (EU15) receive transitional support due to the impact of enlargement on the level of average EU GDP.

Regional Competitiveness and Employment: Financed by the two structural funds, this objective accounts for 16% of total spending. It aims to boost innovation, competitiveness and employment in regions other than the most disadvantaged, with a focus on social inclusion and tackling discrimination in labour markets.

European Territorial Co-operation: Financed solely by the ERDF, this objective accounts for only 2.5% of total spending. It aims to strengthen cross-border cooperation between regions.

To add to the complexity, the EU has other financial instruments which pursue similar objectives to the structural and cohesion funds. For example, the European Agricultural Fund, which comes under the Common Agricultural Policy (CAP), aims to promote development in rural areas, while the European Globalisation Adjustment Fund, which falls outside the main EU budget, very much duplicates the skills and re-training objectives of the ESF.

The objectives of the structural funds are therefore multiple and overlapping - from strictly economic goals to more subjective social and political ones - and do not necessarily always complement each other.

6 To read more about the importance of the City of London and financial services to the UK economy refer to Open Europe's 2011 'Continental Shift' report http://www.openeurope.org.uk/research/continentalshift.pdf

7 Department for Business, Innovation and Skills – Local Enterprise Partnerships and Enterprise Zones http://www.bis.gov.uk/policies/economic-development/leps/lep-toolbox/enterprise-zones

8 Department for Business, Innovation and Skills – Regional Growth Fund http://www.bis.gov.uk/RGF

1.3. How are they raised and spent?

i) Raised and spent at the national level but routed via Brussels

The structural funds are financed directly from the EU budget, and their size and distribution are agreed amongst member states and the European Parliament ahead of each new long-term EU financial framework (MFF), usually running for seven years, with a limited ability for member states and the European Parliament to adjust the funding on a yearly basis. Although there is a net transfer from richer member states to poorer ones, since all regions in all EU member states are eligible for at least some degree of funding, the result is not a classic redistributive model but more a circular flow of money around the EU with Brussels as the hub (see section 2.2).

The EU's system for dividing regions and allocating the funds is called NUTS[9], and it consists of three sub-units. NUTS 1 is the biggest unit and in the UK includes, for example, the North East, Yorkshire and the Humber, Greater London and the devolved administrations. NUTS 2 is the second biggest, and is used to determine which regions qualify for additional support. NUTS 3 is the smallest unit of measurement and plays a limited role in determining the allocation of funds. Under EU rules, once the allocations are decided, there is no possibility for the UK Government to adjust the distribution of money around the regions.

ii) Project delivery

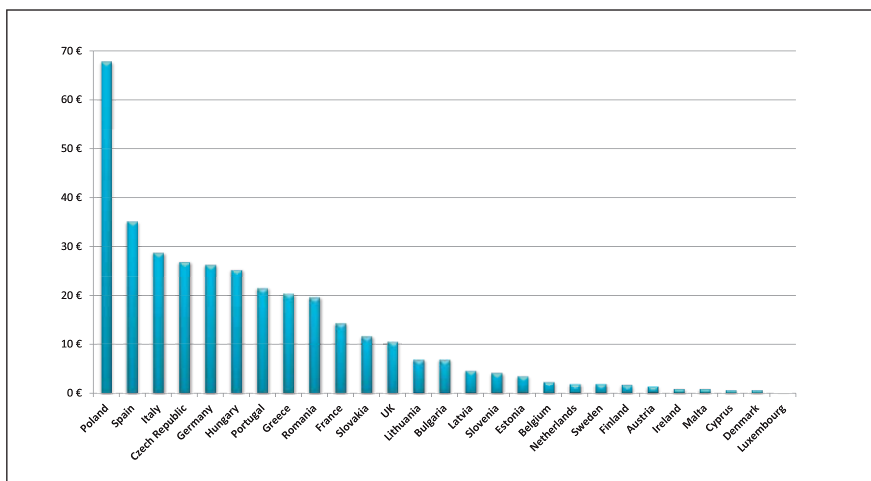
Individual projects can range from large-scale infrastructure development to support for small businesses. The money is paid out by designated authorities in the member states, which are in turn reimbursed by the EU. For any project to be eligible for EU financial support, it must first secure matching funds from other sources such as national or local authorities, and/or the private sector – usually between 15% and 50% depending on the funding instrument and objective. Co-financing is in theory meant to serve as a form of conditionality ensuring that national governments remain committed to the money being spent in the most effective way.

The projects have to conform to a set of EU guidelines and regulations, and the Commission can withhold or demand the return of funds in cases where these have been breached. Around 5% of projects are scrutinised by the European Court of Auditors, the EU body in charge of auditing EU spending.

1.4. Winners and losers under the present system

Of the total €348.4bn of cohesion funding over the current budgetary period, €347.1bn has been allocated directly towards investment in member states, while €1.3bn has been directed towards inter-regional programmes and technical assistance. Graphs 1 and 2 show the money allocated to member states in absolute terms and also receipts allocated per capita.

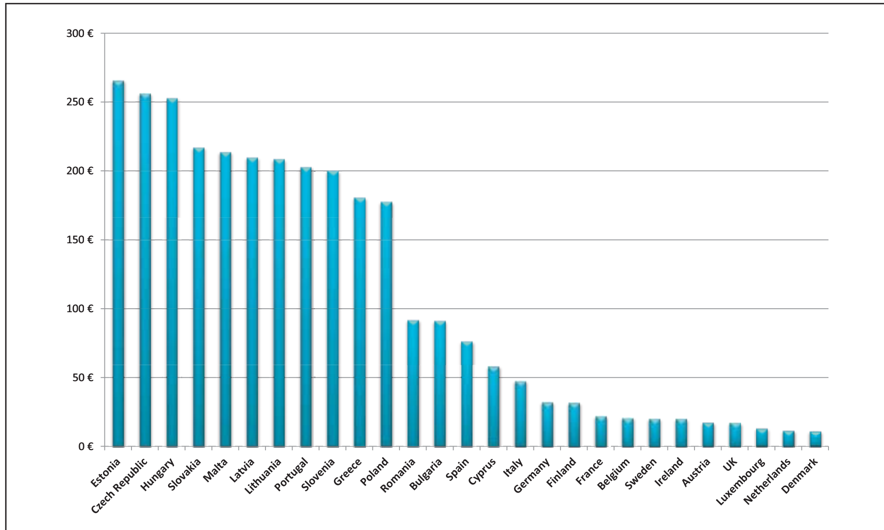
Graph 1: Structural and cohesion funds allocation 2007-2013 (€bn)



Source: EU Commission

9 NUTS (Nomenclature of Territorial Units for Statistics) regions are the EU's category for referencing territorial subdivisions within member states and are used as the basis for allocating structural funds. They may or may not correspond to existing national administrative subdivisions.

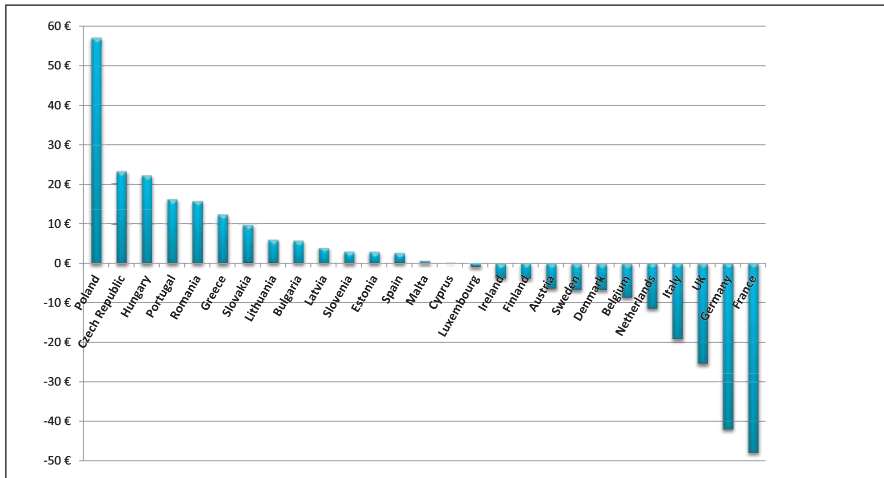
Graph 2: Structural and cohesion funds allocation per capita 2007-2013 (€)



Sources: European Commission, World Bank, Open Europe Calculations

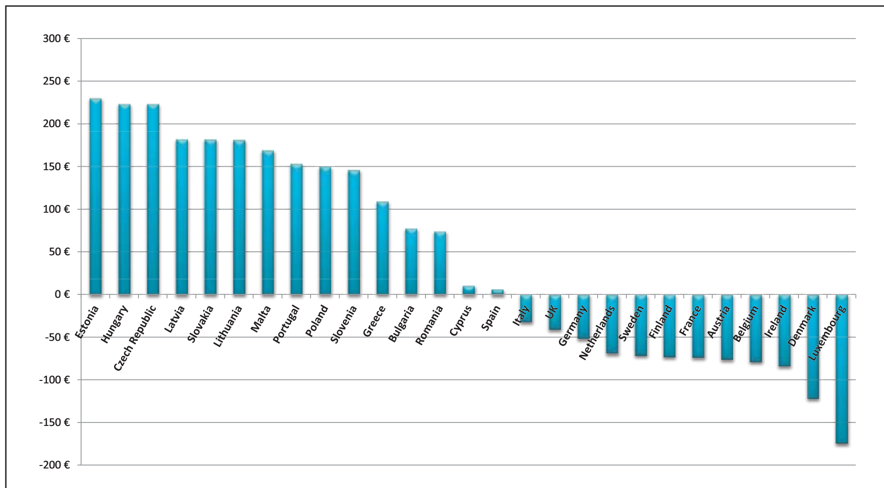
However, as we shall see in section 2.2, looking at the absolute amount of money a certain region or country receives only tells a small part of the story. Net contributions and net receipts, using various measurements, are far more important in terms of understanding where the money is raised and where it goes.

Graph 3: Net structural and cohesion funds allocation 2007-2013 (€bn)



Sources: European Commission, Open Europe Calculations

Graph 4: Net structural and Cohesion funds allocation 2007–2013 per capita (€)



Sources: European Commission, World Bank, Open Europe Calculations

The graphs show that overall, as expected, the biggest winners under the present system are the new Central and Eastern European member states, as well as Portugal and Greece. The biggest losers are the Benelux countries, France, Germany and Denmark. Ireland, which benefited significantly from the SCF after joining the EU, has since become one of the biggest losers in per capita terms.

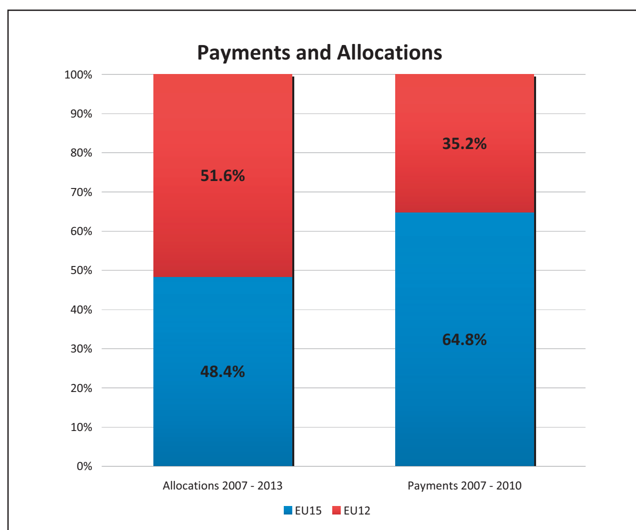
Significantly, larger receipts do not equate to a better position overall. This is evident from comparing the UK's position with that of France or Germany, who receive more money but have a worse net position. Therefore, for net contributors to the EU budget, higher receipts come at the cost of higher inputs.

Allocations versus payments

In reality, however, there is a gap between allocated funds and money actually paid out. There are several reasons for this, which we look at in further detail in section 2.2, but the consequence is usually that the newest member states, which get allocated the most money but that have limited administrative capacity to absorb the funds, get proportionally less than their allocated share.

For the entire 2007-2013 period, only 51.6% of the Structural and Cohesion Funds were allocated to the new states, with the rest going to richer member states. However, of the actual payments up until 2010, 65% went to richer member states.[10] This is because the newer member states tend to be more at risk of developing a 'backlog' due to difficulties in absorbing the funds. There are many reasons for this, but the consequence is that the actual proportional targeting gets even worse.

Graph 5: Allocation vs Payments, EU15 and EU12



Sources: European Commission, Open Europe calculations

1.5. How much does the UK get?

The UK has been allocated a total of €10.6bn (£8.7bn) from the structural funds for the 2007-2013 period[11]. Using the UK's average direct national contribution to the EU budget between 2007-2011 as an indicator, we calculated that the UK's total contribution to the structural and cohesion funds over the whole budgetary period totalled almost €36bn (£29.5bn), resulting in an estimated net contribution of €25.3bn (£20.8bn). We estimate that the UK's net per capita contribution is - €40.74 (-£33.38).

Due to divergent levels of prosperity across the UK, different regions get different amounts, and there is not always a clear link between relative levels of wealth and the amount received in structural funds. Only two out of the UK's 37 NUTS 2 regions are net recipients from the structural funds. These are Cornwall and the Isles of Scilly, and West Wales and the Valleys, which are both eligible under the Convergence objective. Scotland's Highlands and Islands region has 'Phasing-out' status, Merseyside and South Yorkshire have 'Phasing-in' status, while all remaining 32 UK regions qualify for the Regional Competitiveness and Employment objective as they are deemed sufficiently prosperous by EU standards.

10 On the poor targeting of the funds, the Sapir report noted, "National political constraints mean that each government worries more about being able to flag a negotiation success (i.e. obtaining a significant share of EU money to be spent in its own territory) than about being sure that money is spent on worthwhile projects, let alone those fostering convergence in the EU as a whole."

11 Figures in EUR are in 2004 prices. Figures in GBP have been converted into sterling using an average 5 year exchange rate from between 2007 – 2011 (for more details on currency and price calculations please refer to Annex 3)

2. ARGUMENTS FOR AND AGAINST EU-LEVEL REGIONAL SPENDING

In this section we will look at the arguments for and against the current system, i.e. having an EU regional policy involving all 27 member states, with every region, even the richest ones, receiving EU subsidies. Again, this is not a discussion about the merits of regional development spending *per se*, but an assessment of the effectiveness of having active EU involvement in all member states.

Box 3: Inconclusive on growth, jobs and convergence

There is no conclusive evidence showing that the SF have had an overall positive economic impact on the EU's economy, or even on individual measures such as growth, jobs and regional convergence. A huge body of literature has looked at the impact of the funds and produced mixed results – and at times radically different conclusions (see Annex 1 for a review of the literature).

All the academic literature covering the SF's impact on convergence, growth and jobs suffers from a number of shortcomings:

- While it is possible to show benefits in individual cases, it is virtually impossible to construct a meaningful counterfactual, i.e. to establish whether any growth and convergence attributed to the SF would *not* have taken place in their absence.
- It is extremely difficult to isolate SF from other economic and political factors, such as monetary and fiscal policies, FDI flows, or labour market reforms. In turn, it is difficult to establish a definite causal relationship between funding and growth and/or convergence.[12] As the influential Sapir report for the European Commission noted: "there is simply not enough relevant regional GDP data for statistical procedures to distinguish the effects of cohesion policies."[13]
- The macroeconomic models which attempt to measure the impact of the SF – including those used by the Commission – likewise suffer from numerous shortcomings and rest on unrealistic assumptions such as complete and perfectly efficient markets (see Box 4 for a full discussion of this issue).
- The opportunity cost (see section 2.2 C)) is extremely difficult to quantify. Although the European Commission accepts that there are some opportunity costs in its models, its generalised and preferred 'discount rate' used to estimate this cost cannot possibly capture the huge circumstantial divergence between the hundreds of regions and thousands of projects funded by the SF.[14]
- Given that these funds are aimed at structural reform, the effects of policies – negative or positive – take time to become evident. For example, the potential opportunity cost involved in propping up an economically unviable industry may only become clear once the business finally goes bust, at which point other economic opportunities have already come and gone (however, the reverse is also true).

