



Research Paper

19 March 2010

FUTURE COHESION POLICY AND STRUCTURAL FUNDS

Structural Funds are investment mechanisms used to deliver cohesion policy and any debate on their future will be inextricably linked to the debate surrounding future cohesion policy. This paper examines this debate and provides a summary of opinion from within two Member States, the UK and the Republic of Ireland.

Research Papers are compiled for the benefit of Members of The Assembly and their personal staff. Authors are available to discuss the contents of these papers with Members and their staff but cannot advise members of the general public.

SUMMARY OF KEY POINTS

The main findings of this paper are:

- The current programming period for cohesion policy will end in 2013 and with it the current round of funding. The debate around future cohesion policy post 2013 has already begun and it will attempt to identify the key priorities for the next period including how cohesion funding should be allocated and distributed across the EU.
- Future cohesion policy will be linked with other key EU priorities such as the EU 2020 Strategy and the Lisbon and Gothenburg Agendas. This illustrates the breadth of the debate and may give an indication of future funding priorities.
- One of the key issues of the debate and one which has been put forward by the UK Government is the idea of renationalising cohesion and Structural Funds within richer Member States focusing funds towards less prosperous Member States. This idea proposes that richer Member States be allowed to decide their own regional policy priorities and fund their own regional programmes rather than continuing to receive EU funds which are prescriptive to certain objectives for example, Regional Employment and Competitiveness.
- The UK Government states that cohesion policy should continue to address development disparities but that the reform of cohesion and Structural Funds should be considered. It notes that a significant percentage increase of these funds should be spent on less prosperous Member States. In addition, it proposes that the management of cohesion policy programmes should be the responsibility of each Member State given the individual legal and institutional arrangements within which they operate. It argues that there can be no one-size-fits-all approach. The UK Government also propose that the design of cohesion policy actions should be made at national or regional level as this would adhere to the principle of subsidiarity.
- In line with the UK Government position the Scottish Government supports the concept of targeting funding towards less prosperous Member States. It also states that any future cohesion policy must demonstrate that it adds value to the ongoing work undertaken by Member States and regions.
- The European and External Affairs Committee of the National Assembly for Wales strongly reject the arguments for renationalisation and support an EU wide approach to cohesion policy post 2013. As a region in receipt of Convergence funding the Committee has requested clarification from the Welsh Government on the UK Government commitment to transitional funding post 2013. It also asks that the Welsh Government explore transitional concepts to minimise the impact anticipated when Convergence funding ceases.

- The Republic of Ireland has not submitted a formal response to the European Commission consultation on the future of cohesion policy. However, the Border, Midland and Western and the Southern and Eastern Regional Assemblies comment that to renationalise cohesion policy would lead to a weakening of regional governance.
- Another key issue is the matter of transitional funding for areas that are likely to lose Convergence funding in the next programming period. The debate centres around whether there should be phasing in and out payments for the affected regions rather than full eligibility or nothing. As an area currently receiving Convergence funding this issue is of particular relevance to Wales. The European and External Affairs Committee of the National Assembly for Wales have called for clarification with regards to the UK Government commitment to transitional funding for Wales post 2013. While the UK Government position has not yet been made clear the House of Lords European Union Committee has indicated that it supports phasing in and out payments for regions.
- Northern Ireland is not in receipt of Convergence funding and so the debate around transitional funding for Convergence regions would not be applicable. However, the UK Government proposal to renationalise cohesion and Structural Funds within richer Member States could have an impact upon Northern Ireland. For the 2007-2013 programming period Northern Ireland is in receipt of Eur 472 million Regional Competitiveness and Employment funding. The UK Government propose that these funds should no longer be available for richer Member States who should instead determine their own regional priorities. Iain Begg, European Institute at the London School of Economics and Political Science, notes that should this happen one of three outcomes could occur:
 - EU policy is largely reproduced but administrative procedures are simplified. Member State regions would see little difference as the funding that would have been received from the EU has been replaced with national funding.
 - The Member State decides upon its own set of priorities and rules and as a result the recipient beneficiaries could vary greatly from those that would have benefited under EU cohesion policy.
 - Cuts or increases to regional funding could occur should the Member State decide to allocate significantly different resources to regional policies.

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1. INTRODUCTION

The House of Lords report on the future of EU regional policy details three funds which are used for regional policy: the European Regional Development Fund (ERDF); the European Social Fund (ESF); and the Cohesion Fund.

The triumvirate of Funds is colloquially known as the Structural Funds.¹

The Structural Funds are a mechanism for distributing cohesion policy investment across the 27 EU Member States. Cohesion policy seeks to promote development in the EU by reducing social and economic disparities between regions. For the period 2007-2013 the EU has earmarked 35.7% of its total budget for cohesion policy, the second largest item in the EU budget at Eur 347 billion (Annex A provides an outline of cohesion policy allocations in the UK).

The Structural Funds contribute to three objectives: Convergence; Regional Competitiveness and Employment; and European Territorial Co-operation². The Convergence objective promotes and develops the sustainable economic and social growth of the least developed Member States (note: Northern Ireland is ineligible for funding under this objective). Regional Competitiveness and Employment seeks to strengthen competitiveness and attractiveness through initiatives which focus on enterprise, innovation and the up-skilling of workforces across Member States. While the European Territorial Co-operation objective aims to strengthen cross-border, trans-national and interregional co-operation between Member States.

As Structural Funds are the investment tools used to deliver cohesion policy any debate on their future will be inextricably linked to the debate surrounding the future of cohesion policy. This paper will outline the current debate taking place across Europe on the future of cohesion policy and reflect the views held by the UK (as overall Member State), Scotland, Wales, and the Republic of Ireland. The paper will conclude with the current debate on Structural Funds in Northern Ireland.

