



## BRIEFING PAPER

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# UK funding from the EU

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## Summary

Public and private sector organisations in the UK receive funding from the EU through various channels – the UK received a total of €6.3 billion (about £5.5 billion) in 2017. The majority of EU funding is administered in partnership with national and regional authorities in Member States, though a share of it is directly administered by the European Commission.

The two most significant funding channels for the UK are the European Structural and Investment (ESI) funds (discussed in [section 2](#)) and the European Agricultural Guarantee Fund (discussed in [section 3](#)). For the current funding period (2014-20), the UK has been allocated €17.2 billion and €22.5 billion through these funds respectively.

The ESI Funds are the EU's instrument for reducing disparities in the level of development of its various regions and for helping less developed regions to catch up. The bulk of UK funding via this channel comes through the European Regional Development Fund (ERDF), which has been allocated €5.8 billion of EU funds, and the European Social Fund (ESF) with an allocation of €4.9 billion.

Different regions within the UK have been allocated varying levels of funding, with less developed areas (particularly in West Wales and the South West of England) receiving more per person than other areas. The largest single allocation of 2014-2020 ESI funding in England is for the National Offender Management Service (NOMS) to fund activities that support the reintegration of prisoners back into the work force. 53% of the cost of this £247 million project will be funded by the ESF, with the remainder met through national co-financing.

The European Agricultural Guarantee Fund (EAGF) is the primary financial mechanism used for the implementation of the EU's Common Agricultural Policy (CAP). The EAGF consists of direct payments to farmers to stabilise their revenues and market measures to tackle specific market situations, and the UK has been allocated €22.5 billion for the period 2014-20.

Organisations in the UK can also apply directly to the European Commission for funding from various other streams, often on a competitive basis following calls for applications. The UK is one of the leading Member States in securing funding for research and innovation and various other projects, with around 14% of funds allocated from the Horizon 2020 programme going to the UK, and British universities are in the top four higher education recipients to date. The typical aggregate value of direct funding is around £1-1.5 billion per year.

In addition, projects in the UK can be supported by EU institutions with funding from outside the EU Budget. Most notably, the European Investment Bank (EIB) – which borrows money on capital markets and lends it on favourable terms to projects that support EU objectives – committed an average of €5.4 billion to UK projects each year between 2011 and 2017. Many of these were major infrastructure projects, as well as some supporting growth and employment.

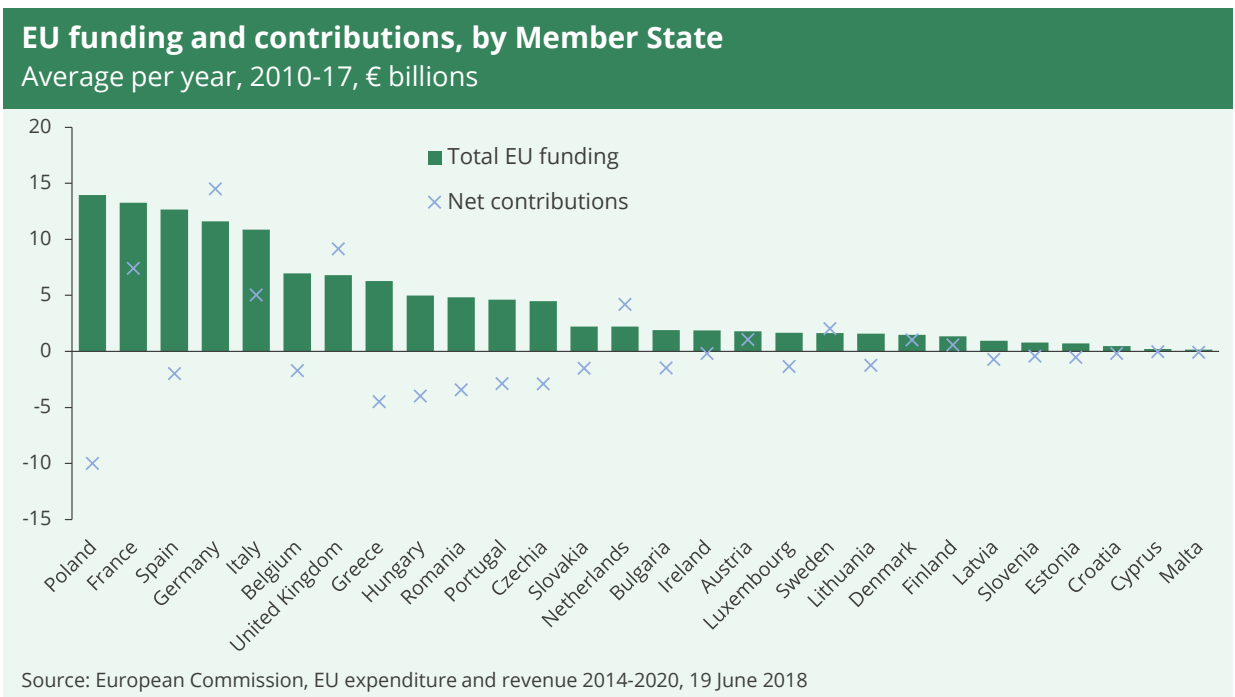
Non-Member States also have access to certain streams of EU funding. Countries that are closely aligned with the EU and participate in programmes alongside Member States typically have to make payments into the EU Budget, generally relative to the size of their economy. Other funding streams are available for countries seeking accession to the EU or sharing a border with it, and some aid funding also goes to developing countries through instruments such as the European Development Fund.

The UK Government has guaranteed all funding from the EU until the end of 2020, regardless of whether it concludes a deal with the EU; the UK has said that it wishes to continue to participate in some EU programmes, but the exact form that this will take (and domestic replacements for funding) will be a subject of further negotiations and policy-making.

# 1. Introduction to EU funding

The European Union distributes funding to its Member States in order to carry out its priorities, such as promoting economic growth and social cohesion. This funding comes from contributions that all Member States make to the EU budget.<sup>1</sup>

While certain countries (including the UK) are net contributors, others are net recipients. The chart below shows the average annual funding received and net contributions by Member States between 2010 and 2017. The UK was one of nine net contributors to the EU Budget over this period, having received an average of €6.8 billion in funding and contributed an average of €9.2 billion each year.



## 1.1 EU Budget Allocation and Expenditure

### Multi-annual Financial Frameworks

The EU budget is organised around Multi-annual Financial Frameworks (MFFs) which lay down the maximum annual amounts which can be spent in delivering on the EU's policy objectives over a period of at least 5 years. The MFF is not a budget spanning several years, but rather it provides a framework for financial programming and budgetary discipline. It aims to ensure that EU spending is predictable and stays within the agreed limits, while also allowing the EU to deliver common policies over an extended period in an effort to maximise effectiveness.

<sup>1</sup> For more on this, please see the Library's briefing on [The UK's contribution to the EU budget](#).

### Box 1: Who administers funding?

The 28 EU Commissioners have the ultimate political responsibility for ensuring that all EU funds are spent properly. But because most of the funding is managed within the beneficiary countries, responsibility for conducting checks and annual audits lies with national governments.

Broadly speaking, EU funding takes two different forms:

- **Funds allocated to Member States to manage** – this covers 76% of the EU budget which is dispersed in partnership with national and regional authorities. In the UK, this is largely done through the European Structural & Investment funds (see [Section 2](#)) and the European Agricultural Guarantee Fund (see [Section 3](#)).
- **Funds allocated directly by the European Commission** – these funds are not allocated to Member States. In general, organisations apply directly to the European Commission for funding from these streams, often on a competitive basis following calls for applications. These are open to groups such as universities, small business, non-government and civil society organisations, young people, researchers and farmers and rural businesses.

MFFs are proposed by the European Commission, yet the regulation requires unanimous agreement at the European Council as well as agreement by the European Parliament. The current MFF covers 2014-20.

The 2014-2020 MFF is divided into five main categories of spending, corresponding to different areas of EU activities (or 'headings').<sup>2</sup> These include:

- 1 **Smart and inclusive growth** – Includes research and innovation; education and training; trans-European networks in energy, transport and telecommunications; social policy; development of enterprises etc. Also covers regional policy which aims at helping the least developed EU countries and regions to catch up, strengthening all regions' competitiveness and developing inter-regional cooperation.
- 2 **Sustainable growth: natural resources** – Includes the common agricultural policy, common fisheries policy, rural development and environmental measures.
- 3 **Security & citizenship** – Includes justice and home affairs, border protection, immigration and asylum policy, public health, consumer protection, culture, youth, information and dialogue with citizens.
- 4 **Global Europe** – Covers all external action ('foreign policy') by the EU such as development assistance or humanitarian aid.<sup>3</sup>

### Box 2: The EU Institutions

**European Parliament** - Directly elected body with legislative, supervisory and budgetary responsibilities.

**European Council** – Consists of the Heads of State or Government of the Member States. Defines the general political direction and priorities of the EU.

**Council (of the European Union)** - Voice of EU member governments, adopting EU laws and coordinating EU policies.

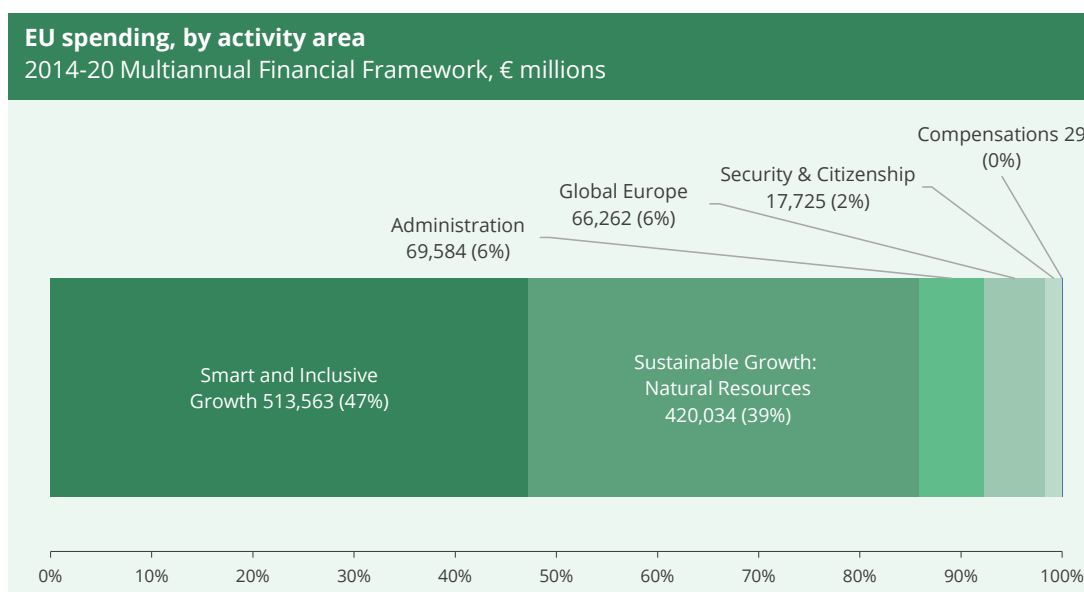
**European Commission** – Executive of the EU. Proposes and enforces legislation by implementing policies and the EU budget.