2.1. Arguments in favour of EU-level regional spending

A) Can boost growth and convergence in individual cases

While there is no conclusive evidence showing that the SF have had an overall positive impact on Europe's economy, there are individual cases where they have played a positive role, even when considering the costs attached to them.

Ireland in particular is often heralded as the 'poster child' of the success of EU structural funds in boosting growth and convergence, for good reason. Between 1987 and 2000, Irish Gross National Product (GNP) expanded by 140%[15] with the country experiencing a radical increase in SCF from 1989 onwards. In the decade between 1989 and 1999, Ireland's GDP went from 72% to 111% of the EU average.

12 A study for *Gesellschaft für Finanz- und Regionalanalysen* – a consultancy specialising in evaluating the impact of the SF – looking at the use of economic models noted that: "We conclude with the observation that the impact analysis of Cohesion Policy interventions is very complex and the final results shown to the audience are determined by a series of hidden decisions taken by the modellers which are seldom obvious but determine the outcome". *GEFRA Working Paper: July 2007 – Nr. 3* 'Do economic models tell us anything useful about Cohesion Policy impacts?' http://www.gefra-muenster.org/downloads/doc/GEFRA-WP-3-2007.pdf, page 29

13 The report also noted the absence of data on other regional characteristics, such as initial income, human capital, local industrial structures, quality of local administration, the peripheral nature of the region, and of random influences. European Commission (2003) Sapir Report; 'An agenda for a growing Europe, Making the EU Economic System Deliver, Report of an Independent High-Level Study Group established on the initiative of the President of the European Commission' http://www.umic.pt/images/stories/sapirreport.pdf, page 60

14 To account for opportunity cost, the Commission recommends that a 5% financial discount rate in real terms is used as an indicative benchmark for public investment projects co-financed by the Funds. This is a lower discount rate than it recommended for the 2000-2006 programming period which is said reflects "changing macroeconomic conditions in the EU". See: http://ec.europa.eu/regional_policy/sources/docoffic/2007/working/wd4_cost_en.pdf, page 8

15 Barry F, Bradley J and Hannan A (2001) 'The Single Market, The Structural Funds and Ireland's Recent Economic Growth' http://www.tcd.ie/business/staff/fbarry/papers/papers/jcms.PDF

A range of studies have looked at the extent to which these impressive convergence rates can be attributed to the SCF. Some convincing evidence shows that they did play a role, though they were not the dominant factor. As with the impact of the SCF more generally, it is hard to isolate the specific effects of the funding stream from other factors. But they suggest that the amount of SCF cash that was injected into the Irish economy in the 1990s – at one point accounting for up to 4% of Irish GDP[16] – was large enough to have had an overall economic impact.

The Irish Government, it appears, managed to use the SCF to complement a range of national pro-growth policies – such as opening up the economy, labour market reforms and lowering the corporate tax – by investing in human capital, research and infrastructure.

A study by Mary Farrel looked at why Ireland experienced faster growth and convergence than Spain, noting that Ireland's investment of its SCF in developing human capital, as opposed to Spain's primary focus on infrastructure, in part helps to explain the growth differential between the two countries. Also, since Ireland was small enough to qualify as a region in itself, it could pursue a uniform development policy, while Spain experienced varied growth across its regions.[17]

Barry et al (2001) concluded that "both the single market and EU funds played a role in Ireland's economic performance" in addition to national policies,[18] while a paper from the World Bank attributed Ireland's success to single market access and national policies, arguing that the impact of the SCF had been limited[19].

The picture from the other older member states that have received large amounts of SCF since the 1980s – Greece, Portugal, Spain and Italy – is far more mixed, with the record in southern Italy looking particularly bleak (see Annex 1). However, several studies have pointed to a positive impact during limited time periods in individual regions, such as Andalusia in Spain.[20]

The case of EU12

There are few credible studies looking at the impact of the SCF in the 12 countries that have joined the EU since 2004 (EU12). This is because measuring the impact of the funds takes time, and in any case would be very difficult to separate from accession funding – the money a country gets leading up to its EU accession. However, the case of Ireland suggests that the funds have a far greater chance of having a positive impact if they are targeted, over a limited period, at transitional economies which are undertaking a range of domestic structural reforms, and which enjoy a sudden surge in market access. This, in itself, is a strong argument for the basic principle of keeping SCF for the newest member states. We will look at this argument in greater detail in section 2.2.

B) Regional governments and authorities get a 'fairer hearing' in Brussels

Regional governments and authorities across the EU – and particularly in the UK – perceive that engaging directly with the EU increases their chances of securing funding.

They argue that they receive a more sympathetic hearing than from their own central governments, especially if their region has traditionally been less advantaged in national terms. This has definitely been a factor for the UK's devolved administrations, which now have offices in Brussels for this very purpose, and continue to receive funding via the EU.[21] As Welsh First Minster Carwyn Jones argued recently:

> *"I have no doubt at all that Welsh communities see real benefits from EU funding…Our voice will continue to be heard loud and clear in Brussels as we seek to make sure our communities continue to benefit."*[22]

16 Barry F, Bradley J and Hannan A, (1997), 'The European Dimension: The single market and the structural funds, in 'Understanding Ireland's Economic Growth' ed. Barry F.

17 Farrell, M (2004) Regional Integration and Cohesion - Lessons from Spain and Ireland in the EU. *Journal of Asian Economics*, 14(6), pp. 927-946.

18 Barry et al (2001).

19 On balance, a World Bank report concluded that: "it seems that national policies and the single market played a much more important role in Ireland's impressive growth than EU policies."

20 Lima, M and Cardenette, A (2008) 'The Impact of European Structural Funds in the South of Spain' Department of Economics, Universidad Pablo de Olavide, Seville http://www.macardenete.com/wp-content/uploads/2010/08/EPS_2008.pdf

21 For a discussion, see Bulmer S. et al (2006) 'UK devolution and the European Union: a tale of cooperative asymmetry?' Publius, 36 (1). pp. 75-93. http://publius.oxfordjournals.org/cgi/content/abstract/36/1/75

22 BBC News 'Carwyn Jones: Wales better off thanks to EU funding' 10 August 2011 http://www.bbc.co.uk/news/uk-wales-politics-14424362

Similarly, the idea of restricting the SCF to new member states only and allowing the richer countries to run their own regional policies, is often resisted by UK regions on a 'better the devil you know' basis: if spending were brought back to the UK, there would be no guarantee that their region would continue to receive as much funding under national priorities. Equally, regional authorities may believe that in spite of the practical limitations of EU funding, it does at least provide a constant and predictable source of income, given that allocations are largely fixed for a seven year period.

While this position is politically understandable, as we shall see in section 2.2, it rests on flawed economic logic.

C) EU more trusted than some national governments

Conversely, national governments in countries which experience difficulties in managing large payments due to an inefficient bureaucracy and higher levels of mismanagement may find it preferable to cycle money through Brussels, rather than their own national governments, due to the EU's guidelines and regulations which they perceive as imposing additional discipline. This may be difficult for British, Dutch or Swedish audiences to grasp, but this has been a factor in countries like Italy and Greece.

D) Political cover for the single market

It is widely acknowledged that the structural funds have been a way for the EU and national governments to sell economically liberalising measures to at times sceptical electorates. As such, they perform a similar function to other interventionist EU activities like social and employment law and the Common Agricultural Policy, which can be regarded as a "subscription fee" for more economically liberal member states such as the UK to access the single market – and a side-payment for countries with a more protectionist record.

E) EU visibility and European Solidarity

The structural funds are also a way for the EU to increase its visibility on the ground and to demonstrate its 'practical benefits' directly to EU citizens, for instance through improvements to infrastructure via the ERDF or the Cohesion Fund, and/or participating in skills and re-training programmes financed by the ESF. The Commission is very open about this and describes its regional policy as "an expression of the EU's solidarity with less developed countries and regions"[23], while individual projects are seen by supporters of the current system as a way for the EU to "show its face" at a local level (although whether this actually works is a different discussion).[24]

While this line of argument is not universally accepted, it is nonetheless commonly cited in defense of the status quo. For example, a 2010 report the House of Lords' EU select committee argued explicitly against scrapping the ESF for richer member states, citing among others the following claim:

> *"In particular, we agree with the Commission that the ESF is a concrete expression across the EU of solidarity among all of Europe's citizens."*[25]

Similarly, Spanish Secretary of State for European Affairs Diego López Garrido said last year that:

> *"We joined the European Union when our income was around 75% of the European average, and we are now above that average…This would not have happened without a policy of European solidarity, expressed by the structural funds"*[26]

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23 European Commission – Regional Policy webpage
http://ec.europa.eu/regional_policy/what/index_en.cfm

24 *EurActiv* 'Rich countries should also benefit from regional funds: MEP' 22 March 2011
http://www.euractiv.com/regional-policy/rich-countries-benefit-regional-funds-mep-news-503329

25 House of Lords European Union Committee 9th Report of Session 2009–10: 'Making it work: the European Social Fund'
http://www.publications.parliament.uk/pa/ld200910/ldselect/ldeucom/92/92i.pdf

26 Interview with *Campus Digital* (Universidad de Murcia's official website), 'Diego López Garrido, Secretario de Estado para la Unión Europea: Si hay un país Europeísta, es España', 18 April 2011, http://redi.um.es/campusdigital/entrevistas/14321-diego-lopez-garrido-secretario-de-estado-para-la-union-europea-si-hay-un-pais-europeista-es-espana

Box 4: Why the Commission's models to evaluate the SF should be treated with caution

There is an intense debate currently taking place between macroeconomists over the validity of economic models like those used by the European Commission to evaluate the effectiveness of policies such as the SCF.[27] The so-called QUEST models, for example, are often used by the Commission and others to estimate the potential impact of SCF. While they can provide some insight, QUEST models are built on the assumptions of rational actors and efficient markets. As the Commission openly admits in one of these studies,

> *"It should also be stressed that these results are based on a macroeconomic analysis and depend crucially on the underlying assumption that the money is spent efficiently."*[28]

With respect to the SCF, this means that the models assume that the funds are spent on the most rational (productive) projects and are used completely efficiently. As another Commission study admits, "They [the QUEST models] assume no money is wasted on suboptimal projects."

As our report shows, it is simply not the case that under the SCF resources are either allocated or spent in the most efficient way. Even if the Commission's assumption could hold (which it cannot), it would probably conflict with the aim of boosting convergence. As we note in section 2.2. (C, spending money on projects with the potential to generate the most growth could steer resources away from poorer regions, in turn undermining convergence. It is the comparative best use that counts.

Modelling the potential impact of the SCF in this way can never take into account the deadweight costs, wasted funds, or mismatch between payments and allocations that the ex-post data highlights. Neither is there any way that these models can fully account for the opportunity costs which need to be factored in with the allocation of funds, nor the impact of issues such as the diverse crowding out across economies and regions in the EU.[29]

For example, in a report for the European Commission, Janos Varga and Jan in't Veld (2010), use a QUEST model to predict that the existence of co-financing will be beneficial in the long run since it will result in higher levels of overall investment (accepting potential crowding out effects in the short run). But the study implicitly assumes that member states will actually be able to come up with all the match-funding required to unlock the funding. All the ex-post evidence suggests that this is almost never the case – even more so when economic circumstances change.[30]

These models do have their uses but arguably not in the case of SCF. As our report highlights, the key question when assessing the SCF is how best to target and allocate them to maximise efficiency and effectiveness. However, these questions are already built into models such as QUEST through its many assumptions. It is highly questionable as to whether these models should have a role to play in serious policy decisions relating to the future of the SCF, not because they provide the wrong answer, but simply because they cannot ask the right questions.

27 In particular, the so-called New-Keynesian Dynamic Stochastic General Equilibrium (DSGE), used by international institutions such as the Commission, has come under criticism given its failure to anticipate the financial crisis.

28 ECFIN European Economy Economic Paper , no. 387, October 2009. http://ec.europa.eu/economy_finance/publications/publication16016_en.pdf

29 Evidence from the numerous studies suggests the models are sensitive to changes in hard to estimate variables such as output elasticity of public investment – a key variable when considering the impact of SF (imported public spending for a large part).

30 The study does model impact of absorption problems, which have substantial effect on potential outcomes, yet this is not incorporated into the central scenario of the model. Varga, J., in 't Veld, J. (2010). The Potential Impact of EU Cohesion Policy Spending in the 2007-13 Programming Period: A Model-Based Analysis. ECFIN European Economy Economic Paper, no. 422

2.2 Arguments against EU-level regional spending

A) An ineffective tool for redistribution

There is a basic tension between the subsidiarity principle – the idea that the EU should not get involved in policies that are better handled nationally or locally – and the EU's structural funds, which are per definition *regional*.

Despite this tension, the Commission justifies its involvement by arguing that the SCF generate high levels of "European added value", which it defines as:

> *"value resulting from an EU intervention which is additional to the value that would have been otherwise created by Member State action alone."*[31]

The first test of the effectiveness of the structural funds is therefore whether the *redistribution* itself actually makes sense in light of these aims and the subsidiarity principle. Redistribution through structural policies can take place in one of the following specific ways:[32]

- *Across countries*, with a country being either a net beneficiary or a net recipient,
- *Across regions*, just as countries, a region can either be a net beneficiary or a net recipient,
- *Within regions*, with capital redistributed between individuals and groups in the same region

In order to justify heavy EU involvement in regional spending, there would have to be at best, a large degree of redistribution *between* countries, or at least, across regions in the same country, which add some sort of economic value. After all, there cannot possibly be any "added European value" in merely reinforcing redistribution between individuals in the same region.