2. THE FUTURE OF COHESION POLICY IN EUROPE

The debate surrounding the future of cohesion policy is ongoing. The current programming period for cohesion policy will end in 2013 and with it the current round of funding. The debate around future cohesion policy will attempt to identify the key priorities for the next period including how cohesion funding should be allocated and distributed across the EU. In 2007 the Commission launched a public consultation into cohesion policy post 2013 encouraging Member States, members of the various European institutions and European citizens to participate. The results of the consultation are found in the fifth progress report on economic and social cohesion adopted by the Commission in June 2008. The report states that there is great support for the role cohesion policy plays in the EU and proposals to renationalise it have been almost unanimously rejected. The concept of renationalising cohesion policy would mean handing back responsibility to individual Member States in order that they address their own regional economic and social disparities. This could also

¹ House of Lords, European Union Committee, *The Future of EU Regional Policy* (2008), <http://www.parliament.the-stationery-office.co.uk/pa/ld200708/ldselect/ldeucom/141/141.pdf>

² European Commission Regional Policy funding available at http://ec.europa.eu/regional_policy/policy/fonds/index_en.htm

mean that Member States would fund their own regional policy programmes rather than receiving EU funds which are prescriptive to certain objectives for example, Convergence, Regional Employment and Competitiveness and European Territorial Co-operation.

The report highlights a number of objectives and priorities in relation to cohesion policy which have been disseminated from the consultation responses. The consultees were asked to consider a number of key questions which would be used to shape the debate. The questions touched on a number of issues including: lessons to be learnt from preparing for the 2007-2013 programmes; the role of cohesion policy in responding to demographic change; how cohesion policy can take a more integrated approach to development, growth and jobs; how harmonious and sustainable development can be promoted across all territories; the development of the relationship between cohesion policy and other national and community policies; and opportunities for co-operation between regions (within and outside the EU).

All responses agree that lagging regions should be the focus of the policy however the report notes that there is also a majority body of opinion which thinks that cohesion policy should cover the entire EU because it “aims at fostering the endogenous development potential of European regions.”³ Territorial co-operation is recognised as an integral part of cohesion policy and an element which best demonstrates the added value of the policy. However, there are arguments for increased flexibility to allow regions to co-operate with those who are not immediate neighbours and those who are outside the same geographical area. Interestingly the report notes that the consultation responses received confirm the notion that cohesion policy increases the visibility of the EU to European citizens (a similar conclusion was reached from the results of a Eurobarometer survey).⁴

The report summarises the consensus opinion and describes a number of themes which should cut across future cohesion policy.

Competitiveness is at the heart of cohesion policy. The requirement of “earmarking” a significant share of the financial resources for the key investments linked to the renewed Agenda for growth and jobs is clearly supported. In particular, research, innovation and upgrading skills to promote the knowledge economy, development of human capital through education and training, adaptability, support for business activities (especially, small and medium enterprises), strengthening of institutional capacity and development of an entrepreneurship culture are deemed as key areas in which investments should be concentrated. Active labour market policies are also at the heart of the actions proposed to boost employment, strengthen social cohesion and reduce the risk of poverty. A significant number of participants consider that cohesion policy should contribute to Europe’s social dimension by improving employment prospects of the most vulnerable groups such as youth, elderly, disabled, immigrants and minorities.

Social and economic partners and civil society organisations stress the important role of the social economy in producing quality jobs, enhancing

³ As above

⁴ European Commission, *Fifth progress report on economic and social cohesion* (June 2008) http://ec.europa.eu/regional_policy/sources/docoffic/official/reports/interim5/com_2008_371_en.pdf

innovation, contributing to the development of rural areas and providing a number of services of general interest. They also point out the contribution of capacity building to the enforcement of principles of good governance and partnership.

...The third cross cutting theme is sustainable development. Many contributions consider that cohesion policy should strengthen its orientation towards the delivery of the objective of the Gothenburg Agenda. In particular, the policy could contribute to reducing greenhouse gases emissions through mitigation policies aimed at improving energy efficiency and promoting the development of renewable energies.⁵

The simplification of policy administration is mentioned as an important issue and complaints have been made in relation to 'red tape' and complex auditing procedures associated with implementing cohesion policy.

A paper by the European Policies Research Centre (EPRC) at the University of Strathclyde, comments on the general content of the consultation responses from Member States and notes that they focus more on broad policy objectives rather than specific ideas. The paper suggests that the general nature of responses demonstrates wariness in disclosing national positions at the early stages of the debate. It goes on to discuss possible changes to Convergence eligibility for regions post 2013 based on updates of the data which allocated the funding for the 2007-2013 programming period. Notably the paper states that at a national EU15 level Germany and the UK would lose all Convergence coverage (areas of Greece and Spain would be affected to an extent) while outside the EU15 Malta would lose Convergence status with regions of Poland and Slovenia also losing coverage. It suggests that this would likely spur demands for generous transitional arrangements.

⁶ As a region within the UK which would lose Convergence funding the European and External Affairs Committee for the National Assembly for Wales has asked the Welsh Government to provide details of the UK Government's commitment to transitional funding post 2013 (as the overall Member State which will negotiate with the EU on funding matters the Committee seek clarification because of the anticipated effect the cessation of funding could have on projects and initiatives currently in receipt of Convergence funding).