<sup>2</sup> There is a very small sixth category ('compensations') with provisions for Croatia, which joined the EU in July 2013, to ensure it does not contribute more to the EU budget than it benefits from it in the first year following its accession.

<sup>3</sup> The European Development Fund also provides financial resources for the 'EU as a global actor'. However, it is not part of the EU budget and therefore does not fall under the MFF.

- 5 **Administration** – Covers the administrative expenditure of all the European institutions (salaries, building costs, etc.), pensions and European Schools.

The chart below shows EU spending by activity area as determined by the 2014-2020 MFF.



Source: European Commission, [Multiannual Financial Framework 2014-2020 Figures and documents](#), retrieved 7 September 2018

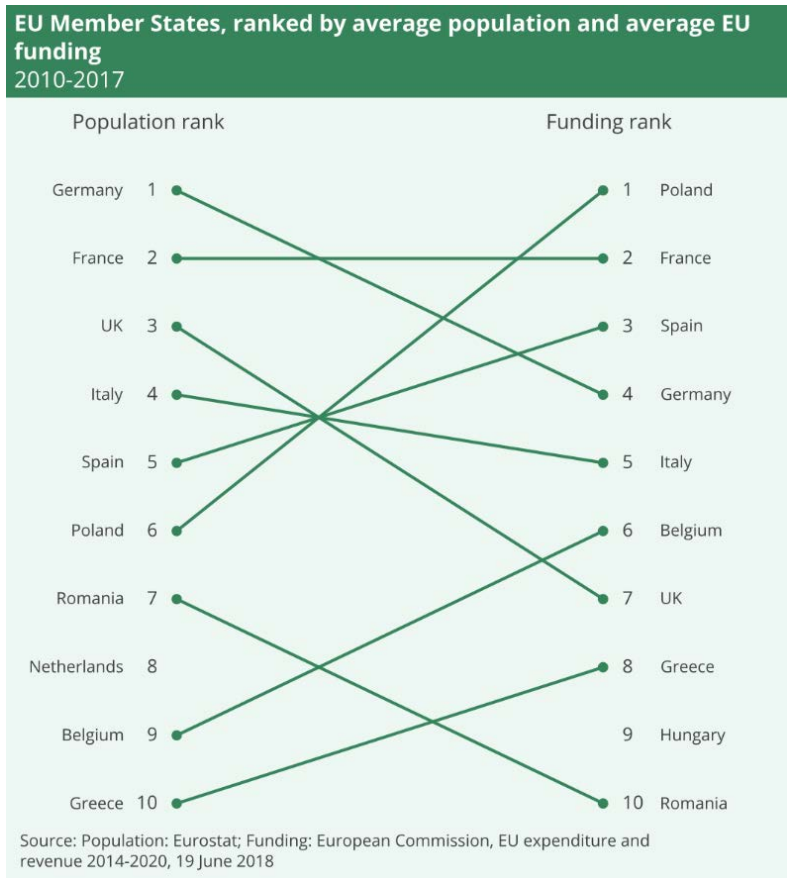
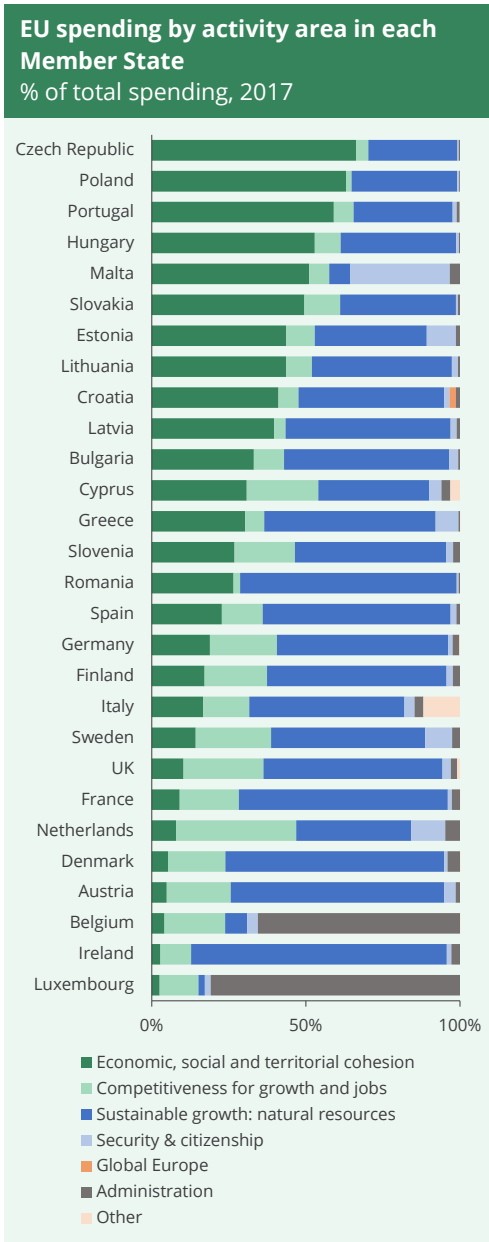
As can be seen from the chart, the vast majority (86%) of EU funding in the 2014-2020 MFF is allocated to ‘Smart and Inclusive Growth’ and ‘Sustainable Growth: Natural Resources’. The major funding channels for ‘Smart and Inclusive Growth’ are the European Structural and Investment (ESI) funds (see [section 2](#)) and the direct funds (see [section 4](#)). For ‘Sustainable Growth: Natural Resources’ they are the European Agricultural Fund for Rural Development (EAFRD), part of the ESI funds, and the European Agricultural Guarantee Fund (see [section 3](#)).

## 1.2 Member State comparisons

EU spending is not divided evenly among all Member States but is allocated to different members in varying amounts. Typically, the Member States with the largest populations receive the most spending in absolute terms. This is reflected in the chart below which shows that nine of the ten countries that received the largest average amounts in funding between 2010 and 2017 are also in the top ten in terms of population.

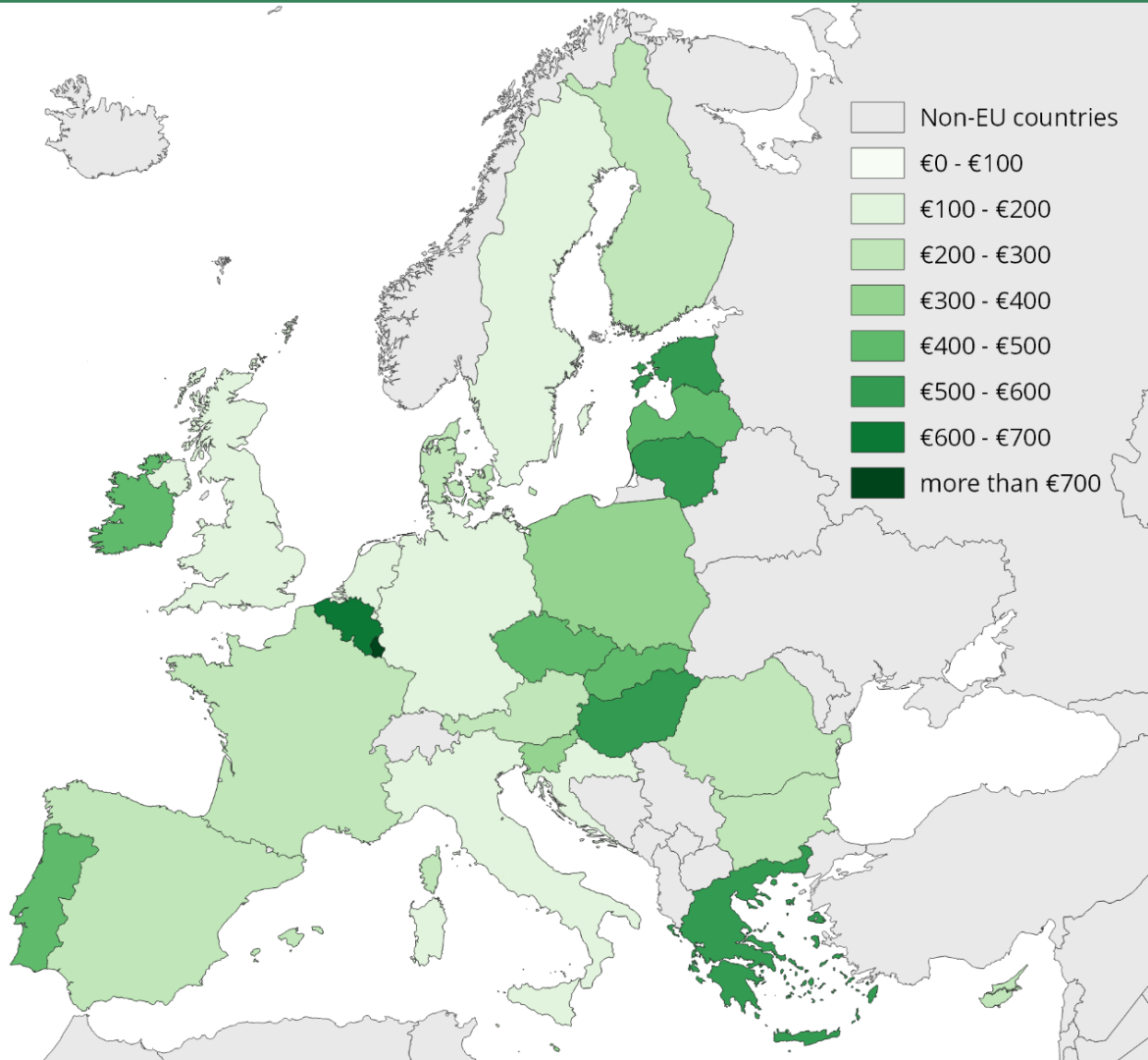


However, other objectives of the 2014-2020 MFF mean that certain countries receive disproportionate levels of EU spending relative to the size of their population. This is shown in the spending per person figures shown in the map on page 10.