While Section 1.3 demonstrated that following enlargement, the SCF definitely re-distribute capital from more to less wealthy member states, a paper for the Bruegel think-tank authored by Indhira Santos (now at the World Bank) in 2008 noted that:

> *"for most [EU15] countries, structural funds largely redistribute resources among individuals within regions. This finding renders questionable the ability of EU structural policy to achieve its objectives of promoting growth and reducing regional disparities."*[33]

In Graph 6 we have updated Santos' figures, to get an idea of the redistribution patterns of the SF in EU15. We excluded the Cohesion Fund as it is clear that this is a genuinely redistributive policy (since it only focuses on the poorer countries).[34]

The graph suggests that not only is a huge share of SF in EU15 redistributed within a country, but also *within* the same region. A few countries stand out:

- 70% of the UK's structural fund flows are in the form of subsidies to other countries, which is unsurprising given that it is a big net contributor overall. However, only 5% of its flows actually comprise re-distribution across regions, meaning that of the remainder, local taxpayers are financing their own region, albeit via the EU.
- Spain, a net beneficiary from the EU budget during this budget period, surprisingly has only 8% of its SF receipts originating from other EU countries. 54% of the funds allocated to a Spanish region come from that same region.[35]

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31 'The added value of the EU budget', Commission Staff Working Paper accompanying the Commission Communication 'A budget for Europe 2020', Brussels, 29.6.2011 SEC(2011) 867 final http://ec.europa.eu/budget/library/biblio/documents/fin_fwk1420/working_paper_added_value_EU_budget_SEC-867_en.pdf

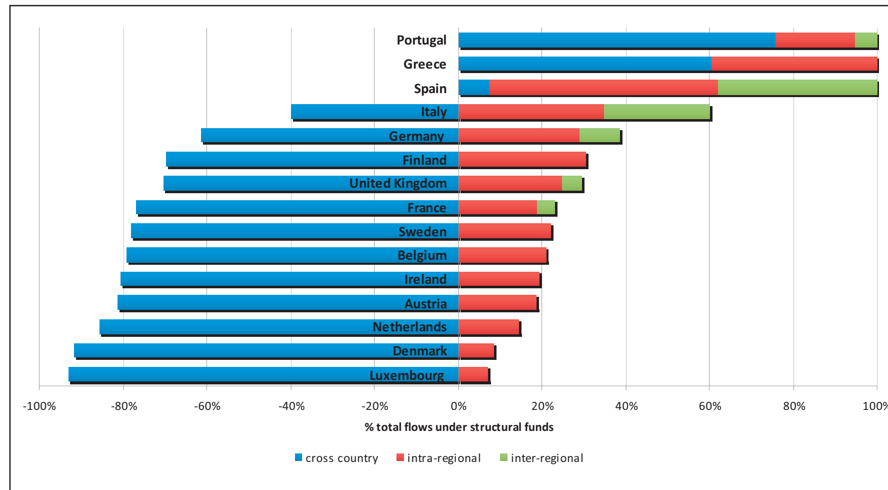
32 As pointed out by Indhira Santos in her Bruegel paper 'Is structural spending on solid foundations?' February 2008 http://www.bruegel.org/publications/publication-detail/publication/8-is-structural-spending-on-solid-foundations/

33 Ibid.

34 The Cohesion Fund is allocated on a country-by-country basis, and is therefore genuinely cross-border in its redistribution effects. We also limit the analysis to EU15, as again, the new member states are clearly subject to cross-border flows by virtue of being net recipients and eligible for support from the Cohesion Fund. However, it is also difficult to obtain comparative date for the new member states, which limit the possible scope of the analysis. See Annex 2 for a more in-depth discussion.

35 However Spain also receives support from the Cohesion Fund, which could partly offset these redistributive trends.

Graph 6: Structural Fund flows within and between countries



Sources: Santos (2008) dataset, Open Europe Calculations

- Even in Greece, which is a clear net beneficiary from the EU budget, the picture is far from clear cut. Although it gets 60% of its structural funds from other countries, 40% of its funds are re-distributed *within* regions.
- Co-financing, which is usually raised locally from businesses or authorities, adds to the effect of intra-regional distribution.
- This suggests that from the point of view of redistribution, it makes far more sense to focus on the new member states in order to achieve genuine redistribution, rather than a circular flow.

B) Poor targeting: how poor regions can lose out

The redistribution patterns we highlight above also raise questions over how many regions actually come out net beneficiaries from the SF. The relative wealth of a region can change radically depending on which measurement is used. The EU uses GDP or GVA per capita[36] to measure wealth.

However, an equally good, if not better, measurement is disposable income (DI) per capita, as this better reflects relative wealth levels of individuals, including spending power and ability to meet living costs.[37] When taking into account the SF contributions of UK regions and setting them alongside DI per capita, it becomes evident how little correlation there actually is between a region's relative wealth levels and how much it gets from the SF (see Table 1).

When looking at the contribution ratios for each UK region; i.e. how much they have to contribute in order to receive £1 back via the SF, we see that:

- The West Midlands, a region containing many pockets of urban deprivation following the decline of its traditional industries, and which has the lowest disposable income per capita in the UK, pays £3.55 for every £1 it gets back.
- Other less advantaged English regions that are nonetheless net contributors include Merseyside, which effectively pays £2.88 for every £1 it gets back, Manchester, which pays £2.99, Lincolnshire, which pays £4.55, and Derbyshire and Nottinghamshire which pays £4.39.
- Northern Ireland, another region that has traditionally relied on support to address its social and economic problems, pays £1.58 for every £1 it gets back.
- Some regions that are under the UK average DI per capita pay far higher contribution ratios than those over it; for example Devon (94%) pays £6.58 for every £1 it gets back while Herefordshire, Worcestershire and Warwickshire (105%) pays £4.49.

36 GVA measures the contribution to the economy of each individual producer, industry or sector. GDP is derived from GVA by adding taxes and subtracting subsidies on products. Essentially, GVA measures output divided by population.

37 GDP/GVA does not account for factors such as commuting, demographic trends, productivity factors and population structures.

Table 1: UK regions' net contributions to the structural funds

Region	Contribution (£m)	Receipts (£m)	Net Receipts (£m)	GDP per capita(PPP) (£)	Disposable Income per (PPP) (£)	Disposable Income (% of UK average)	Contribution per £ received
West Midlands	1,077	303	-774	21,388	15,219	83	3.55
Tees Valley and Durham	489	213	-276	16,717	15,576	85	2.30
South Yorkshire	556	199	-357	18,356	15,767	86	2.79
Northumberland, Tyne and Wear	607	259	-348	19,913	15,954	87	2.35
West Wales and The Valleys	819	2,072	1,253	14,914	15,978	87	0.40
East Riding and North Lincolnshire	397	138	-260	18,602	16,076	87	2.88
Lancashire	634	216	-418	18,684	16,157	88	2.93
Merseyside	593	206	-388	16,963	16,170	88	2.88
West Yorkshire	964	328	-636	20,978	16,224	88	2.94
Greater Manchester	1,145	383	-762	21,470	16,438	89	2.99
Cornwall and Isles of Scilly	238	462	225	15,324	16,601	90	0.51
Derbyshire and Nottinghamshire	937	214	-724	20,323	16,791	91	4.39
Highlands and Islands	203	188	-16	17,700	16,864	92	1.08
South Western Scotland	1,073	401	-673	30,894	17,294	94	2.68
Devon	530	80	-450	18,028	17,295	94	6.58
Lincolnshire	325	71	-253	16,717	17,300	94	4.55
Northern Ireland	826	523	-303	19,011	17,303	94	1.58
Shropshire and Staffordshire	713	176	-537	17,946	17,360	94	4.05
East Wales	515	178	-338	22,535	17,469	95	2.90
Cumbria	238	75	-163	18,438	17,622	96	3.19
Leicestershire, Rutland and Northamptonshire	810	169	-642	23,355	18,133	99	4.80
East Anglia	1,139	148	-991	22,289	18,225	99	7.67
Eastern Scotland	996	338	-659	21,142	18,698	102	2.95
Hampshire and Isle of Wight	962	90	-872	23,764	19,255	105	10.64
Kent	860	81	-778	19,093	19,299	105	10.64
Gloucestershire, Wiltshire and North Somerset	1,198	161	-1,037	25,977	19,318	105	7.42
Herefordshire, Worcestershire and Warwickshire	810	169	-642	20,486	19,347	105	4.49
Dorset and Somerset	646	89	-557	19,831	19,372	105	7.28
North Yorkshire	417	119	-298	21,224	19,664	107	3.51
Cheshire	535	150	-385	25,321	19,714	107	3.58
Essex	909	108	-801	20,077	19,886	108	8.37
North Eastern Scotland	256	89	-168	24,502	21,108	115	2.91
Outer London	2,694	316	-2,377	21,552	21,570	117	8.51
Bedfordshire and Hertfordshire	988	107	-881	25,813	21,893	119	9.20
Berkshire, Buckinghamshire and Oxfordshire	1,338	107	-1,232	31,631	22,634	123	12.56
Surrey, East and West Sussex	1,644	129	-1,514	24,830	23,010	125	12.70
Inner London	2,326	207	-2,119	68,179	28,538	155	11.26

Sources: European Commission, Eurostat, ECB, Open Europe calculations

The distribution highlighted in Table 1 contrasts with a 2010 report by the Department for Communities and Local Government, which found that 98% of England's most deprived areas were urban, and listed Liverpool, Middlesbrough, Manchester, Knowsley, Kingston-upon Hull, Hackney and Tower Hamlets as having the highest proportion of deprivation.[38] But every single one of these areas comes under NUTS 2 regions which are net contributors to the SF. For example Liverpool and Knowsley come under Merseyside, which despite having 'Phasing-in' status (qualifying it for additional support) is still a net contributor to the SF.

All economic criteria have flaws, but having regional spending locked in at the EU level invariably means that there needs to be a single measurement for all the 27 countries and several hundred regions involved, rather than one better tailored to individual countries, and until this is addressed, these shortcomings will remain.[39]

Looking ahead to 2014

Under the Commission's provisional eligibility classification for the next financial framework (2014-2020), Cornwall is set to lose its status as a 'Convergence' region. Instead it and 7 other UK regions[40] are to qualify under the new 'Transition' status which will cover regions with a GDP per capita that are between 75% and 90% of the EU average. However, given that under the 'Phasing-in' and 'Phasing-out' categories these regions are still net contributors, this is also likely to be the case under the new 'Transition' regions.

C) Conflicting aims: return of capital vs convergence

The above redistribution patterns link with a key question: what is the actual aim of the funds? Is it to channel funds to where they can generate the most return, or is to foster convergence between regions? In the current SCF set-up, there is a clear conflict between the two, which leads to a wasteful allocation of resources.

If the aim of the SCF is to foster growth, then the funds should be channelled to areas where each invested euro can generate the greatest *absolute* return – where the so-called Marginal Product of Capital (MPK)[41] is the highest. If it is to foster "regional convergence", then the funds need to go to areas which struggle to attract private investment, often areas where MPK is relatively low.

The areas with the highest growth prospects tend to be in richer member states and regions which benefit from good administration, developed infrastructure and a range of other factors. However, targeting such areas runs in direct conflict to the aims of convergence and cohesion, as this would allow them to soar further ahead of poorer regions.[42]

Therefore growth based on MPK alone is not a valid way of assessing the effectiveness of the SCF. Instead, we must look at the comparative impact that the funds can have in one region over another. If we can discern that the MPK is higher in more developed regions, then it is clear that markets and private capital will as well. Since the aim of any public funds should be to avoid replicating what the market can already provide, it becomes absolutely clear that spending the funds in richer member states and regions is not the best use of scarce resources. At worst, SF could serve to 'crowd out' private investment that otherwise had take place in richer regions[43] while channelling funds away from poorer regions that need them the most. The result is the opposite of convergence.

i) Opportunity cost:

The above can lead to so-called opportunity costs – where SF spending leads directly to other, more productive economic opportunities being wasted. A leaked Commission report from 2009 which looked at the shape and focus of the post-2014 EU budget, admitted that:

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38 Department of Communities and Local Government, Statistical Release: 'The English Indices of Deprivation 2010' http://www.communities.gov.uk/documents/statistics/pdf/1871208.pdf

39 The ONS, for example, has in the past recommended a mixture of regional GVA per full-time employee, which they argue is the best way to measure regional differences in productivity as it is not affected by the number of non-working residents; and regional gross household disposable income, which indicates the prosperity of residents. See here for further details: House of Commons, ODPM: Housing, Planning, Local Government and the Regions Committee: 'Reducing Regional Disparities in Prosperity', Ninth Report of Session 2002–03, Volume I: Report http://www.publications.parliament.uk/pa/cm200203/cmselect/cmodpm/492/492.pdf

40 Alongside Cornwall the other regions will be Devon, Cumbria, Highlands and Islands, Lincolnshire, Merseyside, South Yorkshire, Tees Valley and Durham, and the West Midlands

41 MPK is the additional output resulting from the use of an additional capital.

42 As Caselli and Feyrer point out, the variation in MPK between developed and developing countries/regions is not as substantial as may be expected, but still discernible. See Caselli F and Feyrer J (2006) 'The Marginal Product of Capital'. http://www.imf.org/external/np/res/seminars/2006/arc/pdf/cas.pdf

43 Herve Y and Holzmann R, (1998), 'Fiscal Transfers and Economic Convergence in the EU: An Analysis of Absorption Problems and an Evaluation of the Literature', Nomos Verlagsgesellschaft, Baden-Baden.

> *"the considerable administrative and opportunity costs of a setup which channels funding from well-off Member States to well-off regions, without generating appropriate levels of added value compared with national funding are generally ignored."*[44]

SF can duplicate economic activity in relatively wealthy states that would have taken place anyway, either through private or public investment. Since the pot of money is limited, this can also mean less money for a region where such investment is not forthcoming, meaning a loss for Europe as a whole. At the same time, opportunity costs can arise when resources are steered away from the most productive activity in richer areas.[45]

For example, under the 'Convergence' objective, Cornwall has been allocated funding geared towards developing its high-skill sector, as a result of which money has gone into business parks for which there is limited demand.[46] However, the region is good at producing niche foodstuffs, and there are a number of innovative companies producing everything from sea salt to nettle beer.[47] But since the SF cannot support businesses engaged in food production, and these particular products are ineligible for support from the EU's separate agricultural funds, these companies fall into a 'funding black hole' despite the fact that they have a good business case and create viable local jobs. Capital is not geared towards a sector in which the region has a comparative advantage.[48]

Taken together, this is another argument for focussing the funds where they can have comparatively the greatest impact, i.e. the new member states.[49]

ii) Pro-cyclical and unresponsive to changing needs

Another problem – which links back to targeting and return on capital – is the fact that the funds are negotiated on a seven year basis, and come with fixed spending criteria (though national authorities have substantial discretion). As we noted in the previous section, the benefit of this arrangement is that regions have predictability in their funding streams. But it also makes the SF far less responsive to economic changes.

At worst, the structural funds are pro-cyclical as they can be sucked into areas of the economy where unsustainable growth is taking place, with few ways of making adjustments. For example, during the last decade, Spain needed ways of cooling its overheated economy, particularly its property bubble, as low ECB interest rates led to an extraordinary amount of credit in the economy. The SCF provided another inflow of cash, often geared in different ways towards infrastructure, which already was subject to abundant private credit and over-investment. Notably, 28% of EU subsidies (including €3.5 billion from the Cohesion Fund) are still directed at infrastructure in Spain over the 2007-2013 period.[50]

Co-financing can also have a pro-cyclical impact: due to liquidity problems, several EU countries now have a difficult time affording match-funding, meaning that a huge amount of money risks being never paid out to countries. This also makes the SF pro-cyclical in the sense that a country could lose out on funding when it needs it the most.[51]

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44 European Commission, (2009) A reform agenda for a Global Europe [Reforming the budget changing Europe] 2008/9 budget review.

45 For example, a study for ODPM has argued, "The policy effect of the Structural Funds might be considered as a 'cost' where these skew the use of domestic resources away from their intended (domestic) policy objectives." ECOTEC Research and Consulting Limited, December 2003 'Evaluation of the Added Value and Costs of the European Structural Funds in the UK': Final Report to the Department of Trade and Industry (DTI) and the Office of the Deputy Prime Minister (ODPM) http://webarchive.nationalarchives.gov.uk/+/http:/www.berr.gov.uk/files/file12203.pdf

46 Channelling resources away from such business could amount to an opportunity cost as economic restructuring is a benefit in itself which facilitates wider economic growth and usually job creation.