Further to the consultation process on future cohesion policy the Commission produced the Regions 2020 report, an assessment of future challenges facing the EU, and it concluded that the European policy framework of which cohesion policy is key needs to be adapted in order to help regions deal with the challenges of globalisation, demographic change, climate change, and energy use and supply. The Regions 2020 report was subsequently referenced in a reflection paper on future cohesion policy by Commissioner Danuta Hübner who named it as one of a number of important initiatives fueling the cohesion policy debate. This illustrates the breadth of the cohesion policy debate and how it is linked to other EU policy areas such as EU 2020. Other key initiatives include the fifth progress report, the consultation on the green paper on Territorial Cohesion, OECD analysis, the Barca report (an independent review of cohesion policy), and results from the ex post evaluation of

⁵ As above

⁶ John Bachtler, Carlos Mendez, Fiona Wislade, European Policies Research Centre, *Ideas for Budget and Policy Reform: Reviewing the debate on cohesion policy 2014+* (March 2009) http://www.eprc.strath.ac.uk/eprc/documents/PDF_files/EPRP_67_Ideas_for_Budget_and_Policy_Reform.pdf

Objectives 1 and 2 for the period 2000-2006. Commissioner Hübner states that in achieving its objectives cohesion policy contributes to the delivery of other key EU priorities however she argues there is a need for stronger links to be established between cohesion policy programmes and the Lisbon Strategy.

The need for strong links between cohesion policy and other EU priorities is reiterated by the outgoing European Commissioner in charge of Regional Policy Pawel Samecki who, in an orientation paper, states that future cohesion policy should provide high added value and be directly linked to key EU policy priorities.

Cohesion policy is an essential part of the economic policy framework of the Union alongside macroeconomic and micro-economic policies. For this reason, the policy must be strongly linked to the Single Market and key Community priorities, in particular those of the EU2020 strategy. Cohesion policy can facilitate transition to a smarter and greener economy across Europe. By mobilising territorial potential and complementing EU policies, cohesion policy can contribute to maximise the impact of other EU priorities.⁷

Samecki believes that the preparation for cohesion programmes post 2013 will be an opportunity to increase the effectiveness and quality of delivery of cohesion policy. He lists five requirements needed for increased effectiveness one of which is concentrating cohesion policy on a limited number of priorities similar to those contained within the forthcoming EU 2020 strategy.⁸

The Europe 2020 Strategy referred to by Samecki was issued in a communication from the Commission on 3 March 2010 and it backs up the calls he made for links between the effectiveness and added value of cohesion policy and the EU 2020 priorities. The communication proposes that cohesion policy and Structural Funds be used as mechanisms to deliver the strategy priorities and forthcoming discussions around the EU multi-annual framework due in 2011 should look at how EU funding can help in achieving these.

The discussion should not only be about levels of funding, but also about how different funding instruments such as structural funds, agricultural and rural development funds, the research framework programme, and the competitiveness and innovation framework programme (CIP) need to be devised to achieve the Europe 2020 goals so as to maximise impact, ensure efficiency and EU value added.⁹

Amongst some Member States, for example the UK and Sweden, there is a debate around how future cohesion policy funding should be allocated and which Member States should be eligible. In a working paper for the Directorate-General for Regional Policy on 'The future of cohesion policy in richer regions' Iain Begg from the European Institute at the London School of Economics and Political Science examined the arguments around the future eligibility of richer regions in relation to Structural Funds. Begg defines the poorest regions as those eligible for

⁷ Pawel Samecki, European Commissioner in charge of Regional Policy, *Orientation paper on future cohesion policy* (2009)

http://ec.europa.eu/regional_policy/newsroom/pdf/pawel_samecki_orientation_paper.pdf

⁸ As above

⁹ As above

Convergence funding (81.5% of the cohesion policy budget) with the remaining 18.5% allocated to richer regions within the EU through the Regional Competitiveness and Employment and European Territorial Co-operation objectives. Annex B provides information from the Commission which explains how statistical data is used to determine geographic eligibility for each of the objectives.

From the outset of the paper Begg states:

*There will never be an easy or purely objective way of determining whether the coverage of EU Cohesion Policy (or, more narrowly, Regional Policy) should include richer regions, especially richer Member States.*¹⁰

He argues that it is important to consider a range of factors, for example, economic, political, constitutional and administrative matters when assessing the allocation of cohesion policy. Constitutionally there is an obligation under the Treaty for ERDF (which must be assessed at a regional level rather than overall Member State level) and ESF funding to be provided for all Member States, regardless of wealth. Politically, within the European Parliament, Begg notes that a broad cohesion policy is supported and the idea of renationalising regional policy within richer Member States is rejected. In addition, the Commission believe that to renationalise it would only serve to “confuse rather than focus cohesion policy”.¹¹ This would indicate that the Commission believe there is merit to be gained in including the whole of the EU in the distribution of cohesion policy funding.

The paper cites a 2008 report commissioned by the Directorate General for Budget and undertaken by a consortium of Ecorys Research and Consulting, Netherlands Bureau for Economic Policy Analysis (CPB) and the Institute for Economic Research. The report is an assessment of which policy areas should be allocated a proportion of the future EU budget and it concluded that cohesion policy should cease for richer regions of the EU (with the exception of Territorial Co-operation). With regards to Competitiveness and Employment the report found that the richer Member States could sufficiently fund and administer these policies themselves and argues that the competitiveness pillar of the Lisbon strategy could be met more effectively outside the EU Regional Policy framework. The report concluded:

*From a normative point of view, there is not much to be said in favour of the Competitiveness and Employment Objective (in particular within a Regional Policy framework).*¹²

The UK Government supports the phasing out of Structural Funds in richer Member States (including Competitiveness and Employment) and the redistribution of funds to less prosperous EU Member States.¹³ The Dutch Government also call for cohesion funds to be targeted at less prosperous countries and indeed the Swedish

¹⁰ Directorate-General for Regional Policy, *The future of cohesion policy in richer regions no. 03/2009* (2009)

http://ec.europa.eu/regional_policy/sources/docgener/work/2009_03_richer.pdf

¹¹ As above

¹² As above

¹³ National Assembly for Wales, European and External Affairs Committee, *EUR(3)-13-09: Paper 5: 3 November 2009 Evidence from Department for Business, Innovation and Skills* (2009) <http://www.assemblywales.org/bus-home/bus-committees/bus-committees-other-committees/bus-committees-third-eur-home/bus-committees-third-eur-agendas.htm?act=dis&id=149857&ds=11/2009>