Source: European Commission, [EU expenditure and revenue 2014-2020](#), 19 June 2018

### Average funding per person per year in EU member states, 2010-2017



Sources:

Population: Eurostat

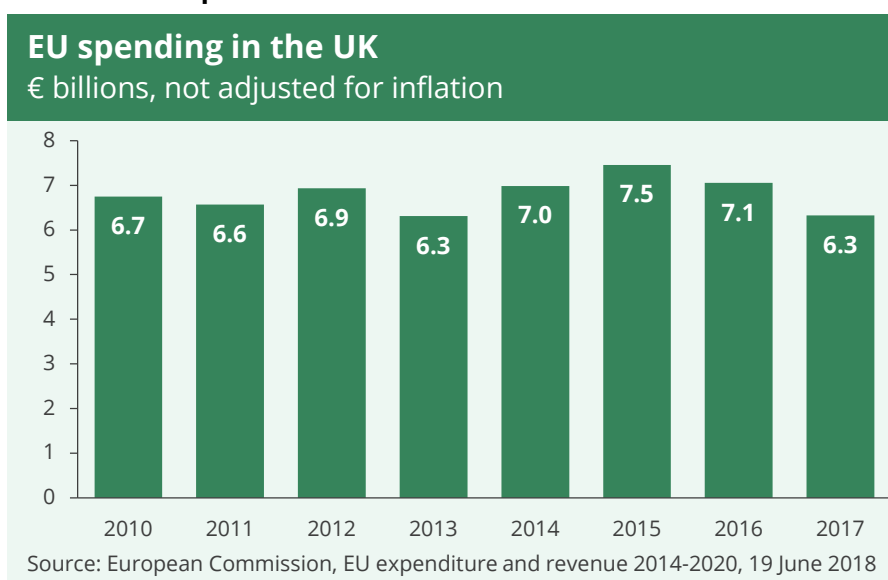
Funding: European Commission, EU expenditure and revenue 2014-2020, 19 June 2018

Luxembourg received the greatest spending per person, per year (€3,033), though this is largely due to it being the seat of various EU institutions including the European Court of Justice, the European Investment Bank and the General Secretariat of the European Parliament. The same is true for Brussels – Belgium received €625 per person. The share of total EU expenditure in Luxembourg and Brussels spent on administration between 2010 and 2017 was 84% and 67% respectively.

Other countries receiving relatively high levels of funding per person included Greece, Hungary, Lithuania, Estonia and Latvia each receiving over €500 per person, per year on average between 2010 and 2017.

With €107 per person, per year, the UK ranked the lowest among the 28 Member States on average over the same period.

### 1.3 UK expenditure



The EU spent €6.3 billion in the UK in 2017 (about £5.5 billion), down from €7.1 billion in 2016 (about £5.7 billion).<sup>4</sup>

As with the EU as a whole, the majority of expenditure received by the UK is allocated to 'Smart and inclusive growth' (42%) and 'Sustainable growth: natural resources' (54%). Much of this is done through two major funding channels – the European Structural and Investment (ESI) Funds (discussed in [section 2](#)) and the European Agricultural Guarantee Fund (discussed in [section 3](#)).

The table below shows the EU funding allocations for 2014-20 broken down into these two major funds (and in the case of the ESI funds, its component parts).

<sup>4</sup> Conversions to sterling are approximate, using [HMRC average exchange rates](#) to 31 December 2017 and 2016.

## 12 UK funding from the EU

### EU budgeted funding allocations to the UK

2014-20, € billions

<b>European Structural and Investment Funds</b>	<b>17.2</b>
European Regional Development Fund <sup>1</sup>	5.8
European Social Fund	4.9
Youth Employment Initiative	0.2
European Maritime and Fisheries Fund	0.2
European Agricultural Fund for Rural Development	5.2

<b>European Agricultural Guarantee Fund</b>	<b>22.5</b>
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<sup>1</sup>This funding does not include territorial cooperation funds – a component of the ERDF. This is because these funds are allocated across countries so it is difficult to break down the value of this source of funding to the UK alone.

Sources:

[European Commission, European Structural and Investment Funds, April 2016](#)

[European Commission, UK Common Agricultural Policy, May 2014](#)

[European Commission, Structural and Investment Funds Open Data](#)

[European Commission, Summary of the Partnership Agreement for United Kingdom, October 2014](#)

## 2. European Structural and Investment (ESI) Funds

### 2.1 What are the ESI Funds?

The ESI Funds are the EU's instrument for reducing disparities in the level of development of its regions and for helping less developed regions to catch up. The ESI funds are part of the EU budget. How they are spent depends on a system of shared responsibility between the EU and the authorities of the Member States.

There are five funds that are collectively referred to as ESI funds:

- the [European Regional Development Fund](#) (ERDF), which promotes economic and social cohesion within the EU through the reduction of imbalances between regions or social groups;
- the [European Social Fund](#) (ESF), which promotes the EU's employment objectives by providing financial assistance for vocational training, retraining and job creation schemes;
- the [Cohesion Fund](#), which supports Member States with GDP that is less than 90% of the EU average (the UK does not qualify for this fund);
- the [European Maritime and Fisheries Fund](#) (EMFF), the specific fund for the structural reforms of the fisheries sector; and
- the [European Agricultural Fund for Rural Development](#) (EAFRD), which contributes to the structural reform of the agricultural sector and to the development of rural areas

Member States also receive funding from the [Youth Employment Initiative](#) and funding for [European Territorial Co-operation](#). ESI funds operate in multi-year periods that align with the current MFF, thus the current funds cover 2014 to 2020. Total funding allocated to the UK for this period is €17.2 billion (around £15.2 billion at November 2018 exchange rates), with a breakdown by fund shown in the table on page 12.

### 2.2 Management of the funds

At the start of the current MFF, the UK – like all Member States – drew up a high level business plan setting the direction of EU funding programmes. The UK submitted this [partnership agreement](#) to the European Commission who [agreed it](#) following some adjustments (see box 3 on the next page).

The responsibility for managing the delivery of funding rests with Managing Authorities. Based on the Partnership Agreement each Managing Authority has produced an operational programme that contains further detail on what the fund will support, and how it will provide, manage and assess funding.<sup>5</sup>

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<sup>5</sup> See for example, ERDF operational programmes for [England](#), [Scotland](#), [Wales](#) and [Northern Ireland](#).

The [Department for Business, Energy and Industrial Strategy](#) (BEIS) is responsible for the UK government on policy for the European Structural Funds (ERDF and ESF) and on the UK Partnership Agreement. The Department for the Environment, Food and Rural Affairs (Defra) has the policy lead for EAFRD and EMFF.<sup>6</sup> Contact details for enquiries covering these areas are available on [gov.uk](#).

The Scottish and Welsh governments and the Northern Ireland Executive are responsible for delivery of the ESI funds in their own nations. The devolved governments contributed chapters to the partnership agreement.

In England, the ERDF, the ESF and an element of the EAFRD have been grouped together under one jobs and growth focused programme – the ESIF Growth Programme.

Various types of organisations can apply for ESI funding, including: not for profit organisations, local authorities, registered charities, higher/further education institutions, voluntary/community organisations, statutory and non-statutory public funded bodies, and the public or private sector.

### Box 3: Adjustments to the 2014-2020 allocation

Under the strict application of the EU allocation formula for 2014-2020, England would have seen an increase in funding relative to the 2007-13 round of around 9% (nominal terms), while the devolved administrations would have seen cuts of between 20% and 40%. On 26 March 2013, the Government announced that it intended to alter the balance of funding across the UK, thereby deviating from the framework set out under the EU proposals. It did this by taking money that would have gone to England, and reallocating it to the devolved administrations. [In a press release](#), BIS stated that:

As a result of the new EU formula for allocating Structural Funds, agreed by the European Council in February, there would not have been a fair distribution across the UK, with each of the Devolved Administrations set to lose significant funding vital for economic growth.

In view of this, the UK government has decided to re-allocate EU Structural Funds to minimise the impact of sudden and significant cutbacks in Northern Ireland, Scotland and Wales. The Government will require the approval of the European Commission in order to do this.

The Government received the European Commission's approval for the reallocation, although the proposals were taken to judicial review by a [group of councils](#), including Sheffield and Liverpool, whose areas were significantly affected by the decision. The Court upheld the Government's decision.

The reason England was set to see such a sharp rise in regional funding (despite the anticipated overall amount for the UK being set to fall by around €1bn relative to 2007-13) was due to the way transition regions were defined in the Council's 2014-20 proposals. Specifically, parts of England which in 2007-13 had only been eligible for the lowest funding intensity ('competitiveness and employment'), became 'transition regions' eligible for a higher funding intensity in 2014-20 by virtue of having per capita GDP between 75% and 90% of the EU average. That 'graduation up' in eligibility didn't happen to the same extent in the devolved regions, resulting in a sharp cut in funding there.

<sup>6</sup> UK Government, [Policies](#), January 2018

## 2.3 Who benefits from ESI funds?

The EU budget determines the amount of structural funding for each Member State. The Commission's calculations refer to the regions of each Member State at the second level of the Nomenclature of Territorial Units for Statistics (NUTS). NUTS 2 regions are second tier regions which break down the EU into sub-national areas that are typically roughly equal in size to large local authority areas. When the regional classifications explained below were carried out, the UK had 34 NUTS 2 regions.<sup>7</sup> Of these, four are in Scotland, two in Wales, and Northern Ireland is a single NUTS 2 region.

### How are ESI funds distributed across the EU?

All European regions are covered by the structural funds, although different areas across the EU receive different levels of funding depending on their economic situation. Funding is allocated across three types of regions, according to how their GDP per person compares with the EU average.