47 In a similar vein, the 2011 Court of Auditors report on the EU's budget implementation flagged up an example of an ERDF project application which was deemed ineligible for funding because the projected revenues would have exceeded the cost of the project – in other words the project was too successful. http://eca.europa.eu/portal/pls/portal/docs/1/9766724.PDF, page 11

48 Remember, Jan in't Veld of the European Commission's Directorate General for Economic and Financial Affairs acknowledged the risk that in the short-term SF could lead "to crowding out of private spending." See: in't Veld J, Directorate-General for Economic and Financial Affairs, 'The Potential Impact of the Fiscal Transfers under the EU Cohesion Policy Programme' Number 283 – June 2007 http://ec.europa.eu/economy_finance/publications/publication9579_en.pdf , see also in 't Veld, J and Varga, J, DG Economic and Financial Affairs 'A Model-based Analysis of the Impact of Cohesion Policy Expenditure 2000-06: Simulations with the QUEST III endogenous R&D model' September 2009 http://ec.europa.eu/economy_finance/publications/publication16016_en.pdf

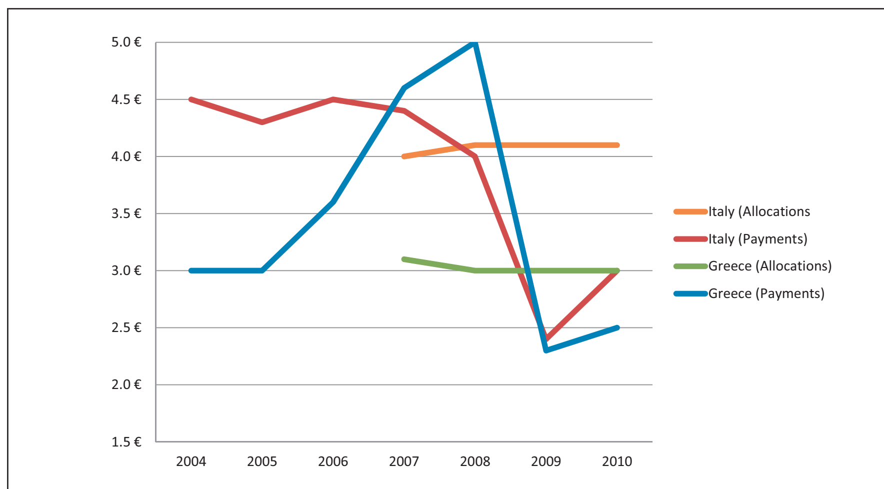
49 There is anecdotal evidence to support this theory, such as the high level of private R&D investment in the stronger countries, the ability of the sovereigns and banks to borrow relatively more easily from the markets and the fact that research suggests that many of the new EU member states lie much further within their production possibility frontier than the more established and developed ones (as would be expected).

50 It would make far more sense to channel this cash towards labour market adjustment programmes, but the negotiations over the funds go back to 2005 when the economic situation appeared very different – and Cohesion Fund is not allowed to be used for this purpose. http://www.elpais.com/articulo/primer/plano/Menguantes/fondos/europeos/elpepueconeg/20120101elpneglse_28/Tes

51 To counter such trends, the European Commission and member states have agreed that the co-financing requirement for Greece should be relaxed for this funding period, to allow the country to benefit from a cash injection. But it does illustrate that the SF remain largely unaffected by changing economic times. Eligibility criteria for the Cohesion Fund can be found here: http://europa.eu/legislation_summaries/regional_policy/provisions_and_instruments/l60018_en.htm

The graph below provides some evidence that difficulties in providing co-financing coincided with the eurozone crisis. Greece and Italy experienced a massive drop in payments despite no real change in their allocations.[52]

Graph 7: Co-financing problems in Greece and Italy (€bn)



Source: European Commission

Equally, not wanting to forgo the potential opportunities presented by taking up structural funding, governments and local authorities feel obliged to spend the money on co-financing, even if this channels money away from key functions, including basic service provision.[53]

D) Other problems with the funds

i) No link between performance and spending

Intimately linked to opportunity costs and sub-optimal targeting is the absence of strong conditionality and performance criteria in the allocation of funds. A range of reports have pointed this problem out, including the European Court of Auditors (ECA) which noted last year that,

> *"Despite the claimed focus on results, the scheme remains fundamentally input-based, and therefore orientated towards compliance rather than performance."*[54]

At the moment, countries and regions can consistently fail to meet set targets and continue to receive funding year on year. For example, Sicily failed to meet a whole range of targets under a €8.5bn programme (of which €6.6bn came from the ERDF and ESF)[55] running between 2000 and 2007 – despite spending all the allocated cash.[56] And yet, it received €6.6bn for a successor programme running through this financial framework (although not all through the SF).

Such a practice stands in stark contrast to cross-border schemes such as the eurozone bailout funds and the IMF, which have all set achieved targets as a precondition for receiving additional funding.

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52 This phenomenon is not universal, for example Spain and Portugal have seen a steady flow of payments while Ireland's have been declining consistently over this time period. However, that the two states with the biggest public financing problems, have failed to turn allocations into payments ought to tell us something.

53 A point made by ECOTEC Research and Consulting Limited, December 2003 'Evaluation of the Added Value and Costs of the European Structural Funds in the UK': Final Report to the Department of Trade and Industry (DTI) and the Office of the Deputy Prime Minister (ODPM). http://webarchive.nationalarchives.gov.uk/+/http:/www.berr.gov.uk/files/file12203.pdf Separately, a joint investigation by the *Financial Times* and the Bureau for Investigative Journalism gave the extreme example of a Polish town that ran a 21% budget deficit to come up with the 15% co-financing contribution under Cohesion fund - *FT* 'Funds rush threatens Polish budget' 29 November 2010 http://www.ft.com/cms/s/0/a849cdb6-fbd9-11df-b7e9-00144feab49a.html#axzz1kUy28kof

54 Similarly, a leaked 2009 Commission document, setting out the proposed shape of the post-2014 EU budget, acknowledged: "Conditionality based on the achievement on agreed and measurable objectives must be strengthened in an effort to make cohesion spending both simpler and more efficient and to counterbalance the increasingly dominant focus on mere spending absorption."

55 The grants are broken down according to the following streams: European Regional Development Fund (€5.6 billion), European Social Fund (€1.3 billion), European Agricultural Guarantee Fund (€1.5 billion), and the Financial Instrument for Fisheries Guidance (€0.1 billion). See *Presidenza della Regione Siciliana*, 'POR Sicilia 2000-2006: Rapporto finale di esecuzione', April 2011, p51, http://194.243.81.173/Portals/0/Altri%20documenti/rfe/RFE_DEF.pdf

56 For example, €700 million was spent to improve water supply throughout the island but the percentage of families who experience a patchy "stop-and-flow" supply of water has actually increased from 33% in 2000 to 38.7% in 2008. €400 million was spent to improve the system of water purification. However, the share of population receiving purified water directly into their houses has only increased from 43% to 47%, compared to the 75% average in Italy as a whole. Another €300 million was spent on improving rubbish collection and recycling. The EU recycling target was fixed at 35% of garbage collected on the island, but Sicily only reached 6%. €230 million was used to improve Sicily's railway network, but only 8km of track has been repaired, meaning a cost of almost €29 million per kilometre completed. See *Presidenza della Regione Siciliana*, 'POR Sicilia 2000-2006: Rapporto finale di esecuzione', pages 10-13. Responding to the claims, Gaetano Armao, Sicily's local government's Economy Minister, did not deny that targets have been missed, but pointed to other examples where the funding had achieved better results, such as a 39% increase in the number of off-season tourists visiting Sicily every year and the completion of the motorway connecting Messina and Palermo.

Furthermore, due to the cumbersome bureaucracy inherent in the implementation of the structural funds, there can often be a substantial backlog between their allocation and distribution. Consequently, there develops a 'getting the money out of the door' mentality as funding gets distributed 'far and wide', instead of being targeted at the areas where it can provide the most added value.

ii) No administration or absorption criteria

A whole range of studies conclude that the ability to absorb and administer the funds is vital to achieving growth and convergence – and yet the allocation of SF pays scant attention to a region's or country's ability to absorb them.[57] A study by the Romanian National Bank found that in Romania's first year of membership, its absorption rate for the structural and cohesion funds was only 21.7%.[58] This is a familiar dilemma in development literature – it can be partly offset by introducing criteria taking into account absorption capacity, and better tailoring the funds around the needs of poorer member states.

iii) Another layer of bureaucracy

EU involvement in regional funding quite naturally creates additional layers of bureaucracy both at the EU and national levels. This manifests itself in three specific ways:

Firstly, the sheer size of the EU's cohesion policy, as well as the lack of a one-to-one relationship between objectives, eligibility criteria and funding instruments, all make the structural funds more difficult to manage than national redistribution schemes. Assessing the Commission's most recent proposals to reform the SCF, the ECA noted:

> *"The arrangements for Cohesion spending are complex. There are six layers of rules (common provisions, general provisions, Fund-specific provisions, delegated acts, implementing acts, Commission's guidelines). National legislation will, in some cases, constitute an additional layer. The Court notes the positive efforts to reduce beneficiaries' administrative burden… However, the burden for the EU and national administrations remains high, and will even possibly become higher than is currently the case."*[59]

Secondly, the additional bureaucracy can also create additional costs for public authorities, and therefore to taxpayers, which arguably would not have arisen had the funds been administered under a simpler bureaucratic framework. Finland's Minister of Economic Affairs, Jyri Häkämies, recently claimed that although Finland was one of the EU's more efficient administrators of structural funds, he aimed to further halve costs in the future as "it is in nobody's interest that project administration swallows a quarter, and in the worst cases, up to 60 per cent, of project budgets."[60]

In a recent report for the Commission, administration costs of the ERDF and the Cohesion fund were estimated at between 3% and 4% of total allocations over the 2007-2013 period[61], accounting for a workload equivalent to 170,000 person years (not including externally purchased services).[62]

Thirdly, and most critically, the complexity and size of the SCF imposes substantial costs on potential recipients, with a proportionally larger cost for small organisations (such as SMEs) with limited resources to deal with compliance and administration.

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57 See for example, Rodriguez-Pose, A, (2009),' Do institutions matter for regional development in the EU', London School of Economics: http://ec.europa.eu/dgs/policy_advisers/activities/conferences_workshops/budget_en.htm

58 Florina, Popa (2010) 'Absorption capacity of Structural Funds in Romania', The Institute of National Economy http://pubs.ub.ro/sceco/papers/2010/20101544.pdf

59 Court of Auditors - Opinion 7/2011 on the proposal for a Regulation of the European Parliament and of the Council laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund covered by the Common Strategic Framework and laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1083/2006 http://eca.europa.eu/portal/pls/portal/docs/1/11446729.PDF

60 Minister Häkämies: Structural fund administration must be improved http://www.rakennerahastot.fi/rakennerahastot/en/06_topical/01_news/20111214_hakamies.jsp

61 However this is for the ERDF and Cohesion Fund only; the ESF is not included in this figure. Sweco International (2010) on behalf of DG Regional Policy: Administrative workload and costs for Member State public authorities of the implementation of ERDF and Cohesion Fund Sweco International 2010 on behalf of DG Regional Policy http://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/2010_governance.pdf

62 This represents the equivalent of 170,000 people working full time for one year over the course of the seven year framework, or 24,285 people working full time per year.

In its Impact Assessment for the SCF post-2014, the Commission conceded that:

> *"Both ex-post evaluations and feedback from stakeholders reveal that the day-to-day management of cohesion policy programmes is perceived to be overly complex… In terms of simplification and reducing the administrative burden for beneficiaries, evidence indicates that the heaviest costs are linked to the processes of applying for funding, everyday reporting by beneficiaries and storage of documents."*[63]

It is clear that the Commission takes this issue seriously and is working on reforms to target the problems identified above, for example by looking to introduce the electronic submission of documents (see 3.2).

2.3 Conclusions

In many parts of Europe, the SCF make up too small a share of the economy to have any overall economic impact, including in most of the EU15. Where the funds do make up a sizeable chunk, there clearly are cases where they have had a positive impact on individual projects, groups, regions and countries. Ireland in the 1990s is the clearest example. However, even in the case of Ireland, SCF appear to have served to complement the key drivers of economic activity, such access to the single market, good administration and pro-growth Government policies, rather than acting as a determining factor in itself. Conclusive evidence of the SCF's overall positive impact is therefore still missing.

In terms of the specific instruments, it is clear that while the ERDF in particular suffers from confused and conflicting objectives, the underlying rationale for the ESF – targeting training and skills in order to boost participation in the labour market - is basically sound. Clearly this is an area where Europe as a whole needs substantial investment, in particular in the wake of the eurozone crisis and weak growth around the world. Nonetheless, the question remains as to whether this is something for which the richer member states should not be primarily responsible.

As acknowledged by a whole range of studies, it is hard to find any economic justification for having wealthy countries subsidising wealthy regions. Firstly, as we show in section 2.1, the redistribution patterns do not make much sense, with some of the poorest regions in the UK being big net losers from the SF. Secondly, the added impact of funds is far greater in the poorest regions, where they do not crowd out investment and domestic priorities. Thirdly, there are a number of problems with the funds which could be addressed, in part, by reducing their scope and making them more focussed on a limited number of objectives and regions.

63 COMMISSION STAFF WORKING PAPER {COM(2011) 615 final}- IMPACT ASSESSMENT Accompanying the document: Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund covered by the Common Strategic Framework and laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1083/2006 http://ec.europa.eu/governance/impact/ia_carried_out/docs/ia_2011/sec_2011_1141_en.pdf

3. WHAT ARE THE OPTIONS FOR THE UK?

3.1. Preferred option: focussing funding exclusively on poorer countries

This option would involve taking the current eligibility criteria of the Cohesion Fund or similar threshold, i.e. GNI or GDP per capita at 90% or below the EU average, and applying it to the structural funds as a whole. This would focus the funds exclusively on the genuinely poor regions and countries, with richer ones running their own regional policy. As we note in section 1.1, this was the preferred policy of the previous Labour Government, and has also been hinted at by the Commission itself in unguarded moments. In its leaked 2009 policy paper, the Commission wrote:

> *"The European added value of current Cohesion support in well-off regions can be questioned."*[64]

A 90% threshold would mean funds are targeted at regions where they can have the greatest comparative impact. To illustrate the financial benefits of such a threshold, Tables 2 and 3 outline what would have happened over the 2007-2013 budgetary period had this policy been applied. The first table looks at the effects of a 90% threshold using GNI per capita – the threshold currently used to determine the eligibility for the Cohesion Fund. The second table applies a threshold based on GDP per capita, which could be used as an alternative measurement. As we see, under both measurements, a 90% threshold would create a whole range of winners, and a handful of 'losers'. Contributions and receipts in the tables include both the Structural Funds and the Cohesion Fund.