Government call for the focus to be on the parts of the EU most in need primarily the new Member States.¹⁴ If it became the case that wealthier Member States were no longer eligible for this type of EU funding it would then fall to them to decide how to support economic and social development within its own regions. Begg comments on three possible outcomes which could occur:

- EU policy is largely reproduced but administrative procedures are simplified. Member State regions would see little difference as the funding that would have been received from the EU has been replaced with national funding.
- The Member State decides upon its own set of priorities and rules and as a result the recipient beneficiaries could vary greatly from those that would have benefited under EU cohesion policy.
- Cuts or increases to regional funding could occur should the Member State decide to allocate significantly different resources to regional policies.¹⁵

3. UNITED KINGDOM

The Rt Hon John Hutton MP, Secretary of State for Business, Enterprise and Regulatory Reform presented the UK Government response to the Commission consultation on the future of cohesion policy in January 2008. It clearly states that the UK Government believe that “the focus of cohesion policy should continue to be that of addressing disparities in development, and that to be most effective cohesion policy should continue to support the Lisbon and Gothenburg Agendas through further alignment with the Integrated Guidelines for Jobs and Growth and National Reform Programmes.”¹⁶

The submission states that both the Integrated Guidelines for Jobs and Growth and National Reform Programmes set out the challenges which face the EU, Member States and individual regions therefore there is no need to create a list of separate challenges for cohesion policy. Rather the focus should be on how cohesion policy can help Member States to address these challenges and the Integrated Guidelines and National Reform Programmes should drive cohesion policy and the Structural Funds. However, the UK Government believes that the design of cohesion policy actions which aim to address these challenges should be made at national or regional level because this would adhere to the principle of subsidiarity.

Further to this the UK Government proposes that the management of the cohesion policy programmes should be the responsibility of Member States given that each one operates within their own institutional and legal arrangements “there can be no one-size-fits-all approach”.¹⁷ The submission proposes that the reform of Structural and Cohesion Funds should be considered and a significant percentage increase of these funds should be spent on less prosperous Member States. However, the response does not specifically mention the phasing out of certain Structural Funds for

¹⁴ Directorate-General for Regional Policy, *The future of cohesion policy in richer regions no. 03/2009* (2009)

http://ec.europa.eu/regional_policy/sources/docgener/work/2009_03_richer.pdf

¹⁵ As above

¹⁶ UK Government response to the European Commission consultation on the future of cohesion policy (January 2008) <http://www.berr.gov.uk/files/file44304.DOC>

¹⁷ As above

individual Member States (as stated in a subsequent submission to the National Assembly for Wales European and External Affairs Committee from the Department for Business, Innovation and Skills which puts forward the UK Government opinion that Structural and Cohesion Funds should be focused on poorer Member States and phased out in richer Member States).

With reference to an earlier point made by Pawel Samecki which stated that cohesion policy is interlinked with other key EU priorities and does not operate on its own, the UK Government note something similar in their consultation response:

*We must remember that synergies and complementarities between cohesion policy and other National and Community policies operate in two directions. Cohesion policy does not operate in isolation and other policies also support its underlying objectives, for example, the Rural Development Programme and the Competitiveness and Innovation Framework programme.*¹⁸

Following the consultation period on the future of cohesion policy the House of Lords European Union Committee produced the 19th report of session 2007-08 'The Future of EU Regional Policy'. It examined the distribution, management and impact of Structural Funds and concluded the following key points:

- The funding split between the Objectives (Convergence is allocated the largest proportion) is appropriate and richer Member States should remain responsible for most of their regional funding.
- The Committee agrees, in principle, with the UK Government that funding should be focused on the poorer regions of the EU and should reflect the principle of subsidiarity. As a result some Member States (including the UK) would lose income from the Structural Funds however the Committee believes this option should be explored.
- The Committee supports phasing in and out payments for regions rather than full eligibility or nothing.
- The Committee is in agreement with the UK Government in that Structural Funds should only be used for reducing regional disparities. It should not be used to address other issues such as climate change.
- The Committee welcomes integration with the Lisbon Strategy.
- The Committee welcomes the increased use of loans. Evidence was submitted which stated that more use could be made of loans rather than grants, for example loans from the European Investment Bank. The UK Government has since expanded upon this idea as witnessed in the document 'EU Compact for Jobs and Growth' (January 2010).
- Regional spending plans which are drawn up by the regions and take into account local infrastructure or education priorities emphasis that there cannot be a one-size-fits-all approach.
- Co-financing for projects from national funds should continue because it provides an added incentive ensuring money is spent efficiently and effectively.

¹⁸ As above

- Structural Funds have helped to reduce disparities in Europe.¹⁹

A number of the conclusions made by the Committee agree with the views and reflects some of the issues identified in the UK Government response to the Commission consultation on future cohesion policy. There is no real divergence of opinion between the European Union Committee and the UK Government.

4. SCOTLAND

The Scottish Government consultation submission on the future of cohesion policy states that it should be viewed in two ways: through the Structural and Cohesion Funds which seek to create regional equity; and cohesion policy as a principle that should underline all EU policies if not Member State policies too. While the Scottish Government acknowledge that Structural Funds have had a number of positive impacts within Scotland such as employment and economic development it expresses concern with regards to the costs of implementing the funds. In addition, it states that future cohesion policy must demonstrate that it adds value to the ongoing work undertaken by Member States and regions in reducing economic and social disparities. The Scottish Government submission comments:

It is not clear at this point whether EU cohesion policy will continue contributing to our goal of greater Scottish equity within a more cohesive EU after 2013. We do not believe that cohesion policy should be a permanent fixture for any nation or region within the EU, but that its value should be tested against its real contributions to domestic – and EU – equity objectives. These considerations will depend to a large extent on the scope of cohesion policy, level of any additional resources it could bring to the nation and region and the costs of administering any future allocations. As with other parts of the EU, Scotland will be making similar assessments of the value of EU cohesion policy to our own equity goals as the shape of policy becomes clearer closer to 2013. For this reason, the Scottish Government believes that the key test for EU cohesion policy should be its ability to bring added value to the efforts of nations and regions in reducing economic and social disparities, whether that value can be measured in terms of policy design, implementation or any genuinely additional funding that it can bring to domestic policy. In particular, we believe that cohesion policy can demonstrate that added value where the following principles are applied.