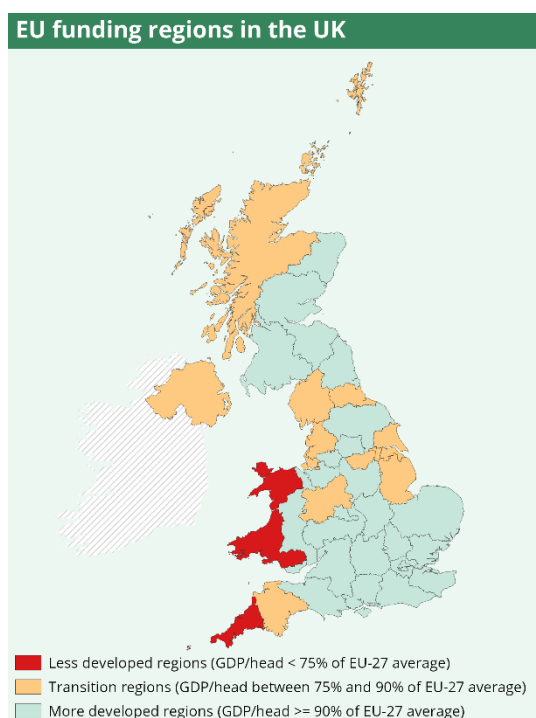
Specifically, there are:

- **Less developed regions**, whose GDP per person is less than 75% of the average for the EU;
- **Transition regions**, whose GDP per person is between 75% and 90% of the EU average;
- **More developed regions**, whose GDP per person is above 90% of the EU average.

The adjacent map shows how the different regions of the UK fit into these categories. Of the 34 NUTS 2 regions in the UK when the classification was carried out, 22 are classified as 'more developed', 10 as 'transition' and only two as 'less developed' (Cornwall and the Isles of Scilly and West Wales and the Valleys).

As a result, funding is not distributed evenly across the UK. The charts on the next page show that while England receives the most funding with an annual average of €1.5 billion, it is Wales that receives the most per person (€140 per person, per year, more than five times that in England). This reflects the fact that ESI funding is heavily weighted towards 'less developed' regions.

It is not only the level of funding that is determined by the type of region but also its composition. There is greater flexibility in the way in which certain ESI funds can be used in less developed regions.



<sup>7</sup> The [2016 version of NUTS](#), valid from January 2018, lists 41 NUTS 2 regions in the UK.

The ERDF focuses its investments on several key priority areas: innovation and research; the digital agenda; support for small and medium-sized enterprises (SMEs); and the low-carbon economy. In 'more developed' regions, at least 80% of funds must focus on at least two of these priorities compared with 60% in 'transition' regions and 50% in 'less developed' regions. In addition, a minimum share of ERDF funds must be allocated to low-carbon economy projects. The minimum in 'more developed' regions is 20%, compared with 15% in 'transition' regions and 12% in 'less developed' regions.<sup>8</sup>

## Allocations across the UK

The charts below show the average amount of EU funding across the seven-year funding period broken down into the constituent countries of the UK, both in terms of average total amounts and per person amounts. It shows that, while England receives the highest amount in absolute terms with an average of €1.5 billion per year, it receives the lowest in per person terms (€27 per person, per year).

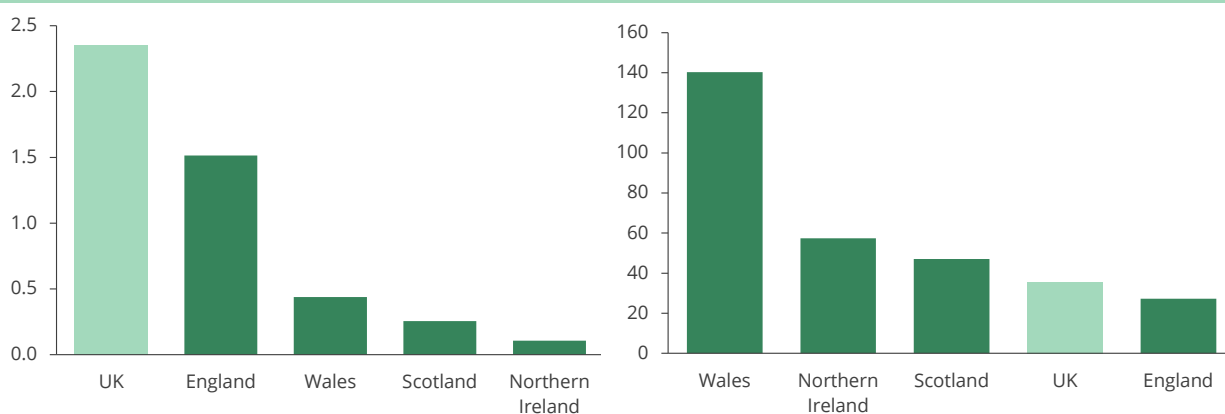
The per person amount for Wales is more than five times higher, at €140 per person, per year. The reason for this is reflected in the differences in region classification. 63% of the population of Wales lives in a 'less developed' region (West Wales and the Valleys), compared with only 1% of the population in England (Cornwall and Isles of Scilly).

Scotland and Northern Ireland receive less than Wales (€47 and €57 per person, per year respectively), though still more than the UK average of €36.

### ESI funding across the UK, 2014-20 average per year

Total funding, € billions

Funding per person, €



Source: European Commission, [ESIF 2014-2020 Finances Planned Details](#), retrieved 6 September 2018

## Funding by region

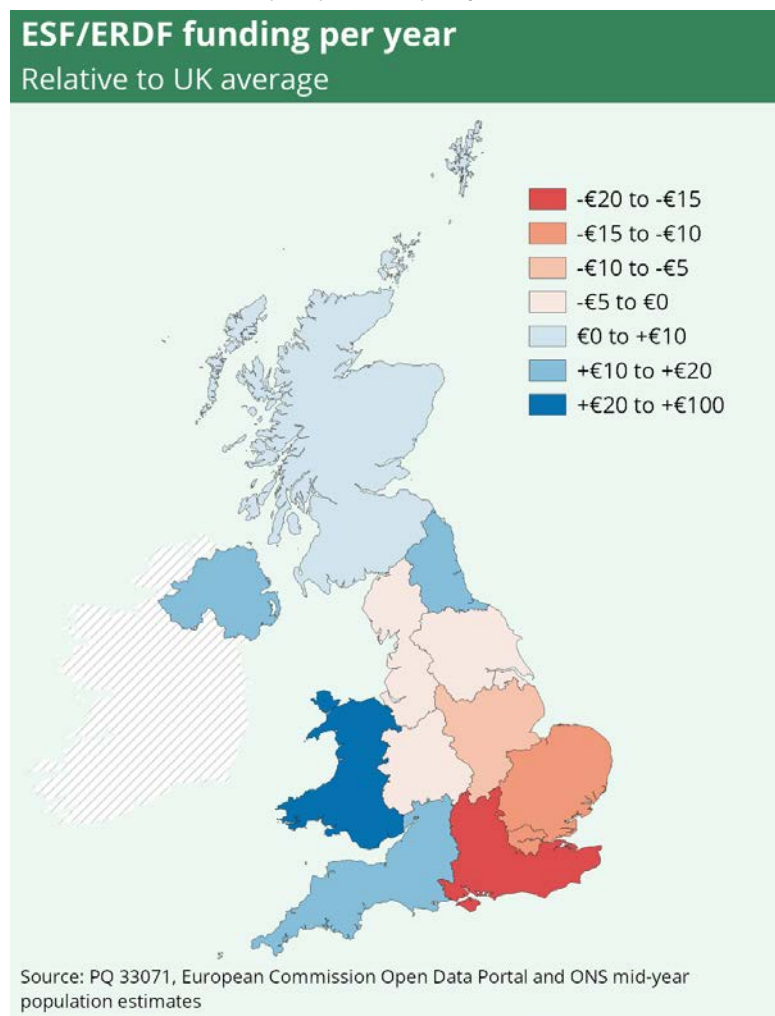
These disparities in EU funding are also reflected at the regional and national level. In response to a Parliamentary Question, the Government published 2014-2020 combined funding estimates **for the ESF and EDRF only**.<sup>9</sup>

<sup>8</sup> European Commission, [European Regional Development Fund](#)

<sup>9</sup> [PQ 33071](#) [on EU grants and loans], 8 April 2016



As discussed above, Wales received the largest share of ESF and EDRF funding (averaging around €340 million per year), followed by the South West (averaging around €210 million per year), which includes England's only 'less developed' region, and the North West (averaging around €160 million per year). The South East receives the least from these two funds, with an annual average of €40 million. On average, the UK receives €24 per person, per year from the ESF and EDRF, yet the



majority of regions in England receive below this. The map below shows the amount received per person, per year by region relative to the UK average, with the regions above average represented in blue and those below represented in red. The South East receives over €19 less than the UK average per person, per year (€4.56), compared with Wales which receives over €87 more (€111.18).