A) New winners and losers – 23 vs 4, or 22 vs 5

Table 2: Estimated savings from 90% threshold (GNI per capita)

Member State	GNI per capita (% EU Average)	Estimated Gross Saving (€m)	Estimated Net Saving (€m)	Estimated Net Saving per capita (€)
Austria	131	3,417.1	1,955.9	232.85
Belgium	125	4,724.9	2,467.0	226.33
Bulgaria	43	455.7	455.7	60.76
Cyprus	98	229.5	-410.4	-373.10
Czech Republic	80	1,513.1	1,513.1	144.10
Denmark	132	3,194.1	2,581.0	469.28
Estonia	67	201.0	201.0	154.64
Finland	125	2,466.1	749.8	138.86
France	115	27,131.9	12,813.0	197.43
Germany	125	29,794.8	3,455.0	42.29
Greece	93	3,527.4	-16,892.4	-1,494.90
Hungary	63	1,290.0	1,290.0	129.00
Ireland	121	2,033.3	1,132.0	251.55
Italy	107	20,916.0	-7,895.8	-130.51
Latvia	58	268.6	268.6	122.11
Lithuania	60	390.9	390.9	118.46
Luxembourg	213	408.2	343.0	685.94
Malta	81	78.0	78.0	195.11
Netherlands	139	5,784.9	3,877.9	233.61
Poland	60	4,651.2	4,651.2	121.76
Portugal	81	2,286.1	2,286.1	215.67
Romania	47	1,656.2	1,656.2	77.39
Slovakia	75	832.5	832.5	154.18
Slovenia	92	496.8	-3,708.5	-1,765.93
Spain	107	14,198.7	-21,018.3	-455.93
Sweden	133	3,751.5	1,860.2	197.89
UK	123	15,680.1	5,066.9	81.46

Sources: EU Commission, Open Europe Calculations

64 European Commission, (2009) 'A reform agenda for a Global Europe [Reforming the budget changing Europe] 2008/9 budget review' http://followthemoney.eu/docs/budget-leak.pdf

Table 3: Estimated savings from 90% threshold (GDP per capita)

Member State	GDP per capita (% EU Average)	Estimated Gross Saving (€m)	Estimated Net Saving (€m)	Estimated Net Saving per capita (€)
Austria	125	3,322.2	1,861.0	221.55
Belgium	117	4,593.6	2,335.8	214.29
Bulgaria	43	443.0	443.0	59.07
Cyprus	98	223.2	-416.8	-378.89
Czech Republic	82	1,471.0	1,471.0	140.10
Denmark	125	3,105.3	2,492.3	453.15
Estonia	67	195.4	195.4	150.34
Finland	117	2,397.6	681.3	126.17
France	108	26,378.2	12,059.3	185.81
Germany	117	28,967.1	2,627.3	32.16
Greece	92	3,429.4	-16,990.4	-1,503.57
Hungary	64	1,254.2	1,254.2	125.42
Ireland	134	1,976.8	1,075.5	239.00
Italy	103	20,334.9	-8,476.9	-140.11
Latvia	54	261.2	261.2	118.72
Lithuania	58	380.0	380.0	115.16
Luxembourg	273	396.9	331.6	663.26
Malta	80	75.9	75.9	189.69
Netherlands	133	5,624.2	3,717.2	223.93
Poland	59	4,522.0	4,522.0	118.38
Portugal	79	2,222.6	2,222.6	209.68
Romania	46	1,610.2	1,610.2	75.24
Slovakia	72	809.4	809.4	149.89
Slovenia	88	483.0	483.0	230.02
Spain	103	13,804.2	-21,412.7	-464.48
Sweden	123	3,647.3	1,756.0	186.81
UK	113	15,244.5	4,631.3	74.46

Sources: EU Commission, Open Europe Calculations

From tables 2 and 3 we can observe the following:

- All net contributors to the EU budget (except for Italy) would save money, *net*, from opting out of the SCF if a 90% threshold was applied. In other words, these countries would recoup the money that would otherwise have been sent to Brussels (and paid back out) *in addition* to making an actual saving.

- Furthermore, all net recipients apart from four or five (depending on the measurement used) would pay less into the EU budget, and potentially get more back.

- All new member states, apart from Cyprus (and Slovenia under the GNI measure), would actually get back more money than before.

- This means that 22 or 23 out of 27 member states would either pay less or get more out of the EU budget under this arrangement, since:

    - Richer member states would no longer transfer money between each other,

    - Some relatively wealthy states that do well out of the SF are taken out, correspondingly the "net" sum available for poorer member states (although not the overall amount), increases.

In terms of individual winners and losers amongst *net* contributors to the EU budget:

- France is by far the biggest winner, cutting €12.1bn or €12.8bn from its net contribution to the budget between 2007 and 2013.

- The UK comes second, saving €4.6bn or €5.1bn (£3.8bn and £4.2bn) over the period. We do not expect the UK's rebate from the EU budget to fall more than Britain's fall in net contributions, meaning that the above amounts are fair estimates even when taking the rebate into account (See Box 4).

- It is followed by the Netherlands, saving €3.7bn or €3.9bn, and then Germany, saving €3.5bn or €2.6bn.

- Italy – a net contributor to the EU budget but receiving a lot under the SF due to its relatively poor southern regions – would lose €7.9bn or €8.5bn. Italy is the only loser amongst the net contributors.

- If switching to per capita, as expected, smaller countries appear the biggest winners. Luxembourg is the biggest winner (€663 per capita or €685 per capita), followed by Denmark (€453 or €469) and Ireland (€239 or €251).

Among the net recipients:

- Poland – which is already doing well out of the funds – is the biggest winner, receiving an extra €4.5bn or €4.7bn.

- Coming in under the 90% marker, Portugal emerges as a big winner from the threshold, receiving an extra €2.2bn or €2.3bn. Romania is third on €1.6bn or €1.7bn, and Czech Republic comes fourth (around €1.5bn)

- The biggest loser is Spain, which loses around €21bn under both measures compared to its current levels. Greece loses around €17bn, while Cyprus loses around €400m. Greece is also the biggest loser when looking at GDP per capita.

- Slovenia, which comes in over the 90% threshold for GNI but under it for GDP, loses €3.5bn under the first scenario but gains €400m under the second.

Therefore, a 90% threshold would come with a number of economic and political benefits – and also a few challenges.

For member states:

- For the UK and all other net contributors to the EU budget, it frees up *more* money to run regional policy – the amount currently going into the SF plus an additional sum – at a time when virtually every government in Europe is looking to save money.

- Crucially, *all* the newest member states, whom the structural funds are supposed to help the most (apart from Cyprus and Slovenia under GNI), would benefit under this scenario because they would no longer be contributing to funding projects in richer member states.

- Therefore, it has the potential of attracting a wide range of potential allies, as most European governments would reduce their net contribution to the EU budget.

For the effectiveness of the funds:

- Reducing the size of the SF will make them far easier to manage and control. Limiting the SF to the newer member states would also allow the funds to be better tailored around countries and regions with certain common economic characteristics (though still with high degrees of divergence among them), meaning that targeting will be made easier.

- If combined with some performance-oriented targets, this could genuinely channel the funds to where they would have the potential to generate the most comparative return – rather than crowding out private investment and domestic priorities – and would therefore benefit Europe as a whole the most.

B) How to deal with those that lose out?

Having three member states that are currently grappling with the eurozone crisis – Italy, Spain and Greece – losing out so badly under the 90% threshold clearly presents a substantial political challenge.

Given the negative impact the crisis is having on Greece in particular, it could be that by the time the SCF are allocated under the next long term EU budget its GNI and/or GDP will have fallen bellow the eligibility threshold. This would likely make one or two net contributors, such as Germany, worse off than under our model, although the UK would still emerge a net winner overall.

However, the key thing to keep in mind is that the reason why Spain and Italy are doing so well from the SF is that much of their allocation for this budget period was determined by indicators preceding the 2004 and 2007 enlargements. Eligibility for the Cohesion Fund was, for example, calculated based on average GNI per capita for 2001, 2002 and 2003,[65] meaning that for example, Spain still qualified. The eastward enlargement means that Spain and Italy are likely to lose out, irrespective of the 90% threshold. These countries should therefore have less of an incentive to defend the status quo, instead wanting new, innovative ways to promote growth and jobs in their regions. 'Cohesion' as an over-riding objective, designed for accession countries in the process of political and economic transition, is no longer appropriate for these countries.

Due to poor targeting, unresponsiveness, the burden of co-financing and the other factors that we highlighted in section 2.2, replacing the SCF in Italy, Spain and Greece with something more purpose-built could actually prove to be a huge benefit as they fight to bounce back from the eurozone crisis. After all, there is little evidence that the funds have had much of an impact in Italy and Greece, while in Spain they have often been targeted at the wrong things.

Examples of alternative targeting or use of funds could include:

- Criteria based on levels of immigration, given that Spain, Italy and Greece all are border states. There is an economic case for channelling more funds to 'social inclusion' or better reception conditions for asylum seekers or economic migrants, for example. This is probably best done under a separate funding stream however.[66]

- Criteria based on labour inactivity – particularly in Spain. In the wake of the austerity and reform drives sweeping southern Europe, there will be a huge need for re-adjustment and re-training, as unemployment levels increase. A radically re-vamped and better targeted Globalisation Adjustment Fund, or possibly ESF, could replace the SCF in the Mediterranean and target two elements:

    - The transition of pools of the labour force into new sectors, for example following the shutting down of a major industry,

    - General labour market mobility.

- The financial monitoring system that is being introduced for the eurozone could be used to assess a country's economy, focusing on detecting potential bubbles or structural weaknesses, and then adjusting the funding streams accordingly. In Spain, for example, such a monitoring system could have served to steer funds away from the infrastructure and housing sectors in the last decade, channelling them towards labour market reforms instead.

- No matter what new criteria is being used, it will have to be combined with very strong performance targets and conditionality.

65 COUNCIL REGULATION (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999 http://www.2007-2013.eu/documents/legal_documents/regional/regulation_1083_2006.pdf

66 Although Italy is already receiving a substantial amount targeted at immigration flows, for example €614 million from the European Refugee Fund (2008-2013): http://europa.eu/legislation_summaries/justice_freedom_security/free_movement_of_persons_asylum_immigration/l14567_en.htm; (2007-2013): €1.82 billion from the External Borders Fund http://europa.eu/legislation_summaries/justice_freedom_security/free_movement_of_persons_asylum_immigration/l14571_en.htm; and €825 million from the European Integration Fund (2007-2013): http://europa.eu/legislation_summaries/justice_freedom_security/free_movement_of_persons_asylum_immigration/l14572_en.htm

- Slovenia clearly is a special case – it is the only one of the 2004 accession states which lands above the 90% threshold under GNI, but below the marker if using GDP. There is a strong case to give Slovenia continued funding, based on the length of its membership (and in order for it not to get instantly penalised for being relatively wealthy), with the view to phasing it out post-2020.

Economically and politically, pushing for a 90% threshold appears to be the best policy option for the UK – by far. When Gordon Brown was Chancellor, the Treasury produced a policy paper which argued the following:

> *"It cannot be right for richer Member States to continue to receive substantial development funding from the EU budget. Equally, it cannot be assumed that nations and regions of the UK should have to scale down their spending on regional development programmes to accommodate the loss of EU support… We would therefore guarantee that, by increasing UK Government spending on regional policy, UK nations and regions receive a level of resources which ensures they do not lose out from the UK's proposals on Structural Funds reform."*[67]

This is exactly the policy that the Coalition should adopt. If the Coalition were to match the pledge of its predecessor, it could:

1) Continue to help Europe's poorer member states and regions in line with its pro-enlargement stance,
2) Spend exactly the same amount of money on the regions over seven years, around £8.7bn, as it currently does via the EU,
3) Save an additional £3.8bn to £4.2bn which it could also channel into its regions, meaning these would get more money than what currently is the case,
4) Eliminate the administrative and opportunity costs that come with EU involvement in regional spending,
5) Creating its own tailored and better targeted regional policy.

Box: 5 How would a 90% threshold impact the UK rebate?

The UK has a rebate from the EU budget, which accounts for roughly £9bn over the 2007-2013 EU budgetary period. As it is a residual, which makes the UK contribution to the EU budget substantially lower than what it would otherwise have been, any discussion about net or gross receipts must take the rebate into account.

Identifying the impact on the rebate under a 90% threshold is not straightforward and hard to discern exactly. Since the overall size of the EU budget is falling, the rebate will also fall. However, since spending in the UK falls by more, in percentage terms, than the total EU spending, the impact will be cushioned. The rebate as a share of the overall budget may actually increase. A good rule of thumb is that the rebate will fall by only two thirds of the fall in the UK's gross contribution (see methodology). Under our plan, the UK's gross contribution will fall by €15.2bn, triggering a fall in the rebate of around €10bn over 2007-2013 period. However, it must also be considered that under the current budget structure the regional spending in the poorer countries is not abatable for the UK, while regional spending in richer countries is. This further clouds the net impact on the rebate but it could likely still be positive. This set up could also be renegotiated in the next budget period. In other words, there is scope for the UK to push for a reduction in SF and reduce its overall contribution to the EU, while keeping a sizeable rebate.

C) After EU regional policy: a targeted growth fund

If the Coalition decided to go for the above policy option and succeeded in EU negotiations, what could a UK 'regional policy' look like?

UK regions would benefit substantially from a 90% threshold

As we saw above, 35 out of 37 NUTS 2 regions in the UK are net contributors to the SCF under the current arrangement. Given that the UK could save £4.2 billion under a 90% threshold, it follows that the regions could likewise benefit substantially.

67 HM Treasury, 'A modern regional policy for the United Kingdom' March 2003 http://www.hm-treasury.gov.uk/d/modregdevcondoc03_1to4.pdf, page 21

Table 4 shows how the regions would benefit if the savings from a 90% threshold were re-invested back into the regions. All areas would see the amount of money they get increased by almost 50%.

Table 4: UK regions' gains from bringing regional policy back home

Region	Current Receipts (£m)	Disposable Income per capita (PPP) (£)	Disposable Income (% of UK average)	Extra Receipts under OE plan	New Receipts (£m)
West Midlands	303	15,219	83	137	440
Tees Valley and Durham	213	15,576	85	96	309
South Yorkshire	199	15,767	86	89	288
Northumberland, Tyne and Wear	259	15,954	87	116	375
West Wales and The Valleys	2,072	15,978	87	929	3,000
East Riding and North Lincolnshire	138	16,076	87	62	199
Lancashire	216	16,157	88	97	313
Merseyside	206	16,170	88	92	298
West Yorkshire	328	16,224	88	147	475
Greater Manchester	383	16,438	89	172	554
Cornwall and Isles of Scilly	462	16,601	90	207	669
Derbyshire and Nottinghamshire	214	16,791	91	96	310
Highlands and Islands	188	16,864	92	84	272
South Western Scotland	401	17,294	94	180	580
Devon	80	17,295	94	36	116
Lincolnshire	71	17,300	94	32	103
Northern Ireland	523	17,303	94	234	757
Shropshire and Staffordshire	176	17,360	94	79	255
East Wales	178	17,469	95	80	258
Cumbria	75	17,622	96	33	108
Leicestershire, Rutland and Northants	169	18,133	99	76	245
East Anglia	148	18,225	99	67	215
Eastern Scotland	338	18,698	102	151	489
Hampshire and Isle of Wight	90	19,255	105	40	131
Kent	81	19,299	105	36	118
Gloucestershire, Wiltshire and North Somerset	161	19,318	105	72	234
Herefordshire, Worcestershire and Warwickshire	169	19,347	105	76	245
Dorset and Somerset	89	19,372	105	40	128
North Yorkshire	119	19,664	107	53	172
Cheshire	150	19,714	107	67	217
Essex	108	19,886	108	49	157
North Eastern Scotland	89	21,108	115	40	128
Outer London	316	21,570	117	142	458
Bedfordshire and Hertfordshire	107	21,893	119	48	155
Berkshire, Buckinghamshire and Oxfordshire	107	22,634	123	48	154
Surrey, East and West Sussex	129	23,010	125	58	188
Inner London	207	28,538	155	93	299

Sources: European Commission, Eurostat, ECB, Open Europe calculations

It is difficult to identify how regions' 'net' positions would change should regional spending be brought under UK control, as we do not know what, exactly, a national redistribution scheme would look like. It is highly likely, however, that relatively poor regions which are currently net contributors to the SF, such as Merseyside, the West Midlands and Lincolnshire, would become net recipients, as more appropriate and better targeted criteria to redistribute resources are introduced.

A UK "growth fund" as an alternative to EU structural funds
Instead of the current system, which, as we see, can fail to target pockets of poverty, and suffers from a range of other flaws, the UK could develop its own, innovative regeneration and growth policy. Such a policy should aim to be far more flexible, responsive and performance-driven than the SF.