...value added will be better demonstrated where there is greater spatial targeting of cohesion policy. The Scottish Government believes that the policy should be concentrated on those parts of the EU that experience the most difficult, intractable economic development challenges, wherever the areas are located, but particularly in the poorer Member States. Consequently, consideration should be given to developing a more refined approach to identifying and targeting spatial areas in need of support.²⁰

¹⁹ House of Lords, *The Future of EU Regional Policy* (2008), <http://www.parliament.the-stationery-office.co.uk/pa/ld200708/ldselect/ldcom/141/141.pdf>

²⁰ Scottish Government, *Growing Regions, Growing Europe: European Commission consultation on the future of cohesion policy response by the Scottish Government* (January 2008) www.scotland.gov.uk/Resource/Doc/917/0056479.pdf

The concept of targeting funding towards the less prosperous Member States reflects the opinion of the UK Government as evidenced in the Department for Business, Innovation and Skills submission to the National Assembly for Wales European and External Affairs Committee. In the consultation submission the Scottish Government confirmed that it has contributed to and supports the UK Government response to the debate on the future of cohesion policy.

5. WALES

During the current 2007-2013 programming period Wales is eligible for around GBP 2 billion of cohesion policy funding the majority of which is allocated under the Convergence objective. At the present time in the National Assembly for Wales there is much focus being placed on discussions around what will happen post 2013 when the current funding period ends. The European and External Affairs Committee agreed to conduct an inquiry into the future of cohesion policy post 2013 and to analyse the potential implications for Wales when the current round of funding ends. The terms of reference for the Committee inquiry were:

- *To understand and seek to influence the emerging debate over the future of EU Cohesion Policy post 2013.*
- *To make recommendations to the Welsh Assembly Government on the negotiating position in this debate likely to achieve the maximum benefit for the people of Wales.*
- *To share these recommendations with the EU institutions, in particular the European Commission, EU networks and other key stakeholders in Brussels and Wales.²¹*

In December 2009 the Committee published the interim report of inquiry into the future of cohesion policy and made seven recommendations and seven conclusions to the Welsh Government. A number of the key conclusions made by the Committee include:

- *The Committee strongly supports maintaining an EU-wide approach to cohesion policy post 2013 and rejects the arguments for re-nationalisation of part (or all) of cohesion policy as not in the best interests of Wales or the European Union.*
- *Territorial co-operation should be maintained in the future cohesion policy.*
- *There is merit in expanding the scale of the credit and loan finance instruments in the post 2013 period, as a way of creating 'legacy funding' for future regional development activities.*
- *The Committee reiterates its support for both ERDF and ESF to be maintained as tools within the EU cohesion policy.²²*

With regards to renationalising part or all of cohesion policy it would appear that the view of the Committee differs greatly from that of the UK Government. The Committee vehemently state that to do so would not be beneficial to Wales or the EU. The submission received by the Committee from the Department for Business,

²¹ National Assembly for Wales, European and External Affairs Committee, *Interim report of inquiry into the future of cohesion policy* (2009) <http://www.assemblywales.org/bus-home/bus-committees/bus-committees-other-committees/bus-committees-third-eur-home.htm>

²² As above

Innovation and Skills clearly states the UK Government position that “the Structural and Cohesion Funds should be targeted towards the less prosperous Member States, with funding in the richer Member States to be phased out. The priority should be that standard ‘competitiveness and employment’ funding is no longer available in those countries.”²³

The seven recommendations of the Committee are provided in full in Annex C. However, some of the key recommendations and supporting evidence are now discussed.

Recommendation 1 seeks to ascertain the Welsh Government’s position in the cohesion policy debate. With regards to the debate over the future of cohesion policy the Committee believes it is essential that Wales is vocal and active in this debate during 2010 to 2012. As the Commission will be focusing on the future of cohesion policy in 2010 the Committee feels it is particularly relevant that the Welsh voice is present in Brussels. This will be the time when the EU budget is being debated and ideas around the future of cohesion policy will shape this debate significantly.

The Committee note from evidence submitted to it as part of the inquiry that the First Minister claims the Welsh Government has been able to change the UK policy on transitional funding post 2013. However, while representations made to the Committee from the Department for Business Innovation and Skills (BIS) do refer to some form of transitional arrangements being considered, BIS was unable to confirm if a particular model for implementation has been identified. In light of this the Committee have requested clarification from the Welsh Government as to the level of UK Government commitment to transitional funding for Wales post 2013 (Recommendation 3).²⁴

Recommendation 4 asks the Welsh Government to explore the concepts of a transitional regions objective and economic development gears as part of a sliding scale mechanism for areas moving above the 75% average GDP (i.e. becoming ineligible for objective 1 funding). This would not be relevant to Northern Ireland because it is ineligible for objective 1 funding however attention has been drawn to this point because it illustrates the Committee’s desire to see the Welsh Government become involved in discussions on transitional support as a benefit to Wales and the EU as a whole.

The Committee seek clarification from the Welsh Government on the steps that will be taken to ensure exit strategies for EU funded projects are developed (Recommendation 5). This stems from evidence submitted to the Committee from the Wales Council for Voluntary Action.