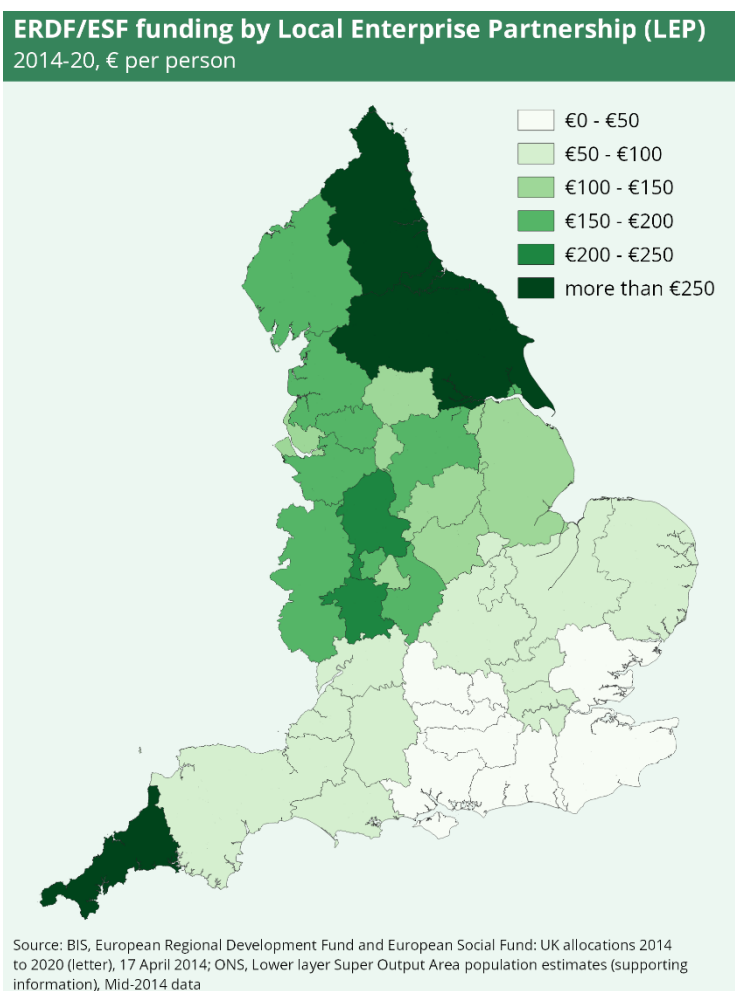
## Funding by Local Enterprise Partnership (LEP) in England

Within England, the Government allocated the ERDF and ESF to the 39 Local Enterprise Partnerships (LEPs). Allocations were [set out in a letter](#) from Vince Cable, then Secretary of State for Business, Innovation and Skills, on 17 April 2014.

LEPs and their partners were each asked to produce a strategy showing how they intended to use these funds within their area. The strategy comprises a narrative document and spreadsheet populated with

information on their proposals for spending, outputs and results which had to be agreed with the Government by the end of February 2014. More information on these is available from the individual LEP websites.

The LEPs' plans then contributed to the Government's overarching '[Partnership Agreement](#)' with the European Commission, the high level business plan that sets the direction of the EU funding programme.



This map shows that LEP funding per person is highest in Cornwall and the Isles of Scilly (at €1,077 per person over the 2014-20 period) and in the Tees Valley (€302 per person) and North East (€275 per person) LEPs. It is lowest in the Buckinghamshire Thames Valley LEP, at €26 per person.

## 2.4 The European Agricultural Fund for Rural Development (EAFRD)

The Common Agricultural Policy (CAP) is the European Union's agricultural policy. Its objectives were set forth in [Article 39 of the Treaty of Rome](#)<sup>10</sup> (1957) and the policy was established in 1962.

Europe had suffered food shortages during and after the Second World War, and the initial objective of the CAP was to increase food

<sup>10</sup> The founding treaty of the European Economic Community which preceded the European Union.

production. The CAP sought to do this by offering farmers guaranteed prices for their produce by managing supply. Surplus grain, milk, wine, olive oil and meat was removed from the market and held in intervention storage to keep prices above a target level. Tariffs were set to restrict competition and exports of surplus produce were subsidised.

The CAP has evolved over the years and now has multiple aims including protecting the viable production of food, the sustainable management of natural resources and a living countryside.<sup>11</sup>

The European Agricultural Fund for Rural Development (EAFRD) is known as Pillar II of CAP and is part of the ESI funds. It is used to support the development of rural areas. Pillar I, the European Agricultural Guarantee Fund (EAGF) is discussed in [section 3](#).

The EAFRD's objective is to achieve balanced territorial development of rural economies and sustain a farming sector that is competitive and innovative whilst also adhering to the EU's environmental objectives. The 2014-2020 Multiannual Financial Framework allocates €408.3 billion to the CAP, of which €99.3 billion has been earmarked for the EAFRD. Of this, €5.2 billion has been allocated to the UK for 2014-20 – the seventh largest allocation across the EU with France receiving the largest (€11.4 billion).<sup>12</sup>

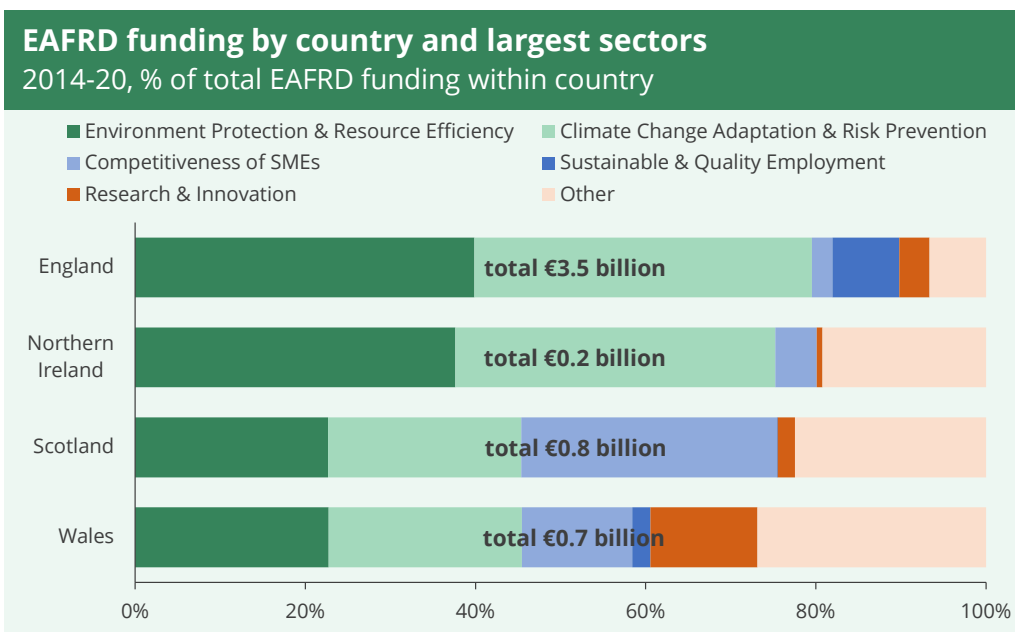
England will receive 67% of EAFRD funding allocated to the UK in 2014-20, compared with 16% for Scotland, 13% for Wales and 4% for Northern Ireland.<sup>13</sup> The chart below shows the EAFRD allocation for the current funding period broken down by country and the three largest recipient sectors for each country.

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<sup>11</sup> For a more detailed discussion of the background, history and evolution of CAP, see the Commons Library Briefing Paper [CAP Reform 2014–20: EU Agreement and Implementation in the UK and in Ireland](#).

<sup>12</sup> European Parliamentary Research Service, [Common Agricultural Policy – Pillar II](#) (July 2016)

<sup>13</sup> European Commission, [ESIF 2014-2020 Finances Planned Details](#), retrieved 6 September 2018



Source: European Commission, [ESIF 2014-2020 Finances Planned Details](#), retrieved 6 September 2018

The current CAP, which was reformed in 2013, allows for transfers between Pillar I and Pillar II of up to 15% of the original amounts.<sup>14</sup> 18 Member States have decided to use this option to strengthen support for rural development. The UK transferred around €2.6 billion from the EADF to the EAFRD.<sup>15</sup>

## 2.5 Other ESI funds

The remaining ESI funding allocated to the UK (€1.3 billion) comes from several smaller funds.

### Youth Employment Initiative (YEI)

The YEI is one of the main resources aimed at supporting the implementation of the EU's [Youth Guarantee](#) – a commitment to under 25s to provide employment, education, apprenticeships and traineeships. It exclusively supports young people who are not in education, employment or training (NEETs), including long-term unemployed young people or those not registered as job-seekers.

The original eligible regions for the YEI were those NUTS level 2 regions that had youth unemployment rates higher than 25% in 2012 and, for Member States where the youth unemployment rate had increased by more than 30% in 2012, regions that had youth unemployment rates of more than 20% in 2012.<sup>16</sup> The eligible areas in the UK were Inner London, Merseyside, Southwest Scotland, Tees Valley & Durham and West Midlands. In 2017 regions which had youth unemployment higher than 25% in 2016 also became eligible; no regions in the UK met this criteria.

<sup>14</sup> [Article 14 of Regulation \(EU\) No 1307/2013](#)

<sup>15</sup> European Parliamentary Research Service, [Common Agricultural Policy – Pillar II](#) (July 2016)

<sup>16</sup> European Parliamentary Research Service Blog, [Youth Employment Initiative](#) (17 June 2014)

The UK has been allocated €206 million in YEI funding for 2014-20, comprised of €160 million for England and €46 million for Scotland. This funding is administered as part of the European Social Fund and is implemented according to ESF rules; in 2014, the Government used this money along with funding from other sources to create a £170 million programme with money allocated to LEPs.<sup>17</sup>

### European Maritime and Fisheries Fund (EMFF)

The UK will also receive €243 million from the EMFF between 2014 and 2020. This fund:

- helps fishermen in the transition to sustainable fishing;
- supports coastal communities in diversifying their economies;
- finances projects that create new jobs and improve quality of life along European coasts; and
- makes it easier for applicants to access financing.

[A 2016 NAO report](#) reveals that the largest share of this funding has been allocated to Scotland (€108 million), followed by England (€97 million), Northern Ireland (€24 million) and Wales (€15 million).

### Territorial cooperation

European Territorial Cooperation programmes (also known as INTERREG programmes) are designed to promote cooperation between Member States on shared challenges and opportunities.

Across Europe, the total budget for these programmes is €9.2 billion, covering 107 programmes. The UK does not participate in all of these programmes, but there are 16 programmes that cover all or parts of the UK.<sup>18</sup> Any funding the UK received from these programmes is in addition to the €5.8 billion identified from the ERDF in the table on page 12.

INTERREG programmes involving the UK include the €257 million [Two Seas Programme](#), covering England, France, the Netherlands and Belgium (Flanders) and the €396 million [North West Europe Programme](#) covering six other Member States and Switzerland. These programmes both aim to increase innovation and promote low-carbon technologies and resource efficiency in the areas they cover, by increasing cross-border cooperation between the countries concerned.

While it is not possible to determine the total amount of funding from these programmes for the UK over the 2014-20 period, [EU expenditure and revenue data](#) reveals that €34.6 million was spent on “European territorial cooperation” in the UK in 2017.