This could take the form of a "second pillar" under the Regional Growth Fund (RGF), which the Coalition government has set up.[68] In brief, the growth fund could work as follows:

- *One objective:* Unlike the many objectives entailed in the SF, the fund could have one simple aim: convergence through supporting *economically viable* projects in poor areas. Growth funds could be established either at the national level or the equivalent of NUTS 2 level, but with far more flexible criteria for determining which areas should get preferential treatment based on relative poverty levels. This would allow the funds to target small pockets of poverty, identified through a basket of indicators in a way that is impossible under the SF.

- *Best business case wins:* Projects should then be allowed to compete for the cash. Disbursement should be based on one single consideration: which has the strongest business case and is therefore most likely to generate growth and/or jobs. This would move funding away from focussing on 'compliance' and meeting set criteria – all too often the case for the SF - to giving money to whichever project has the best chance of success.

  The RGF has remained oversubscribed (by £2bn for its second round),[69] which has allowed for a higher quality of projects to be taken on. The Department of Transport has also recently been through a similar funding round where they purposely set a maximum figure for potential grants (in this case an additional £900 million) for 45 potential extra schemes. The requirement here was that all schemes were made to compete on their respective business cases for a limited amount of money, incentivising those who could cut costs.[70] A practice to ensure that all applicants are picked on the best possible business case would be the polar opposite of the current SF, where the focus is on absorbing the funds and spending the cash.

- *Use of private sector expertise in fund allocation:* Rather than creating bureaucratic headings, objectives, priorities and the like, one potential solution could be to make greater use of private knowhow. For example, in the South West some EU funding to small businesses has been successfully allocated via the South West Investment Group, a private fund manager.[71]

3.2 Other options for the UK

A) Maintaining status-quo or minor reform

If the Government decides that the costs of engaging in negotiations with European partners over bringing back overall control over regional policy back to the national level outweigh the potential benefits, the current arrangement will remain in place, albeit possibly with some reforms.

There may be reasons for the Government to avoid making a stand on this issue; certain UK regions may apply pressure in order not to lose a perceived economic benefit, other strategies to make the SF more efficient may be considered more likely to be successful in EU negotiations (i.e. reform though downward pressure), and the Government may wish to save political capital in Europe for other negotiations. From an economic point of view, such an outcome would clearly be far from ideal. The UK and most other member states would forgo an opportunity to achieve genuine benefits by making the SF far more rational, and also, as we set out below, the Coalition would miss an opportunity to push ahead with its objective of 'rebalancing' the UK economy by losing out on potential savings, and the chance to better target public money.

68 The Department for Business, Innovation and Skills (BIS) explains: "The Regional Growth Fund (RGF) is a £1.4bn fund operating across England from 2011 to 2014. It supports projects and programmes that lever private sector investment creating economic growth and sustainable employment. It aims particularly to help those areas and communities currently dependent on the public sector to make the transition to sustainable private sector-led growth and prosperity.

69 BIS: Summary of Regional Growth Fund Second Round Bids http://www.bis.gov.uk/policies/economic-development/regional-growth-fund/summary-of-rgf-2nd-round-bids

70 Department for Transport, 'Over £45m savings give boost to transport improvements' 4 February 2011 http://www.dft.gov.uk/news/press-releases/dft-press-20110204 and 'Funding decisions on local authority major transport schemes' 14 December 2011 http://www.dft.gov.uk/news/statements/greening-20111214

71 http://www.southwestinvestmentgroup.co.uk/index.aspx

B) Fundamental reform

The UK Government can seek to keep the SF for all member states and push for reforms, including better targeting, more effective redistribution and clearer objectives. There are two – largely overlapping – routes it can take to achieve this:

Reform through downward pressure

As we noted in section 1.1, the Coalition Government is primarily seeking to apply downward pressure to the EU budget as a whole by freezing its overall size at current levels. The idea is that by limiting the amount of money, there would be no choice but to spend the existing pot in a more effective way. This would also involve channelling more cash away from recycling SF between richer member states to other spending areas such as Research & Development. The logic is similar to that which lies behind many of the UK Government's savings at the domestic level.

Push for radical reform

The rationale behind reform through limiting the amount of cash available makes perfect sense. However, this strategy will still not be effective unless it is accompanied with a clear vision for how to make the SF far more successful, by addressing some of the serious flaws that we highlight in section 2.2.

A number of reforms could radically improve the performance of the SF:

i) Establish a clear link between funding and performance

No matter what happens, a clear link needs to be established between performance and disbursement of funding. Creating a link between funding and performance would eliminate the perverse incentive for beneficiaries to get the money out of the door – in order for the cash not to be lost for the region – rather than spending it where it really can add value. There are a number of ways in which the SF can become far more performance-linked:

- *Inject more competition:* In order to avoid channelling public money away from economically unviable projects, disbursement of the SF could be made far more oriented around business and competition. For example, the pot of money allocated to a region could be subject to open competition, where projects compete for the cash based on one single question: which has the strongest business case (all things considered), and therefore the biggest chance of success in promoting growth and jobs?

- *Make disbursement conditional on met targets:* A variation of the above could be ex-post allocations based on met performance targets from the previous financing period. Recipient governments and/or regions could be given full discretion as to which investment projects they would like to see financed (subject to state aid restrictions). However, governments and/or regions would be obliged to declare beforehand the expected results of the project. Disbursement of the funds could then be made in lump sums, and would depend upon results being reached – rather than on the ability to spend allocated funds. This would have the added benefit that accountability for the money spent would clearly rest with member states, as opposed to now, when the responsibility falls somewhere between them and the Commission.

- *Introduce performance reserves:* The Commission has sought to insert some results-driven incentives into the SF, by so-called 'performance reserves'. In its post-2014 draft budget, for example, it has proposed a performance reserve that would allow some funding to be set aside and given to those regions that have achieved the best results. This is clearly a step in the right direction, although the commission's proposed reserve will only cover 5% of overall funding for the 2014-2020 budget period,[72] which is not nearly enough to have a significant impact.

- *Sunset clauses:* The leaked 2009 report from the Commission proposed that "sunset clauses" should be introduced in order to:

72 "A total of 5 % of the national allocation of each fund will be set aside and allocated, during a mid-term review, to the Member States for the programmes that have fully met their milestones. In addition to the performance reserve, failure to achieve milestones may lead to the suspension of funds, and a serious underachievement in meeting the targets of a programme may lead to cancellation of funds."
http://ec.europa.eu/regional_policy/sources/docoffic/official/regulation/pdf/2014/proposals/regulation2014_leaflet_en.pdf

"reduce support for member states which have failed to progress and to limit the expectation of continued support."[73]

It also suggested that allocation could be linked to the length of EU membership to reflect the fact that, usually, the newest member states are the ones which have the most catching up to do, and are the ones that meet the toughest challenge in adopting to EU rules and increased competition.

In practice, this would mean that countries such as Italy, Spain, Portugal and Greece would have their large amount of cohesion support phased out and replaced with something more efficient.

- Given that poorer regions have difficulties affording co-financing, which can exacerbate pro-cyclical effects, well functioning performance targets and mechanisms could replace co-financing altogether.

ii) Establish a single objective

The many and at times contradictory objectives of the SF add to the underlying problems of poor targeting, evaluation and complexity.[74] Instead, the funds should be focussed on one single objective: convergence. This means channelling funds to economically viable projects in areas that otherwise would find it difficult to attract investment. Indeed, MPK convergence may be a good way to assess the effectiveness of the SF.

Accordingly, all other objectives should fall under alternative policies. For example, 'reducing emissions' should come under one of the EU's environmental schemes, or a new budget line. The development of human capital, or re-training of the workforce, should fall under the Globalisation Adjustment Fund, or a radically revamped ESF. If there is a project involving personnel developing a new skill-set, then it should be justified on the basis of the business case of the project, and not the training itself.

iii) Other ways to improve targeting

- *Allocation criteria based on absorption capacity:* These would make a realistic assessment of the amount of resources a country could make best use of based on governance and administrative structure.

- *New measurement to track inequality within a region:* This would allow allocations to take into account the spread of wealth levels within a region, even if it is converging overall (for example by using the Gini coefficient).[75]

iv) Radically simplify the funds

The simplification of the funds must continue – in particular for recipients. The Commission has taken some positive steps to make the SF simpler to deal with for both recipients and public authorities, for example by allowing organisations other than the actual recipients to find match funding (though some recipients and authorities have not perceived this as a simplification at all). It has also proposed a series of simplifications, such as exempting smaller projects from some auditing requirements, allowing for more electronic submissions and reducing the length of time during which projects have to save records.[76] However, a huge body of evidence still points to continued complexity.[77] We suspect that much of the complexity and administrative burden stem from the very existence of such a large redistribution scheme, crossing a range of very divergent countries and regions.

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73 European Commission, (2009) A reform agenda for a Global Europe [Reforming the budget changing Europe] 2008/9 budget review

74 The Commission's communication on the EU's long-term budget (the post 2013 financial framework) states that, "Clear priorities could be fixed to deliver smart, sustainable and inclusive growth, with work on: support for new businesses; innovation; reducing emissions; improving the quality of our environment; modernising universities; energy saving; the development of energy, transport and telecommunication networks with a common EU interest; investment in research infrastructure; human capital development; and active inclusion to help the fight against poverty." European Commission, "The EU Budget Review" 19 October 2010, COM(2010) 700 final http://ec.europa.eu/budget/reform/library/communication/com_2010_700_en.pdf

75 The Gini coefficient measures the inequality among values of a frequency distribution, such as levels of income.

76 As proposed in Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL, COM(2011) 615 final 2011/0276 (COD), 6 October 2011, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0615:FIN:EN:PDF

77 For example, The Chief Executive of Co-ordinating European Funding for the East Midlands Third Sector (CEFET) told a House of Lords inquiry that "the administrative burden on the delivery bodies has roughly quadrupled [since the previous EU budget period] in terms of the staff time needed to fill in the returns and draw down the money" Cited in http://www.publications.parliament.uk/pa/ld200910/ldselect/ldeucom/92/92i.pdf

C) Seeking to scrap the funds altogether

Scrapping the structural funds altogether would radically reduce Britain's net contribution to the EU budget. However, this would not arguably be a desirable option, for a number of reasons:

- There is a political and economic case to be made for supporting post-Communist countries financially and helping them to catch up with the rest of Europe – providing such support is properly targeted and time-limited.
- The new member states – many of them potential UK allies – would fight tooth and nail to keep the funds. As the promise of financial support to these countries went hand in hand with enlargement – which the UK strongly supported – it would be politically counterproductive to adopt the position of scrapping the funds altogether.
- However, even if the UK were to adopt this position, since the SCF are enshrined in the EU Treaties, scrapping them would require Treaty change.
- Given that all member states apart from four or five would benefit financially from scaling down the funds as opposed to scrapping them altogether, the UK has the potential of building up a network of allies with a shared objective.

D) Unilateral repatriation of the funds

Given that scrapping the funds altogether would be very difficult, the UK Government could play hardball and say it wants to unilaterally repatriate the structural funds, and is ready to veto the entire EU budget deal if this does not happen. If such a move were successful, it would effectively take the UK's contribution and receipts out of the part of the EU budget which redistributes the SF. It would also allow the UK to run its own regional policy, with the various benefits that come with it.

In theory there is no reason why this could not happen. However, this scenario would not save the UK as much money in net terms as a 90% threshold. Firstly, if remaining within the overall framework of the EU budget, Britain would still contribute towards the regional policy of other, richer member states. In addition, it could actually increase the UK's contribution to the EU budget, if its rebate from the budget falls by more than its net savings – which is a possibility (see Annex III).

ANNEX I: LITERATURE ON GROWTH AND CONVERGENCE:

As we have noted throughout this report, the current literature on the efficacy of EU structural funds is inconclusive as to what effect (if any) they have had on growth and employment as well as convergence between poorer EU states and regions. The mixed record is also driven by the confusion over what the SF are actually aimed at achieving - maximum growth or convergence (meaning most comparative impact) - or something completely different, such as reducing carbon emissions, which may run counter to both growth and convergence. Below we provide a sample of the key literature on the topic.

Inconclusive on growth

Those who have detected a positive effect include Jan in't Veld of the European Commission's Directorate General for Economic and Financial Affairs, who in a series of papers used various economic models to argue that the *potential* impact of the SF during 2007-2013 on output and growth is positive in the long-term, "due to sizeable productivity improvements". However, he acknowledged that in the short-term, SCF could lead "to crowding out of private spending" – which, naturally, could have a negative impact on short-term growth rates.[78] Another study that has shown positive effects is a recent paper for the ECB (Mohl, P, and Hagen, T, 2011) which argued that SF can have an impact on growth, but added that the SCF could have a negative impact on jobs in low-skill environments. In contrast, a report by Somik V. Lall for the World Bank argued that the SCF

> *"are not well suited to maximizing aggregate economic growth because they try to promote spatial evenness and not agglomeration. Nor are they especially well-suited to promoting catch-up by lagging areas. Traditional cohesion policies that provide "hard" infrastructure and assistance to firms are unlikely to increase the competitiveness of lagging areas."*[79]

With respect to individual countries which have received a lot of cash from the SCF, there is evidence that individual Spanish regions, significant beneficiaries of SCF over the last few decades, have added to their growth rates. However, interestingly, a study published by the Spanish Savings Banks Foundation (FUNCAS) in March 2010 showed that over the 2000-2006 EU budget period, the substantial amounts of SCF money paid out to the country did not have "any impact" on Spanish regions' growth rate in terms of GDP per capita and productivity.[80] One is hard pressed to find a study which points to a positive impact of the SCF on growth rates in Italy, though Jan in't Veld suggests that the long-term effects of the SCF could be the most positive in Italy (perhaps showing the weaknesses in the models he uses).

As we show in section 2.1, in Ireland, the SCF clearly served to complement economic reforms in a growth-generating manner.

Inconclusive on jobs

Particularly for the ESF, evaluations sponsored by the Commission or public authorities assessing the impact of the funds often conclude that a given project has created a number of jobs. For example, a Commission-sponsored study on the impact of the ESF between 2000 and 2006, put the number of jobs created by the programme at 600,000 with the number of jobs "retained" at 200,000.[81]

As we note in Box 3, such claims should be treated with caution as they make unrealistic assumptions and do not adequately account for the best comparative use of the funds, the counterfactual or the opportunity costs. Other reports from EU institutions have been far less flattering. The paper published by Mohl and Hagen last year for the ECB concluded that the SF could even be damaging for job-creation in low-skilled settings due to their tendency to subsidise the cost of capital. It concluded:

78 in't Veld J, Directorate-General for Economic and Financial Affairs, 'The Potential Impact of the Fiscal Transfers under the EU Cohesion Policy Programme' Number 283 – June 2007
http://ec.europa.eu/economy_finance/publications/publication9579_en.pdf , see also in 't Veld, J and Varga, J, DG Economic and Financial Affairs 'A Model-based Analysis of the Impact of Cohesion Policy Expenditure 2000-06: Simulations with the QUEST III endogenous R&D model' September 2009
http://ec.europa.eu/economy_finance/publications/publication16016_en.pdf

79 Lall, S. V. (2009) 'Regional policy: what it can and cannot do? What does and does not work?'
http://ec.europa.eu/dgs/policy_advisers/docs/15_paper_lall.pdf

80 FUNCAS, 2010 'Structural funds and regional convergence' (2010)
http://www.funcas.es/Publicaciones/Sumario.aspx?IdRef=1-01123

81 EU Commission report into the ESF: Culture and Tourism (2010), page 10
http://ec.europa.eu/esf/BlobServlet?docId=176&langId=en

"there was no clear evidence that EU funding promotes employment, EU funding acted as a capital subsidy and had a negative effect (on jobs) in a low skill environment and a higher one in a high skill environment."[82]

Inconclusive on convergence

As with growth effects, evidence on the impact on convergence[83] is mixed, though a number of heavy-weight studies have expressed disappointment with the record of the funds in closing gaps between richer and poorer member states. A 2007 OECD report labelled the record of the SCF as "patchy", noting that at current rates, it would take 170 years to halve divergence across the EU. The leaked 2009 report from the European Commission admitted,

'"While income disparities among Member States have declined substantially since the early 1980s, they have increased across regions."[84]

Others still point out that there have been simultaneous disparities between regions within those same states, and question whether the convergence can be attributed to the funds at all. A commonly identified problem (Cappelen et al 2003) with regards to holding back convergence is the capacity in the recipient states to absorb the funds effectively, which contributes to some areas benefiting to a larger degree than others.