²³ National Assembly for Wales, European and External Affairs Committee, *EUR(3)-13-09: Paper 5: 3 November 2009 Evidence from Department for Business, Innovation and Skills* (2009) <http://www.assemblywales.org/bus-home/bus-committees/bus-committees-other-committees/bus-committees-third-eur-home/bus-committees-third-eur-agendas.htm?act=dis&id=149857&ds=11/2009>

²⁴ As above

The WCVA raised the issue of how successful EU funded-projects and initiatives can be appropriately mainstreamed into statutory UK-level funding by 2013 to make them sustainable.²⁵

In an Assembly debate on the interim report on the future of cohesion policy (3 February 2010) the First Minister Carwyn Jones stated that all of the Committee recommendations had been accepted in principle. The First Minister commented that the role of cohesion funding is to act as a catalyst which should eventually enable projects to become self funding and that there must be a move from a grant culture to an investment culture. He also confirmed that suitable exit strategies for projects are essential to ensure that the Welsh people do not suffer from the cessation of funding.

The Committee submitted the interim report to the Commission as part of the public consultation on the Europe 2020 strategy and both the National Assembly for Wales and the Welsh Assembly Government made submissions to the Commission which promoted the Welsh agenda and priorities. This demonstrates the high level importance placed on European engagement by the Welsh institutions.

6. REPUBLIC OF IRELAND

For the period 2007-2013 the Republic of Ireland is eligible for Eur 900 million cohesion policy funding of which Eur 750 million is allocated under Regional Competitiveness and Employment and Eur 150 million from European Territorial Co-operation. There are two regional development programmes funded under the Regional Competitiveness and Employment objective and two regional assemblies have been set up to act as managing authorities: one for the Southern and Eastern region and another for the Border, Midland and Western region. The Republic of Ireland Government did not submit a formal response to the Commission consultation on the future of cohesion policy nor has this been a topic for scrutiny by the Joint Committee on European Affairs. However, a submission produced by the Border, Midland and Western, and Southern and Eastern Regional Assemblies does provide commentary on the Irish national context in relation to cohesion policy funding.

From the perspective of the Irish Government, the debate on the future of EU Cohesion Policy has to take a number of factors into account. The loss of Objective 1 status for the BMW Region at the end of 2006 has led to a significant reduction in Ireland's entitlement to EU Structural Funds receipts. This also follows the expiry of Ireland's entitlement to Cohesion Funds in 2004. Overall, there has been a 75% reduction in Structural Funds receipts for the 2007-13 period compared with the 2000-06 period. Both NUTS II regions are now funded under the Regional Competitiveness and Employment objective (Objective 2). The BMW Region qualifies as a phasing-in region with a frontloading of structural funds allocations over the 2007-2010 period and a much lower allocation over the 2011 to 2013 period.

...As of the end of 2010, the differential level of EU funding available to the BMW Region will disappear. This had been an important factor that had led to the decision in 1999 to divide the country into two NUTS II regions for

²⁵ As above

*Structural Funds purposes. Also, as of 2011, the gap in the permitted levels of regional aid under the EU state aids regime will also narrow considerably. This coincides with Ireland becoming a net contributor to the EU budget.*²⁶

In addition, the regional assemblies discuss the idea of renationalising cohesion policy and argue that this would lead to a weakening of regional governance because the assemblies would no longer be required if there were no EU programmes to manage and monitor.

7. NORTHERN IRELAND

As the then Minister for Finance and Personnel the Rt Hon Peter Robinson MP MLA submitted a short statement on behalf of the Northern Ireland Executive, in addition to contributions made to the UK Government response, to the Commission in relation to future cohesion policy. Central to the statement is the belief that sustainable economic growth should be key to reducing regional disparities. This should be done strategically through a number of EU wide policies on jobs and growth. The statement also goes on to comment on co-operation between regions as an area of added value and one which should be strengthened.²⁷

At the Committee for the Office of the First Minister and Deputy First Minister meeting held 24 February 2010 Maurice Maxwell, Head of the European Commission Office in Northern Ireland, discussed the issue of continuing Structural Funds in Northern Ireland. He suggested that a multi pronged approach to Europe be taken:

*Do we need it? Does it bring added value? Is it helpful? Will we miss it? Suppose we did not have it any more? We must look at everything the structural funds do here, particularly through the competitiveness and employment programmes... That money is doing a lot of good here, and if stopped we must ask who is going to do that good? Will the block grant from London increase to recompense us for any loss of structural funds?*²⁸

Mr Maxwell suggested that the topic of Structural Funds be examined, discussed and negotiated to see if it is at all possible that they continue to be received in Northern Ireland.

On 6 January 2010 the Committee for Finance and Personnel received oral evidence from Department for Finance and Personnel (DFP) representatives in relation to the

²⁶ Border, Midland and Western and Southern and Eastern Regional Assemblies, *Submission on the Future of EU Cohesion Policy* (November 2008)

<http://www.bmwassembly.ie/news/publications/Future%20of%20EU%20Cohesion%20Policy.pdf>

²⁷ Department for Finance and Personnel, *Northern Ireland input to Commission consultation on cohesion policy* (January 2008)

http://ec.europa.eu/regional_policy/conferences/4thcohesionforum/doc/contributions/elstssy.pdf

²⁸ Northern Ireland Assembly, Committee for the Office of the First Minister and Deputy First Minister, *Official report (Hansard) European Issues*, 24 February 2010

http://www.niassembly.gov.uk/record/committees2009/OFMDFM/100224_EuropeanIssues.pdf

EU Commission Taskforce Action Plan. The Committee were advised that DFP contribute to four of the taskforce themes.