## 2.6 Funding by sector

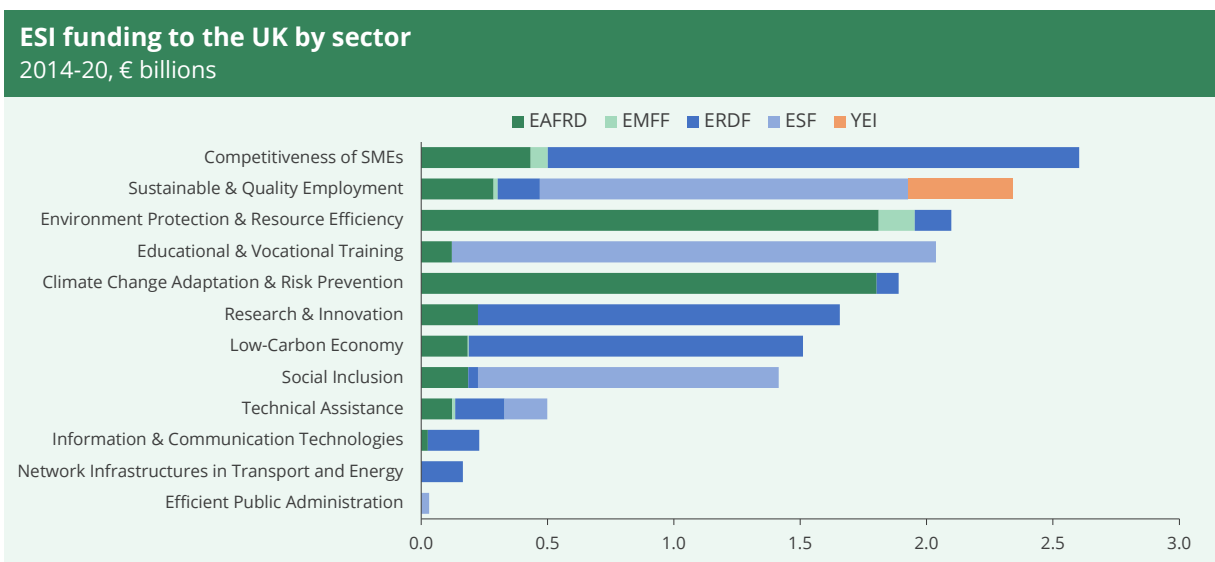
ESI funding activities can be broken down into the sectors they target which fit within the broad priorities of the MFF (see [section 1.1](#)). The

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<sup>17</sup> A further breakdown of YEI funds can be found in the Government press release [£170 million to help young people find jobs](#)

<sup>18</sup> Department for Communities and Local Government, [European territorial cooperation programmes](#) (accessed 29 December 2016)

chart below reveals the total funding for each sector and how this breaks down among the individual funds. Over the 2014-2020 period, the largest share of ESI funding (€2.6 billion, 16% of total funding) was allocated to enhancing the competitiveness of small and medium enterprises (SMEs). Around €2 billion of this was allocated from the ERDF with the remainder from the EAFRD and EMFF. The second largest allocation was for sustainable and quality employment (€2.3 billion, 14%), with €1.5 billion coming from the ESF.



Source: [European Union Open Data Portal](https://data.europa.eu/euodp) (accessed 21 December 2016)

For example projects from these key sectors, see box 4.

**Box 4: Major ESI funding projects**

**Competitiveness of SMEs – Birmingham City Council, Business Growth Programme (BGP)**

With an ERDF investment of just over £16 million, the BGP is an integrated and comprehensive business support package designed to strengthen supply chain companies, stimulate innovation and grow existing SMEs. It aims to build on successful delivery of previous business programmes and responds to new opportunities from the HS2 investment. The programme is expected to support growth of 576 SMEs, create 1,331 new jobs, generate £15m private sector investment and increase regional productivity.

**Sustainable & Quality Employment – DWP, Troubled Families**

This project aims to use a £16.8 million grant from the ESF to help unemployed, inactive people, including targeted support for people aged 50 or over, in overcoming any barriers that are preventing them from entering and sustaining employment. A range of specialist support/provision will be used to move the participant into sustained work at the earliest opportunity.

**Educational & Vocational Training – Skills Funding Agency, London Priority 1 Application**

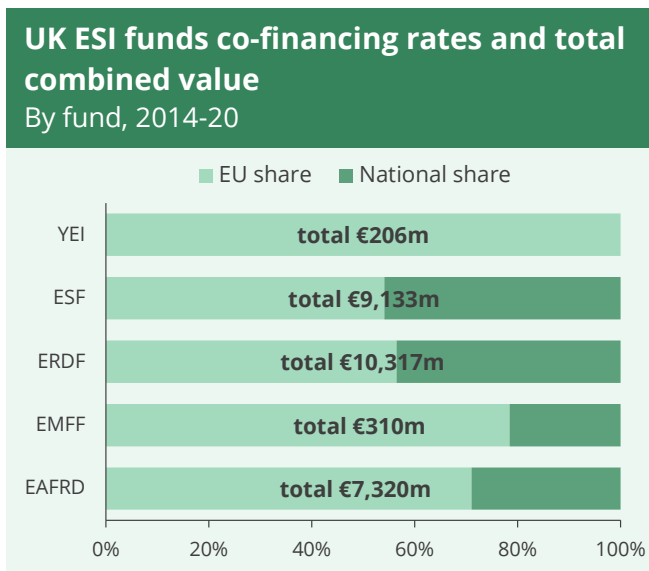
The ESF will make a £116 million investment in help unemployed people, inactive people and young people not in education, employment or training (NEETs) to improve their employability and move into work, by improving their skills. Example activities include tackling worklessness and skills gap by supporting the most disadvantaged groups to develop the skills they need to succeed and to ensure that job opportunities are accessed in the most deprived areas.

Source: UK Government, [European Regional Development Fund and European Social Fund list of beneficiaries](#)

## 2.7 National co-financing

EU funds (with the exception of the EAGF) require national co-financing from either public or private sources. They must be additional to, and not replace, existing national funding. The largest single allocation of 2014-2020 ESI funding in England is for the National Offender Management Service (NOMS) to fund activities that support the reintegration of prisoners back into the work force. 53% of the cost of this £247 million project will be funded by the ESF, with the remainder met through national co-financing.

ESI funding co-financing rates range between 50% and 85% depending on the fund in question and the category of region – in poorer regions the cap on the share of a project that can be financed by the EU is higher. The chart to the right shows co-financing by fund for the total 2014-2020 allocation. The larger funds tend to have a lower average co-financing rate with the ESF the lowest at 54%.



Source: [European Commission data](#)

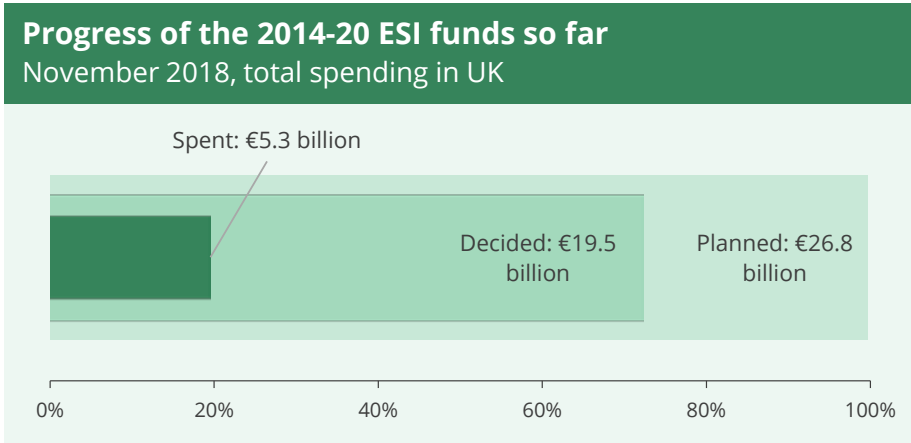
### Public and private co-financing

Data from the European Commission suggests that the majority of national co-financing in the UK comes from public sources.<sup>19</sup> Of the €4.5 billion of national funding to ERDF projects over the 2014-2020 period, **private sources account for €1.2 billion**. Three quarters of private sector support is dedicated to the competitiveness of SMEs and the remainder to research and innovation.

## 2.8 Progress of the funds

The chart below shows the progress of the funds in the UK for the current period, including both EU funding and national co-financing (data as available in November 2018). It reveals the total amount planned to be spent on ESI-related projects (€26.8 billion), the amount for projects that have been decided (€19.5 billion) and the amount spent so far (€5.3 billion).

<sup>19</sup> European Commission, [ESIF 2014-2020 Achievement Details](#)



Source: [European Union Open Data Portal](https://data.europa.eu/euodp) (retrieved 6 November 2018)

The “spent” total appears to be very low, given that we are well over half way through the MFF. This is because the ESI funds are typically paid out to beneficiaries to compensate them for spending they have incurred; this means that there is always something of a lag between funding being decided and actually being paid out.

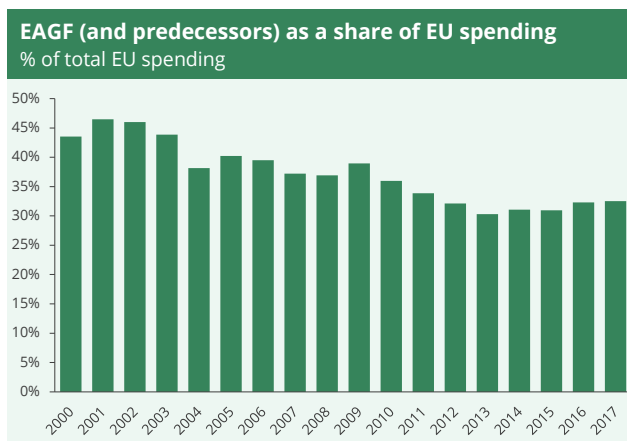


### 3. European Agricultural Guarantee Fund (EAGF)

The European Agricultural Guarantee Fund (EAGF) is one of the main financial mechanisms (besides the EAFRD) used for the implementation of the EU's Common Agricultural Policy (CAP).<sup>20</sup> They both replaced the European Agricultural Guidance and Guarantee Fund (EAGGF).