On convergence as with growth, arguably the most convincing case is that of Ireland, which clearly underwent significant convergence in the 1990s, going from well below to well above the EU average. A report from the World Bank notes that Spain converged to the EU average, but at the same time, the disparities between regions in Spain increased.

82 Mohl, P, and Hagen, T, 'Do EU structural funds promote regional employment? European Central Bank Working Paper Series No. 1403 December 2011 www.ecb.int/pub/pdf/scpwps/ecbwp1403.pdf

83 Regional convergence is not the same thing as "economic growth", since growth measures involve investment (public or private) in areas where it has the biggest chance of generating 'return'.

84 European Commission, (2009) A reform agenda for a Global Europe [Reforming the budget changing Europe] 2008/9 budget review

Selected bibliography with key conclusions

Publications that focus on convergence:	
Publication	**Conclusion**
OECD, (2007), 'Economic survey of the European Union 2007'.[85]	"Its record so far has been patchy: regional disparities are not falling, or at best are declining very slowly."
Bouve F, (2005), 'Dynamics of regional income inequality in Europe and the impact of EU regional policy and EMU', Department of Economics, Sonoma State university.[86]	"The persistence of within country inequality calls for a reform of the existing EU regional policies, as there is not yet evidence that these policies has delivered the promised regional cohesion."
Becker S, Egger P, and Von Ehrlich M, (2010), 'Too much of a good thing? On the growth effects of the EU's regional policy', Journal of Public Economics.[87]	"We conclude that some reallocation of the funds across target regions would lead to higher aggregate growth in the EU and could generate even faster convergence than the current scheme does."
Rodríguez-Pose A and Fratesi U, (2003), 'Between development and social policies: the impact of European Structural Funds in Objective 1 regions', Europe Economy Group.[88]	"The results of the analysis underscore that the EU is not only still far away from its aim of greater economic and social cohesion, but also that the doubts about the capacity of the development funds allocated to lagging regions in Europe to deliver sustainable economic growth and to reduce the gap between the European core and the periphery seem to be well founded."
Barry F, (2003), 'European Union Regional Aid and Irish Economic Development, European Integration, Regional Policy and Growth'. Washington, World Bank, 2003.[89]	Regional aid does not guarantee a real convergence of living standards in the recipient region. This is obvious from the experience of the Italian Mezzogiorno, to a lesser extent from the experience of Greece, and perhaps to some extent from the experience of Spain. Regional aid is likely to be of greatest benefit when the other requirements for real convergence are satisfied. From this point of view the Irish and Portuguese experiences are of particular interest.
Ederveen S, Gorter J, de Mooij R and Nahuis R, (2002), 'Funds and Games, The Economics of European Cohesion Policy', CPB Netherlands' Bureau for Economic Policy Analysis.[90]	"The results confirm some degree of redistributive efficiency: poor regions get more than rich regions. It remains, however, unclear, to what extent cohesion support affects convergence. Some econometric analyses suggest that the funds have a negligible, or even a negative impact on convergence, while in others imply a significant positive impact." "Hence, a crude summary of the studies suggests that annual growth rate increases by 0.15 percentage points if the EU injects Structural Funds equal to one percent of GDP."
Fabio Canova, (2001), 'Are EU Policies fostering growth and reducing regional inequalities', Els Opuscles del CREI.[91]	"There is some movement among regions receiving structural funds, but it is too small and too unstable to suggest any tendency to reduce relative inequalities over time."

85 http://www.oecd.org/document/8/0,3343,en_2649_34111_38958856_1_1_1_1,00.html
86 http://ec.europa.eu/economy_finance/events/2007/researchconf1110/bouvet_en.pdf.pdf
87 http://147.142.190.246/joomla/peio/files2011/papers/Becker,%20Egger,%20Ehrlich%2013.10.2010.pdf
88 http://ideas.repec.org/p/eeg/euroeg/28.html
89 http://www.tcd.ie/business/staff/fbarry/papers/papers/Regiona_Aid_paper_revised.PDF
90 www.enepri.org/files/CPBstudy.pdf
91 http://citeseerx.ist.psu.edu/viewdoc/summary?doi=10.1.1.195.2633

Publications that focus on growth and/or employment:	
Publication	**Conclusion**
Rodriguez-Pose, A, (2009), 'Do institutions matter for regional development in the EU?', London School of Economics.[92]	"the role of local institutions is crucial for economic development and as a means of determining the returns of European regional development policies, generating an institution-based general regional development strategy is likely to be undermined by the lack of definition of what are adequate, solid, and efficient institutions across regions in the EU."
Becker S, Egger, P, and Von Ehrlich M, (2010) 'Going NUTS: The Effect of EU Structural Funds on Regional Performance', Journal of Public Economics.[93]	"We find positive growth effects of Objective 1 funds, but no employment effects. A simple cost-benefit calculation suggests that Objective 1 transfers are not only effective, but also cost-efficient."
Cappelen A et al, (2003), 'The Impact of EU Regional Support on Growth and Convergence in the European Union', JCMS.[94]	"EU regional support through the structural funds has a significant and positive impact on the growth performance on European regions." "However…there is clear evidence suggesting that the economic effects of regional support are much stronger in more developed environments. This suggests that the impact of such support is crucially dependent on the receptiveness of the receiving environment. Hence, it seems that support is least efficient where it is most needed."
European Commission, (2009) 'A reform agenda for a Global Europe [Reforming the budget changing Europe] 2008/9 budget review'.[95]	"the European added value of current Cohesion support in well-off regions can be questioned."
Santos I, (2008), 'Is Structural Spending on Solid Foundations?', Bruegel Policy Brief.[96]	"Overall the evidence on the impact of Structural Funds is mixed."
Mohl P, and Hagen T, (2008) 'Does EU Cohesion Policy Promote Growth? Evidence from Regional Data and Alternative Econometric Approaches', Centre for European Economic Research.[97]	"The empirical evidence indicates that the Objective 1 payments in particular have a positive and significant impact on growth, whereas Objective 2 and 3 payments negatively affect the regions' growth rates. Furthermore, our results show that the growth impact occurs with a time lag of approximately two to three years."
Mohl P, and Hagen T, (2011) 'Do EU structural funds promote regional employment?' European Central Bank Working Paper Series No. 1403[98]	"Found that there was no clear evidence that EU funding promotes employment, EU funding acted as a capital subsidy and had a negative effect (on jobs) in a low skill environment and a higher one in a high skill environment."
European Commission, (2003), Sapir Report; 'An agenda for a growing Europe, Making the EU Economic System Deliver, Report of an Independent High-Level Study Group established on the initiative of the President of the European Commission.[99]	"there is simply not enough relevant regional GDP data for statistical procedures to distinguish the effects of cohesion policies in the absence of data on other regional characteristics, such as initial income, human capital, local industrial structures, quality of local administration, the peripheral nature of the region, and of random influences."
Lall S, (2009), 'Shrinking Distance Identifying priorities for territorial integration', World Bank[100]	"academic research shows that these programs are not well suited to maximizing aggregate economic growth because they try to promote spatial evenness and not agglomeration. Nor are they especially well suited to promoting catch-up by lagging areas. Traditional cohesion policies that provide "hard" infrastructure and assistance to firms are unlikely to increase the competitiveness of lagging areas."
Polasek W, and Sellner R, (2007), 'Does Globalization affect Regional Growth? Evidence for NUTS-2 Regions in EU-27', Rimini Centre for Economic Analysis.[101]	"we found evidence that the structural funds expenditures (the EU integration proxy variable) impacted positively on per capita income growth during the first 5 years in this century".
Bussoletti di S and Esposti R, 'Regional Convergence, Structural Funds and the role of Agriculture in the European Union, A panel-data approach'[102]	"Past policies that supported agriculture in such a way to maintain relatively high employment levels in the sector, may actually reduce the impact of successive objective 1 structural funds payments."

92 http://ec.europa.eu/dgs/policy_advisers/activities/conferences_workshops/budget_en.htm
93 http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1314690##
94 http://people.pwf.cam.ac.uk/mb65/library/cappelen.a.o.2003.pdf
95 http://followthemoney.eu/docs/budget-leak.pdf
96 http://www.bruegel.org/publications/publication-detail/publication/8-is-structural-spending-on-solid-foundations/
97 http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1298935
98 www.ecb.int/pub/pdf/scpwps/ecbwp1403.pdf
99 www.umic.pt/images/stories/sapirreport.pdf
100 http://ec.europa.eu/dgs/policy_advisers/activities/conferences_workshops/budget_en.htm
101 http://www.rcfea.org/RePEc/pdf/wp24_11.pdf
102 http://dea2.univpm.it/quaderni/pdf/220.pdf

Publications that focus on growth and/or employment:	
Publication	**Conclusion**
García-Milá, T McGuire T, (2001), 'Do Interregional Transfers Improve the Economic Performance of Poor Regions? The Case of Spain', Universitat Pompeu Fabra.[103]	"No real impact"
Sandy Dall'erba, (2007), 'Politiques de development et croissance regionale en Europe: Le role des rendements croissants et dependances spatiales', University of Arizona.[104]	"We find positive growth effects of Objective 1 funds, but no employment effects. A simple cost-benefit calculation suggests that Objective 1 transfers are not only effective, but also cost-efficient."
Puigcerver-Peñalver M, (2004), 'The Impact of Structural Funds Policy on European Regions Growth. A Theoretical and Empirical Approach', Universidad de Murcia 2004[105]	"Structural Funds have had a clear positive effect in regions growth while their impact has been quite null during the second Programming period."
Antunes M and Soukiazis E, (2009), 'Foreign Trade, Human Capital and Economic Growth: An Empirical Approach for the EU Countries', Centro de Estudos da União Europeia[106]	"the southern countries of the EU, as being less competitive, did not benefit much from the free single market, compensated instead, as it is known, by large transfers in the form of structural funds."
Percoco M, Dall'erba S and Hewings G, (2005), 'Structural Convergence of the National Economies of Europe'[107]	"European cohesion actions might result in strengthening yet stronger regions by broadening the spatial extent of their markets".
Jan in't Veld, (2007), European Commission, DG ECFIN, Economic Papers[108]	"Potential benefits of Structural Funds with significant output gains in the long run due to sizeable productivity improvements", "The simulations show the costs and benefits of Structural Funds spending on beneficiary and donor countries in the EU. The increase in public investment has positive externalities and yields significant output gains in the long run due to sizeable productivity improvements. In the short run it can lead to crowding out of private spending."
Gripaiosa P and Bishop P (2006), 'Objective One Funding in the UK: A Critical Assessment', Regional Studies Volume 40, Issue 8[109]	"It is questionable whether funding can have much impact given the extent of underlying structural problems and flaws in the focus of the programme."
Spanish Savings Banks Foundation (FUNCAS), March 2010[110]	"Structural funds which Spain received in 2000-2006 did not have any impact on Spanish regions' growth rate in terms of GDP per capita and productivity."
European Commission, (2009) 'A reform agenda for a Global Europe [Reforming the budget changing Europe] 2008/9 budget review'.[111]	"While income disparities among Member States have declined substantially since the early 1980s, they have increased across regions."
OECD (2007) 'Economic survey of the European Union 2007'.[112]	"Its record so far has been patchy: regional disparities are not falling, or at best are declining very slowly….at current rates it will take 170 years to halve divergence across regions"
Canova F, (2001) 'Are EU Policies fostering growth and reducing regional inequalities?', Opuscles del CREI[113]	"There is some movement among regions receiving structural funds, but it is too small and too unstable to suggest any tendency to reduce relative inequalities over time."
Swedish Institute for Growth Policy Studies: 'The EC Regional Structural Funds impact in Sweden 1995-1999: A quantitative analysis'[114]	"it is not possible to trace any effects of the EC's geographical programmes on overall regional development [in Sweden]. During the period the programmes were studied, the regional differences have tended to intensify rather than be levelled out. This does not prevent individual projects in individual municipalities from being successful but nevertheless it is surprising that we are unable to trace any effect on overall regional development."

103 http://papers.ssrn.com/sol3/papers.cfm?abstract_id=285503
104 http://ideas.repec.org/p/lat/legeco/2007-02.html
105 http://repec.org/esLATM04/up.23143.1081937884.pdf
106 http://www4.fe.uc.pt/ceue/working_papers/antunes_soukiazis_51.pdf
107 http://ideas.repec.org/p/pra/mprapa/1380.html
108 http://ec.europa.eu/economy_finance/publications/publication9579_en.pdf
109 http://www.tandfonline.com/doi/abs/10.1080/00343400600877839
110 http://www.funcas.es/Publicaciones/Sumario.aspx?IdRef=1-01123
111 http://followthemoney.eu/docs/budget-leak.pdf
112 http://www.oecd.org/document/8/0,3343,en_2649_34111_38958856_1_1_1_1,00.html
113 http://citeseerx.ist.psu.edu/viewdoc/summary?doi=10.1.1.195.2633
114 http://www.innovation.lv/ino2/publications/A2004_028.pdf

Publications that focus on growth and/or employment:	
Publication	**Conclusion**
M. Carmen Lima and M. Alejandro Cardenete, (2008) 'The Impact of European Structural Funds in the South of Spain' in European Planning Studies Vol. 16, No. 10[115]	"We conclude that regional funding has deeply contributed to Andalusian regional development and the effectiveness of the funds seems to be larger for the last years of the study"
Beugelsdijk and Eijffinger (2005), 'The Effectiveness of Structural Policy in the European Union: An Empirical Analysis for the EU-15 in 1995-2001', Journal of Common Market Studies, Vol. 43[116]	Convergence across EU15, Positive impact of structural funds on convergence rates, Corrupt countries do not gain "less" economic growth from structural funds
Ederveen, S, de Groot F, Nahuis, R (2003) 'Fertile soil for Structural Funds? A panel data analysis of the conditional effectiveness of European cohesion policy' CPB Netherlands Bureau for Economic Policy[117]	"European support as such does not improve countries' growth performance. However, enhances growth in countries with the right institutions, such as openness and institutional quality (different measures such as corruption, government effectiveness etc.) Aid works if directed to regions with the right institutions, and who are open to competition."
Shankar, R and Shah, A (2009) 'Lessons from European Union Policies for Regional Development', World Bank Poverty Reduction and Economic Management Division[118]	"The evidence on EU regional policies and regional development suggests the following lessons: Remove barriers to trade and movement of people, skills and technologies… Minimize centralized redistribution and subsidies. Transfers to poorer regions can distort market signals and hamper the flow of business to lower wage areas or of people to higher income regions."
Farrell, M (2004) 'Regional Integration and Cohesion - Lessons from Spain and Ireland in the EU', Journal of Asian Economics, Vol. 14[119]	"Higher Irish growth was in part supported by EU structural funds…In Spain, while the whole country converged to EU average, internal regional inequality actually increased… Differences in part attributable to institutions and policy; Spain's investment was in infrastructure, while Ireland also focused on developing human capital and on industrial policy to attract large MNCs to set up operations in Ireland."