*The first of those themes is the promotion of Northern Ireland's interests in Europe where DFP leads on cohesion policy for structural funds and on the European budget. A review of that is ongoing. We lead on the Lisbon agenda. The original Lisbon agenda lasted from 2000 to 2010. It is currently being reviewed and updated with regard to the policies that should be in place throughout Europe between 2010 and 2020. Indeed, a Commission consultation on the EU 2020 Strategy is currently ongoing. It closes on 15 January. DFP is contributing to that process.*²⁹

The Department noted that the post 2013 funding debate started recently and the next 12 months will be an opportune time to influence the debate on future Structural Funds. The Commission will formally propose the budget and Structural Funds for 2014-2020 in the first half of 2011 and DFP believe it is important that Northern Ireland influences how this will look. The European Division within DFP indicated that it will lead this work in Northern Ireland by being involved in consultations and the setting of key priorities. The Committee were advised again by the DFP representative that "DFP leads on cohesion policy."³⁰

With regards to involvement in the debate in Europe on funding post 2013 the Committee discussed the influence that must also be exerted within the UK and noted that a strategic approach was imperative if there was to be any chance of influencing the outcomes of UK Treasury and Westminster negotiations with Europe.

At the Committee for Finance and Personnel meeting on 4 March 2009 information was sought from a DFP representative on whether Northern Ireland would be best placed to continue to seek cohesion funding from the EU or whether an alternative UK regional policy would be more beneficial. The following response was provided which made specific reference to competitiveness funding:

The numbers are tricky, which I will explain, but in my judgement it is probably about the same. At present, our competitive funding involves two programmes that, over the seven-year period, give us almost €0.5 billion – what we get from cohesion funding over the seven years. We also have the cross-border Peace and other programmes that would not figure in this debate anyway.

The UK position, which failed this time round but will be proposed for the next round of funding, is that wealthy member states finance their own regional policy. Less wealthy member states would receive structural funds from Europe. As part of the UK, Northern Ireland would receive no competitive funding; hence, it would lose that €0.5 billion.

The difference in the amount that the UK would have to pay to Europe as a net contributor depends on several factors, including whether the UK keeps its rebate. Big numbers are involved in those issues. However, the difference between the two mechanisms for the 2007-2013 negotiations in

²⁹ Northern Ireland Assembly, Committee for Finance and Personnel, *Official report (Hansard) EU Commission Taskforce Action Plan*, 6 January 2010
<http://www.niassembly.gov.uk/record/committees2009/FinancePersonnel/100106EUCommissionTaskforceActionPlan.htm>

³⁰ As above

2004 was estimated at around €4 billion per annum in extra costs to the Treasury.

That leaves €4 billion that is not available for national spending. If that money had been spent nationally rather than been paid to Europe, under the Barnett formula, it could work out that Northern Ireland would get close to €80 million a year, plus or minus a couple of million.³¹

DFP claim that some of the wealthier Member States, including the UK, propose to fund their own regional policy rather than continue to contribute to the cohesion budget and instead leave the allocation of the Structural Funds to the less wealthy Member States. This view is supported by evidence submitted to the National Assembly for Wales European and External Affairs Committee inquiry into the future of cohesion policy. In a paper submitted by the UK Department for Business, Innovation and Skills (November 2009) it states that Structural Funds in the wealthier Member States should be phased out including competitiveness funding.³² It is claimed that the current distribution of Structural Funds is not in line with current UK Government budgetary principles which state that funding should be targeted at the least prosperous Member States leaving the more prosperous Member States to determine their own regional policies.

³¹ As above

³² National Assembly for Wales, European and External Affairs Committee, *EUR(3) 13-09-paper 5: 3 November 2009*, <http://www.assemblywales.org/bus-home/bus-committees/bus-committees-other-committees/bus-committees-third-eur-home/bus-committees-third-eur-agendas.htm?act=dis&id=149857&ds=11/2009>

Annex A

COHESION POLICY ALLOCATIONS IN THE UK

For the 2007-2013 programming period a total of Eur 10.6 billion cohesion policy funding has been allocated to the UK. This translates as Eur 2.9 billion Convergence funding, Eur 7 billion Regional Competitiveness and Employment funding, and Eur 722 million under the European Territorial Co-operation objective.³³ Of this the UK proposes that Eur 4.5 billion will be invested in research and development, Eur 1.8 billion in entrepreneurship and small and medium sized enterprises (SME), and over Eur 1.7 billion in raising the level of skills and qualifications of the UK workforce.

The table below outlines Northern Ireland's allocations as a beneficiary of the Structural Funds for the period 2007-2013.

Objective	ERDF	ESF
Convergence	-	-
Regional Competitiveness and Employment	Eur 307 million ³⁴	Eur 165 million ³⁵
European Territorial Co-operation	Eur 225 million ³⁶ Eur 192 million ³⁷	N/A

³³ European Commission, *European Cohesion Policy in the United Kingdom*, http://ec.europa.eu/regional_policy/sources/docgener/informat/country2009/uk_en.pdf

³⁴ Department of Enterprise, Trade and Investment, *The European Sustainable Competitiveness Programme for Northern Ireland 2007-2013 (2007)* <http://wefo.wales.gov.uk/programmes/regionalcompetitiveness/?lang=en>

³⁵ As above

³⁶ Special EU Programmes Body, *EU Programme for Peace and Reconciliation 2007-2013 Operational Programme* <http://www.seupb.eu>

³⁷ Special EU Programmes Body, *Northern Ireland, the Border Region of Ireland and Western Scotland 2007-2013 Operational Programme* <http://www.seupb.eu>

REGIONS AFFECTED BY REGIONAL POLICY

[HTTP://EC.EUROPA.EU/REGIONAL_POLICY/POLICY/REGION/INDEX_EN.HTM](http://ec.europa.eu/regional_policy/policy/region/index_en.htm)

The whole European Union is covered by one or several objectives of the cohesion policy. To determine geographic eligibility, the Commission bases its decision on statistical data. Europe is divided into various groups of regions corresponding to the classification known by the acronym NUTS (common nomenclature of territorial units for statistics)

Phase-out assistance systems have been set up for regions which benefited from much financial assistance before the enlargement, in order to avoid drastic changes between two programming periods.