The EAGF consists of direct payments (annual payments to farmers to help stabilise farm revenues in the face of volatile market prices and weather conditions) and market measures (to tackle specific market situations and to support trade promotion). In the EU, more than 7.3 million farmers are CAP direct payment beneficiaries and they manage more than 170 million hectares of agricultural land.

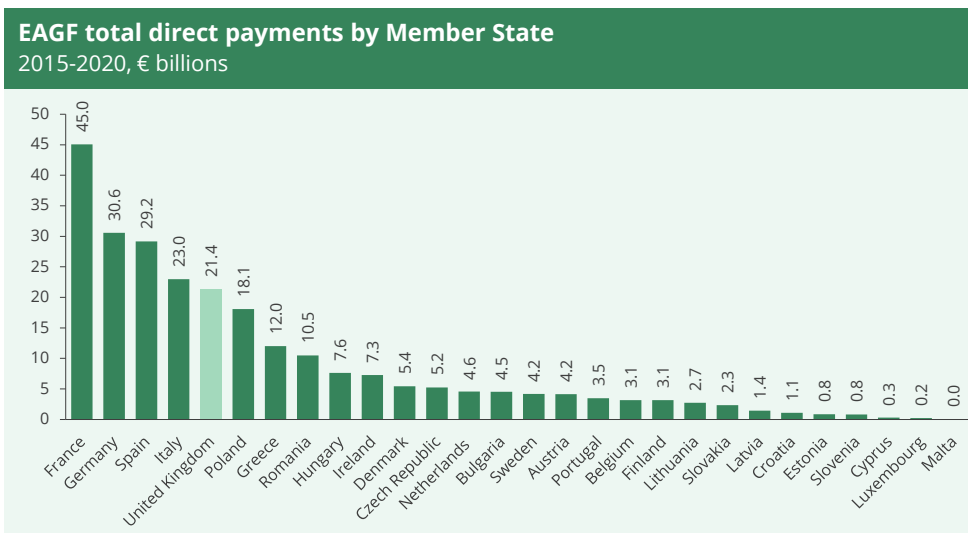
The EAGF is the largest single component of EU funding, amounting to €309 billion in 2014-20 or roughly 28% of the total EU Budget. Since 2000 the EAGF (and the equivalent funds in previous MFFs) have reached up to 46% of total EU expenditure; in 2017, this figure was 33%, a slight increase on the previous few years.



Source: European Commission, [EU expenditure and revenue 2014-2020](#)

<sup>20</sup> Along with the EAFRD, it was established on 1 January 2007 following [Council Regulation \(EC\) No 1290/2005](#) of 21 June 2005 on the financing of the CAP.

The chart below shows the ceilings for **direct payments**<sup>21</sup> (which formed around 93% of the EAGF in 2017)<sup>22</sup> by Member State between 2015 and 2020. It reveals that the UK received the fifth largest allocation across the EU-28 with over €21 billion in direct payments. France receives the largest share of direct payments by over €14 billion.<sup>23</sup>



Source: [European Commission, Multiannual Financial Framework 2014-2020 and the financing of the CAP](#)

The €22.5 billion allocated to the UK reflects a slight decrease in the value of direct payments, falling by 1.6% in cash terms (or 12.6% reduction in inflation-adjusted terms) between 2013/14 and 2019/20.<sup>24</sup> Northern Ireland will receive a direct payment allocation of around €2.3 billion, Scotland around €4.1 billion, Wales around €2.2 billion and England around €16.4 billion.<sup>25</sup>

For more information on agricultural funding, please see the Library's briefings on [UK agriculture policy](#) and [The Agriculture Bill](#).

<sup>21</sup> The 'ceiling' here is the maximum amount that each Member State has available for financing its direct payments scheme – these figures therefore do not necessarily reflect the amount actually paid out.

<sup>22</sup> European Commission, [EU expenditure and revenue 2014-2020](#), retrieved 20 December 2017

<sup>23</sup> This amount takes into account the transfer of money from the direct payments towards rural development (as decided by the national authorities).

<sup>24</sup> UK Government, [UK CAP allocations announced](#) (8 November 2013)

<sup>25</sup> Note that the total of these country breakdowns exceeds the €22.5 billion assigned to the EAGF in the table on page 12. This is because of a reallocation of direct payments towards rural development (the EAFRD) as decided by national authorities. See also section 2.4.

## 4. Direct funding from the Commission

While the majority of EU funding is allocated to Member States to manage, there are also funds that connect programme participants directly to the source of funding. In general, organisations apply to the European Commission for funding from these streams, often on a competitive basis following calls for applications. The main Programmes of the 2014-2020 period are Horizon 2020 with a budget of €77 billion, the Connecting Europe Facility with €22 billion and Erasmus+ with €15 billion.

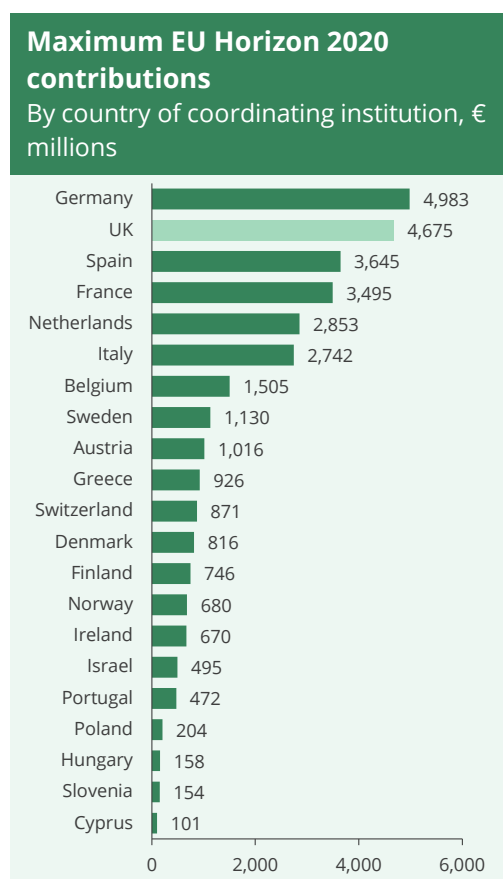
Due to the rolling nature of these funds and their competitive basis, there are no designated country allocations as such. However, the Institute for Fiscal Studies (IFS) has estimated that receipts from the EU by non-government bodies in the UK are typically £1-1.5 billion a year.<sup>26</sup>

### Horizon 2020

[Horizon 2020](#) is the EU's main financial instrument for achieving its goal of creating the [Innovation Union](#) – an “innovation-friendly environment” that can turn ideas into growth and jobs. It aims to leverage additional research, development and innovation funding and contribute to attaining research and development targets, including the target of 3% of GDP for research and development across the Union by 2020.

The chart to the right shows the aggregate maximum contributions of Horizon 2020 funding by the country of the coordinating institution (for countries receiving €100 million or more). It reveals that the second highest value of projects are with UK-based coordinating institutions at €4.7 billion. Note that this does not correspond to the actual amount spent in the UK, as many projects are collaborative with institutions across the EU and elsewhere.

As a world leader in the areas of research and development, the UK has a strong track record in securing funds from Horizon 2020 and its predecessors. Around 14% of funds allocated from Horizon 2020 have gone to the UK, with British universities in the top four higher education recipients to date (University of Cambridge, University College London, Imperial College London and University of Oxford). As



Source: [European Commission, Horizon 2020 funding data](#)

<sup>26</sup> IFS, [The budget of the European Union: a guide](#) (April 2016)

of 31 May 2018, these four universities alone had been assigned £960 million in Horizon 2020 funding, while the remaining UK universities in the top 100 across Europe had been assigned around £1,344 million combined.<sup>27</sup>

Funding to the UK has been spread across a number of Horizon 2020's thematic pillars, most notably 'Excellent Science' (£2,340 million), 'Societal Challenges' (£1,519 million) and 'Industrial Leadership' (£663 million). There have been a total of 9,686 participations in the programme from UK organisations, including 2,546 private, for-profit entities, 778 research organisations, 326 public bodies, 5,699 higher or secondary education establishments and 337 others.<sup>28</sup>

## Erasmus+

[Erasmus+](#) is the EU's programme to support education, training, youth and sport in Europe. It aims to boost skills and employability as well as modernising education, training and youth work, using its €14.7 billion to provide opportunities for over 4 million Europeans to study, train gain experience, and volunteer abroad.

The table below shows Erasmus+ funding to the UK 2014-17, broken down by country and type.

Erasmus+ funding to the UK 2014-17, € millions					
	England	Wales	Scotland	Northern Ireland	UK
Higher education	183.4	13.3	39.9	9.5	<b>246.0</b>
Vocational education & training (VET)	94.5	6.3	12.0	9.5	<b>122.3</b>
Schools	51.1	6.7	6.4	3.9	<b>68.1</b>
Adult education	16.1	0.6	2.9	1.7	<b>21.2</b>
Youth	41.2	2.5	3.4	3.6	<b>50.9</b>
<b>Total</b>	<b>386.3</b>	<b>29.3</b>	<b>64.7</b>	<b>28.2</b>	<b>508.6</b>

Source: [Erasmus+ statistics](#)

## Other funds

The remainder of direct funding from the Commission is made up of a number of other smaller funds. Several of the most relevant funds (as well as their total allocations for the whole EU over the 2014-20 period) are presented below.<sup>29</sup>

- **[Competitiveness of Enterprises and Small and Medium-sized Enterprises \(COSME\) \[€2.3 billion\]](#)** – Aims to improve SMEs access to finance, access to markets, create better conditions for competitiveness and encourage entrepreneurship.
- **[Creative Europe \[€1.5 billion\]](#)** – Supports the cultural and creative sectors, enabling them to reach new audiences, develop skills for the digital age and safeguard cultural and linguistic diversity.

<sup>27</sup> Department for Business, Energy & Industrial Strategy, [UK's participation in horizon 2020: May 2018](#) (28 November 2017)

<sup>28</sup> Ibid.

<sup>29</sup> Funding figures taken from the European Free Trade Association (EFTA) page [EU Programmes with EEA EFTA Participation](#)

- [\*\*Connecting Europe Facility \[€1.3 billion\]\*\*](#) – Investing in trans-European networks and infrastructures in the sectors of transport, telecommunications and energy.
- [\*\*Employment and Social Innovation \[€0.9 billion\]\*\*](#) – Aims to promote a high level of quality and sustainable employment, guaranteeing adequate and decent social protection, combating social exclusion and poverty and improving working conditions.