115 http://www.macardenete.com/wp-content/uploads/2010/08/EPS_2008.pdf
116 http://arno.uvt.nl/show.cgi?fid=44731
117 http://www.cpb.nl/sites/default/files/publicaties/download/fertile-soil-structural-funds.pdf
118 http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2009/06/22/000158349_20090622133035/Rendered/PDF/WPS4977.pdf
119 http://www.sciencedirect.com/science/article/pii/S1049007803001301

ANNEX II: METHODOLOGY

The original Commission document which lays out the defined allocations for the SF under the 2007-2013 budgetary period is in 2004 prices. Our overall country level figures are based on this document and are therefore kept in 2004 prices. To convert this to pounds we used an average exchange rate over the past five years of 0.819 GBP to EUR (taken from the ECB's historical data) as this best captures the exchange rate over the budget period which has changed significantly since 2004. For the regional level data we converted the figures to 2007 prices to allow for the most up to date assessment of the contributions and receipts ahead of the budget period. This also allowed us to use more recent data on the GDP and Disposable Income for the regions. To convert these figures to GBP we used the same exchange rate as before.

The calculations at the regional level were only done at the EU15 level due to the patchy regional data available for the newer member states. This is not ideal since the new member states play a large role in the SF programme. However, since our focus is on the contributions side, it is not prohibitive. The data on the specific use of funds in terms of regional breakdown for the newer states is also not readily available and tends to be broken down in national programmes or overarching policy areas, making the regional allocations difficult to ascertain without the clear allocation criteria. That said, the data on the EU15 still highlights the recycling of funds and their poor targeting.

Calculating the level of regional receipts and contributions is difficult given the significant data constraints, therefore our figures should always be taken at best as an approximation of an opaque policy process. The regional receipts are laid out in the National Strategic Reference Frameworks. However, since access to datasets is limited, we have combined them with the datasets used by Santos (2008) to give as complete a picture as possible. The data on regional contributions, as with national ones, is never fully published. Therefore, using our national contributions calculations (based on shares of EU budget) we then calculated regional contributions based on shares of disposable income (2007 data taken from Eurostat). Using other indicators such as GDP or per capita calculations does not shift the shares substantially. We also calculated the contributions of UK regions to the Cohesion Fund this way, for the purpose of estimating contributions of individual UK regions. We did not include the Cohesion Fund when estimating redistribution patterns in the EU15, as these funds are, by virtue of being allocated on basis of the wealth levels of countries and targeted at poorer member states, genuinely cross-border in nature. The figures were updated using the Eurostat GDP deflator data to give 2007 prices. Given the variance in receipts and contributions between countries, it was necessary to use an average deflator for all EU countries.

Calculating the flows of funds between and within countries is again challenging due to data constraints, and so the figures should be taken as illustrative. The cross country flows are equal to a country's net shares (net contributors' money flows to another country where it is a net benefit coming in from abroad). The flows within a country are equal to the flows from net contributor regions to net recipient regions - the minimum difference between the positive and negative flows within a country. The within-region flows are essentially the residual, but are also logically equal to the funds raised in any one region. These flows are then amalgamated to the country level and charted as percentages.

Savings for member states under a 90% threshold

In order to calculate how much member states contributed to the structural funds, we took a five year average (2007-2011) of their national contributions to the EU budget, and extended that to cover the whole financial framework. We then used two criteria for establishing the eligibility thresholds; GNI per capita and GDP per capita, both adjusted for Purchasing Power Parity (PPP). For both indicators we used a four year average (2007-2010), and then calculated each member states' GNI and GDP per capita relative to the EU average.

Additional funds available to UK regions under a 90% threshold

We used the UK to illustrate the benefit of distributing regional funds in richer member states at a national level. Taking the savings from the reduced structural fund receipts, we allocated the money to regions based on their original shares under the structural funds. We considered additional weighting relating to disposable income (2007 Eurostat) to increase the level of funding going to those areas seen to be most in need in terms of divergence from the mean in the UK, but rejected the methodology.

ANNEX III: IMPACT ON THE UK'S REBATE

One of the key concerns with presenting any structural changes to the EU budget is the potential impact it could have on the UK rebate. Any change to the budget levels and distribution will have some impact on the UK rebate. Protection of the UK rebate is vital in any EU negotiations, but it is important to not be overly dogmatic in relation to the *absolute* amount of the rebate, as that would prevent the UK from losing out potential gains that would reduce its net contribution to the EU budget.

There could well be scope to adjust the budget, particularly in relation to structural funds, resulting in the reduction of the UK rebate, but still an overall saving for the UK in terms of its contributions to the EU budget.

The UK rebate is currently calculated using a complex formula, involving numerous variables which could be affected by our plan to limit SCF spending to those states with a GNI and/or GDP at or below 90% of the EU average. That said, it is possible to work out some general inferences over how our plan and other plans would affect the level of the rebate.

Calculating the UK rebate

"Core" UK rebate –

$$0.66*\left(\frac{V^{NC}_{UK}}{V^{NC}}-\frac{E_{UK}}{E\text{-}PAE_{t-1}}\right)*(E\text{-}PAE_{t-1})-\left(\frac{V^{NC}_{UK}}{V^{NC}}*TP-(YP_{UK}+VP^{C}_{UK})\right) \quad (1)$$

Since the share of the UK uncapped VAT base in the total EU uncapped VAT base times the total VAT and GNP payments equals the UK uncapped VAT payments,

$$V^{NC}_{UK}=\frac{V^{NC}_{UK}}{V^{NC}}*TP \quad (2)$$

(1) becomes

$$0.66*\left(\frac{V^{NC}_{UK}}{V^{NC}}-\frac{E_{UK}}{E\text{-}PAE_{t-1}}\right)*(E\text{-}PAE_{t-1})-(V^{NC}_{UK}*TP-(YP_{UK}+VP^{C}_{UK}) \quad (3)$$

where

V_{UK} = *YK VAT base*
V = *EU VAT base*
E_{UK} = *EU expepnditure made in the UK*
E = *Total allocated expenditure*
PAE_{t-1} = *Pre-Accession expenditure of year before the enlargement which took place only in the acceeding countries*
TP = *Total VAT and GNP payments made by all Member States*
YP_{UK} = *UK GNP payments*
VP_{UK} = *UK VAT payments*

where NC = uncapped; C = capped.

Source: European Commission

The formula above shows the core rebate, which is the part most likely to be affected by our calculations. The important change is that the level of spending in the UK will change as will the total funds allocated to the EU. Under our plan it is likely that, in percentage terms, the decline in the level of spending in the UK will be greater than the decline in the allocation of funds to the EU. Broadly, we can say that the UK would see its receipts fall by €10.6bn, out of an estimated €32.2bn over the 2007 - 2013 budget period – a fall of a third.[121] Meanwhile the EU budget for the period would fall by €147bn out of €975bn, a fall of 15%.[122] This relative shift in the balance between the UK and the EU would help to cushion the reduction of the rebate as the overall level of the budget falls.

121 Open Europe, 'UK Contribution to EU Budget rises', November 2007: http://www.openeurope.org.uk/research/budget07.pdf
122 European Commission, Financial Programming and Budget website: http://ec.europa.eu/budget/figures/fin_fwk0713/fwk0713_en.cfm

Since there is a reduction in UK contributions to the EU budget and a reduction in the overall EU budget, there will definitely be a fall in the absolute level of the rebate. It must also be considered that the regional spending in poorer member states, which cannot be abated as spending in richer member states can, will now make up a larger share of total EU spending, which may distort the impact and reduce the savings. This is almost impossible to accurately estimate but it is not clear cut which way it would go. However, the general rule of thumb in this instance is that the rebate will fall by only two thirds of the fall in the UK's gross contribution (see structure of the equation above). Under our plan, the UK's gross contribution will fall by €15.2bn, triggering a fall in the rebate of around €10bn, over the 2007 – 2013 budget period. Clearly this is not an exact calculation, but it highlights that the fall in the rebate will not eclipse the reduction in gross contributions as may have been feared.

ANNEX IV: FULL TABLE OF SAVINGS UNDER ELIGIBILITY THRESHOLD OF GNI PER CAPITA AT 90% OR BELOW THE EU AVERAGE

Member State	GNI per capita (% of EU average)	Eligible under new threshold?	Current Contribution	Current Receipts	Current Net Contribution	Estimated New Receipts	Estimated New Contribution	Estimated Saving Gross	Estimated Saving Net
BE	125	NO	10,833.93	2,257.9	8,576.1	N/A	6,109.05	4,724.9	2,467.0
BG	43	YES	1,044.89	6,852.9	-5,808.0	6,852.86	589.20	455.7	455.7
CZ	80	YES	3,469.37	26,928.7	-23,459.3	26,928.70	1,956.31	1,513.1	1,513.1
DK	132	NO	7,323.87	613.0	6,710.8	N/A	4,129.79	3,194.1	2,581.0
DE	125	NO	68,318.13	26,339.8	41,978.4	N/A	38,523.34	29,794.8	3,455.0
EE	67	YES	460.96	3,455.8	-2,994.9	3,455.84	259.92	201.0	201.0
IE	121	NO	4,662.32	901.4	3,761.0	N/A	2,629.00	2,033.3	1,132.0
EL	93	NO	8,088.18	20,419.8	-12,331.6	N/A	4,560.77	3,527.4	-16,892.4
ES	107	NO	32,556.96	35,217.0	-2,660.0	N/A	18,358.27	14,198.7	-21,018.3
FR	115	NO	62,212.30	14,318.9	47,893.4	N/A	35,080.38	27,131.9	12,813.0
IT	107	NO	47,959.37	28,811.8	19,147.6	N/A	27,043.41	20,916.0	-7,895.8
CY	98	NO	526.34	640.0	-113.6	N/A	296.80	229.5	-410.4
LV	58	YES	615.99	4,620.4	-4,004.5	4,620.44	347.35	268.6	268.6
LT	60	YES	896.32	6,885.0	-5,988.7	6,884.98	505.42	390.9	390.9
LU	213	NO	936.10	65.3	870.8	N/A	527.85	408.2	343.0
HU	63	YES	2,957.94	25,307.4	-22,349.5	25,307.40	1,667.93	1,290.0	1,290.0
MT	81	YES	178.95	855.4	-676.4	855.36	100.91	78.0	78.0
NL	139	NO	13,264.55	1,907.0	11,357.6	N/A	7,479.63	5,784.9	3,877.9
AT	131	NO	7,835.23	1,461.1	6,374.1	N/A	4,418.14	3,417.1	1,955.9
PL	60	YES	10,665.04	67,916.6	-57,251.6	67,916.64	6,013.82	4,651.2	4,651.2
PT	81	YES	5,241.90	21,510.6	-16,268.7	21,510.56	2,955.81	2,286.1	2,286.1
RO	47	YES	3,797.60	19,667.6	-15,870.0	19,667.65	2,141.40	1,656.2	1,656.2
SI	92	NO	1,139.25	4,205.3	-3,066.1	N/A	642.40	496.8	-3,708.5
SK	75	YES	1,908.99	11,725.6	-9,816.6	11,725.62	1,076.44	832.5	832.5
FI	125	NO	5,654.57	1,716.2	3,938.4	N/A	3,188.51	2,466.1	749.8
SE	133	NO	8,602.03	1,891.3	6,710.7	N/A	4,850.53	3,751.5	1,860.2
UK	123	NO	35,953.74	10,613.2	25,340.6	N/A	20,273.66	15,680.1	5,066.9
TOTALS			347,104.81	347,104.8	0.0	195,726.05	195,726.05	151,378.8	0.0

GNI figures taken as an average over the 2007 – 2010 period and expressed in terms of purchasing power parity. All cost figures in €m
Sources: World Bank, EU Commission, Open Europe Calculations

ANNEX V: FULL TABLE OF SAVINGS UNDER ELIGIBILITY THRESHOLD OF GDP PER CAPITA AT 90% OR BELOW THE EU AVERAGE

Member State	GDP per capita (% of EU average)	Eligible under new threshold?	Current Contribution	Current Receipts	Current Net Contribution	Estimated New Receipts	Estimated New Contribution	Estimated Saving Gross	Estimated Saving Net
BE	117	NO	10,833.93	2,257.9	8,576.1	N/A	6,240.31	4,593.6	2,335.8
BG	43	YES	1,044.89	6,852.9	-5,808.0	6,852.86	601.86	443.0	443.0
CZ	82	YES	3,469.37	26,928.7	-23,459.3	26,928.70	1,998.35	1,471.0	1,471.0
DK	125	NO	7,323.87	613.0	6,710.8	N/A	4,218.53	3,105.3	2,492.3
DE	117	NO	68,318.13	26,339.8	41,978.4	N/A	39,351.04	28,967.1	2,627.3
EE	67	YES	460.96	3,455.8	-2,994.9	3,455.84	265.51	195.4	195.4
IE	134	NO	4,662.32	901.4	3,761.0	N/A	2,685.48	1,976.8	1,075.5
EL	92	NO	8,088.18	20,419.8	-12,331.6	N/A	4,658.77	3,429.4	-16,990.4
ES	103	NO	32,556.96	35,217.0	-2,660.0	N/A	18,752.71	13,804.2	-21,412.7
FR	108	NO	62,212.30	14,318.9	47,893.4	N/A	35,834.10	26,378.2	12,059.3
IT	103	NO	47,959.37	28,811.8	19,147.6	N/A	27,624.46	20,334.9	-8,476.9
CY	98	NO	526.34	640.0	-113.6	N/A	303.17	223.2	-416.8
LV	54	YES	615.99	4,620.4	-4,004.5	4,620.44	354.81	261.2	261.2
LT	58	YES	896.32	6,885.0	-5,988.7	6,884.98	516.28	380.0	380.0
LU	273	NO	936.10	65.3	870.8	N/A	539.19	396.9	331.6
HU	64	YES	2,957.94	25,307.4	-22,349.5	25,307.40	1,703.76	1,254.2	1,254.2
MT	80	YES	178.95	855.4	-676.4	855.36	103.07	75.9	75.9
NL	133	NO	13,264.55	1,907.0	11,357.6	N/A	7,640.34	5,624.2	3,717.2
AT	125	NO	7,835.23	1,461.1	6,374.1	N/A	4,513.07	3,322.2	1,861.0
PL	59	YES	10,665.04	67,916.6	-57,251.6	67,916.64	6,143.03	4,522.0	4,522.0
PT	79	YES	5,241.90	21,510.6	-16,268.7	21,510.56	3,019.32	2,222.6	2,222.6
RO	46	YES	3,797.60	19,667.6	-15,870.0	19,667.65	2,187.41	1,610.2	1,610.2
SI	88	YES	1,139.25	4,205.3	-3,066.1	4,205.30	656.20	483.0	483.0
SK	72	YES	1,908.99	11,725.6	-9,816.6	11,725.62	1,099.57	809.4	809.4
FI	117	NO	5,654.57	1,716.2	3,938.4	N/A	3,257.02	2,397.6	681.3
SE	123	NO	8,602.03	1,891.3	6,710.7	N/A	4,954.74	3,647.3	1,756.0
UK	113	NO	35,953.74	10,613.2	25,340.6	N/A	20,709.25	15,244.5	4,631.3
TOTALS			347,104.81	347,104.8	0.0	199,931.35	199,931.35	147,173.5	0.0

GDP figures taken as an average over the 2007 – 2010 period and expressed in terms of purchasing power parity. All cost figures in €m
Sources: Eurostat, EU Commission, Open Europe Calculations