COHESION FUND

Member States whose GNI (Gross National Income) is lower than 90% of the EU average can benefit from cohesion fund: that is all the regions of the following countries:

Bulgaria, Czech Republic, Estonia, Greece, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Portugal, Romania, Slovenia, and Slovakia

A phasing-out system is granted to Member States which would have been eligible for the Cohesion Fund if the threshold had stayed at 90% of the GNI average of the EU at 15 and not at 25. This only concerns Spain.

CONVERGENCE OBJECTIVE

Regions at level 2 of the NUTS classification whose GDP (Gross Domestic Product) per inhabitant is less than 75% of the Community average are eligible for funding under the Convergence objective.

Bulgaria: the whole territory

Czech Republic: Střední Čechy, Jihozápad, Severozápad, Severovýchod, Jihovýchod, Střední Morava, Moravskoslezsko

Germany: Brandenburg-Nordost, Mecklenburg-Vorpommern, Chemnitz, Dresden, Dessau, Magdeburg, Thüringen

Estonia: the whole territory

Greece: Anatoliki Makedonia, Thraki, Thessalia, Ipeiros, Ionia Nisia, Dytiki Ellada, Peloponnisos, Voreio Aigaio, Kriti

Spain: Andalucía, Castilla-La Mancha, Extremadura, Galicia

France: Guadeloupe, Guyane, Martinique, Réunion

Hungary: Közép-Dunántúl, Nyugat-Dunántúl, Dél-Dunántúl, Észak-Magyarország, Észak-Alföld, Dél-Alföld

Italy: Calabria, Campania, Puglia, Sicilia

Latvia: the whole territory

Lithuania: the whole territory

Malta: the whole island

Poland: the whole territory

Portugal: Norte, Centro, Alentejo, Região Autónoma dos Açores

Romania: the whole territory

Slovenia: the whole territory

Slovakia: Západné Slovensko, Stredné Slovensko, Východné Slovensko

United Kingdom: Cornwall and Isles of Scilly, West Wales and the Valleys

A phasing-out system is granted to those regions which would have been eligible for funding under the Convergence objective if the threshold of 75% of GDP had been calculated for the EU at 15 and not at 25:

Belgium: Province du Hainaut

Germany: Brandenburg-Südwest, Lüneburg, Leipzig, Halle

Greece: Kentriki Makedonia, Dytiki Makedonia, Attiki

Spain: Ciudad Autónoma de Ceuta, Ciudad Autónoma de Melilla, Principado de Asturias, Región de Murcia

Austria: Burgenland

Portugal: Algarve

Italy: Basilicata

United Kingdom: Highlands and Islands

Regional competitiveness and employment objective

All regions which are not covered by the Convergence objective or by the transitional assistance (NUTS 1 or NUTS 2 regions depending on the Member States) are eligible for funding under the competitiveness and employment objective.

A phasing-in system is granted until 2013 to NUTS 2 regions which were covered by the former Objective 1 but whose GDP exceeds 75% of the average GDP of the EU-15.

Regions eligible for transitional assistance under the Competitiveness and Employment objective:

Éire-Ireland: Border, Midland and Western

Greece: Sterea Ellada, Notio Aigaio

Spain: Canarias, Castilla y León, Comunidad Valenciana

Italy: Sardegna

Cyprus: tout le territoire

Hungary: Közép-Magyarország

Portugal: Região Autónoma da Madeira

Finland: Itä-Suomi

United Kingdom: Merseyside, South Yorkshire

EUROPEAN TERRITORIAL COOPERATION OBJECTIVE

Cross-border cooperation addresses NUTS level 3 regions along all internal land borders and certain external land borders and all NUTS level 3 regions along maritime borders separated by a maximum distance of 150km. See the list of regions in Commission's decision of 31 October 2006.

For transnational cooperation: the list was adopted by the Commission in its decision of 31 October 2006.

For interregional cooperation: all regions in Europe are eligible.

**RECOMMENDATIONS OF THE EUROPEAN AND EXTERNAL AFFAIRS COMMITTEE
INTERIM REPORT OF INQUIRY INTO THE FUTURE OF COHESION POLICY.**

Recommendation 1: The Committee invites the Welsh Government to confirm its stated position in the cohesion policy debate in the UK and in particular Brussels, and to respond as a matter of urgency to the call from Welsh stakeholders for it to take a leading role in facilitating and co-ordinating this process within Wales and Brussels.

Recommendation 2: The Committee calls on the European Commission in its proposals for the successor to the Lisbon Strategy, to use the existing governance structures of the regional programmes in the EU cohesion policy to address the “governance deficit” of the current Lisbon Strategy.

Recommendation 3: The Welsh Government to provide clarification as to the nature of the UK Government’s commitment on transitional funding for Wales within cohesion policy post 2013.

Recommendation 4: The Committee is persuaded of the merits of a “sliding scale mechanism” as a permanent feature of the future cohesion policy, and asks the Welsh Government to take an active role in exploring how the different ideas being discussed in Brussels, such as a Transitional Regions Objective (suggested by Sachsen-Anhalt) or a series of economic development “gears” (suggested by graham Meadows), could be taken forward in a way that would be of benefit to Wales and the European Union as a whole.

Recommendation 5: The Welsh Government to provide clarification of what actions are envisaged to ensure the timely development of exit strategies within the 2007-2013 Structural Funds programmes in Wales.

Recommendation 6: The Welsh Government to provide clarification on how mainstreaming of EQUAL has been put into place in the Welsh Structural Funds programmes, including the use that has been made of transnational actions within the Convergence and Competitiveness programmes to date.

Recommendation 7: The European Commission’s Simplification Task Force provides a potential vehicle for Welsh stakeholders to communicate suggestions on improvements to administrations and implementation of the current programmes. The Welsh Government to provide clarification on how it is engaging with the work of this task force in Brussels.