## 5. Funding from other EU institutions

The UK also receives support from other institutions that provide funding **outside the EU Budget** for projects that help to achieve EU aims.

### 5.1 European Investment Bank (EIB)

The EIB is an investment bank that is jointly owned by EU Member States. Its aims include:

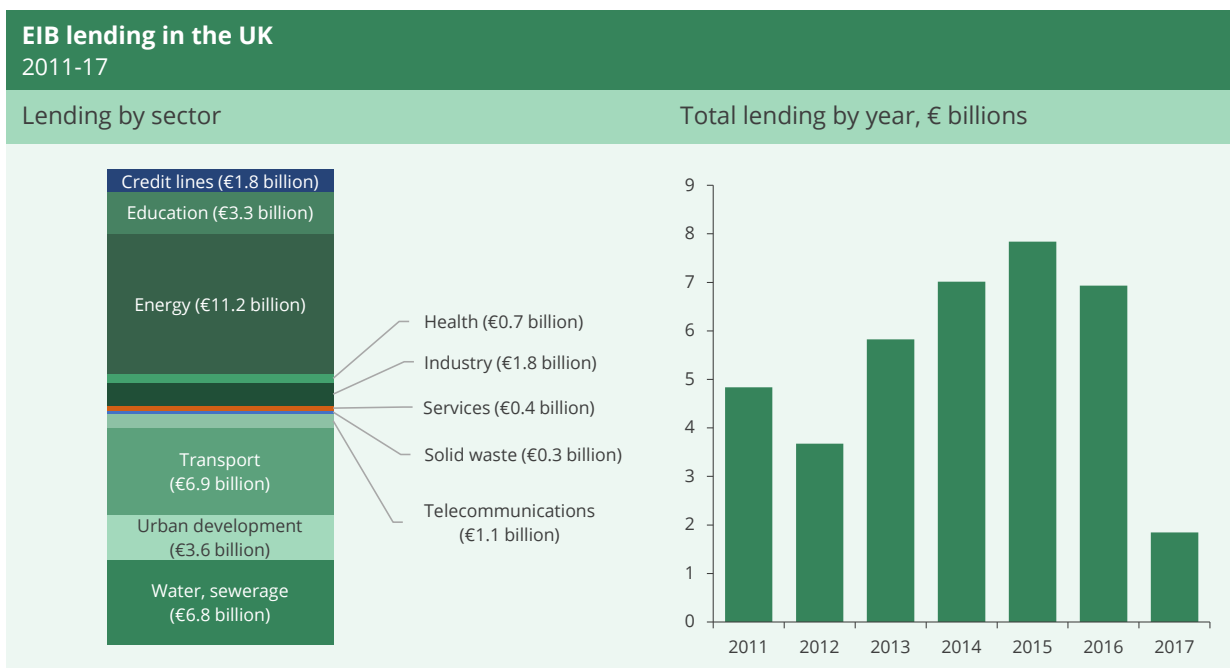
- boosting Europe's potential in terms of jobs and growth;
- supporting action to mitigate climate change; and
- promoting EU policies outside the EU.

Founded under the Treaty of Rome of 1957, the EIB is directed and managed by EU Member States and it is tasked with contributing to the [“balanced and steady development of the internal market in the interest of the Union”](#). The Bank borrows money on capital markets and lends it on favourable terms to projects that support EU objectives. It is the world’s largest multilateral lending institution, borrowing and lending [twice as much as the World Bank](#).

#### The EIB and the UK

Investment in UK public infrastructure in recent years – including roads, railways and energy projects – has been consistently low relative to other advanced economies. In his [speech at the 2016 Conservative Party Conference](#), the Chancellor stressed that “We need to close that gap with careful, targeted public investment in high value infrastructure”.

However, the UK’s vote to leave the EU has generated some uncertainty about sources of future infrastructure investment, particularly with respect to the EIB. The charts below highlight the key sectors for EIB lending in the UK as well as the increase in lending commitments up to 2015, followed by a sharp decrease in 2017 following the EU referendum.



Source: EIB, [Projects financed](#) (accessed on 7 November 2018)

The EIB has played a role in various large scale infrastructure projects in the UK, including the Channel Tunnel, the second Severn crossing, the Jubilee Line extension to the London Underground network, the Heathrow Express and London to Dover fast rail links. [Brian Unwin, a British former President of the EIB, has suggested that:](#) “There is no alternative multilateral institution with the EIB’s lending capacity and expertise in infrastructure investment, and proposals to establish a UK equivalent have come to nothing.”

The EIB also supports non-infrastructure projects that make a significant contribution to growth and employment. The joint European resources for micro to medium enterprises (JEREMIE), funded by the EIB and the European Regional Development Fund (ERDF), provides a funding channel that has been described as “[a lifeline for growing small and medium-sized enterprises](#)”. This funding is particularly important in the north of England where a combined £415m was spent between 2010 and 2016. Some of these funds included the £142 million [Finance for Business North East programme](#) which, by the end of the programme, had claimed to have supported 937 businesses, safeguarded 3,599 jobs and created almost 4,000.

Further details about the EIB are available in the Library’s separate [briefing paper on the Bank](#).

## 5.2 European Investment Fund (EIF)

The EIF is a specialist provider of risk finance to small and medium-sized enterprises (SME) across Europe. Together with the EIB, the EIF forms the EIB Group. The EIF’s shareholders are the European Investment Bank (EIB), the European Union and a number of public and private banks and financial institutions.

## 32 UK funding from the EU

Between 2011 and 2015, the EIF committed around €2.8 billion to UK, including €2.3 billion in equity investments, €438 million in guarantees and securitisation and €15 million in microfinance. These investments sometimes work in conjunction with programmes from the EU Budget, including Horizon 2020 and COSME (see [section 4](#)).

Since the UK's vote to leave the EU, British technology investors have noticed a slowdown in EIF activity in the UK. The EIF has said that there is "no moratorium on lending to UK projects", but has confirmed that its due diligence on UK projects "now needs to be more thorough, and take into account a wider range of factors."<sup>30</sup>

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<sup>30</sup> Financial Times, [UK tech investors face loss of significant funding after Brexit](#), 10 May 2017



## 6. Arrangements for non-Member States

Non-Member States, such as those in the European Free Trade Association, also have access to certain streams of EU funding, though this is typically dependent on payments into the EU Budget. In 2016, the European economic think tank Bruegel published data about the amount of money that four countries with close relationships to the EU contributed to or received from the Union in 2015:

Financial contributions to the EU 2015, € millions				
	Norway	Iceland	Liechtenstein	Switzerland
Total contributions	778.4	17.3	4.5	322.4
of which: contributions to the EU budget	387	10.7	2.3	208.7
contributions to the EEA & Norway grants	391.4	6.6	2.2	113.7
Allocated expenditure	181.6	35.6	3.7	237
Net transfers from EU	-596.8	18.3	-0.8	-85.4

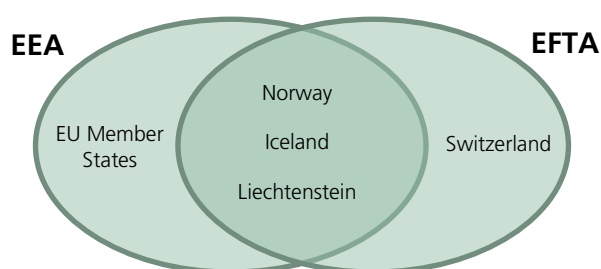
Source: Bruegel, [Single market access from outside the EU: three key prerequisites](#), 19 July 2016

This shows that Norway, Liechtenstein and Switzerland were all net contributors to the EU budget in 2015, while Iceland is a net recipient. Norway's contribution was similar to that of the UK in cash terms, but smaller than the UK's as a percentage of GDP (at 0.16%, compared to the UK's 0.25%).

### Box 5: The EEA and the EFTA

The European Economic Area (EEA) was created in 1994, when the [Agreement on the European Economic Area](#) was concluded between the EU (and its Member States) and Norway, Iceland and Liechtenstein. This agreement extended the rights and obligations of the EU's single market to these latter three countries, but does not include many other aspects of the EU, such as the Customs Union and the Common Agriculture and Fisheries Policies. Countries that accede to the EU may also apply to join the EEA – in practice, there are currently no EU Member States that are not also members of the EEA.<sup>31</sup>

The European Free Trade Association (EFTA) is an intergovernmental organisation set up for the promotion of free trade and economic integration to the benefit of its four Member States (Norway, Iceland, Liechtenstein and Switzerland). While Norway, Iceland and Liechtenstein are also members of the EEA, Switzerland is not.<sup>32</sup>



<sup>31</sup> EFTA, [Frequently asked questions on EFTA and the EEA](#), retrieved 8 January 2018

<sup>32</sup> For more information on the distinctions between EFTA and EEA membership, see chapter 4 of Commons Library Briefing Paper CBP-7214 '[Brexit: some legal and constitutional issues and alternatives to EU membership](#)'

## 6.1 Arrangements for EEA EFTA countries

Broadly speaking, the EEA EFTA countries' relationship with the EU sees them making two types of financial contribution:

- as part of their membership of the EU single market, EEA EFTA countries provide grants directly to poorer EU Member States (not via the EU budget) to strengthen the single market and cooperation between European countries. The grants are akin to the EU's regional funding;
- EEA EFTA countries contribute towards the budgets of some EU programmes in order to take part in them.

Norway, Iceland and Liechtenstein are the EEA EFTA countries

### Contributions to regional funding

[Articles 115-177 of the European Economic Area \(EEA\) Agreement:](#)

- state that there is a need to reduce the economic and social disparities between regions in the EEA; and
- establish a financial mechanism for non-EU EEA countries to contribute to the EU.

Since the 2004 enlargement, funds have been provided under two schemes: 'EEA Grants', which Norway, Iceland and Liechtenstein all contribute to, and which are targeted at the 13 Member States that joined since 2004,<sup>33</sup> plus Greece and Portugal; and 'Norway Grants', which Norway alone contributes to, and are targeted at the 13 new Member States only. Both of these go directly to the targeted Member States.

Over the period 2014 to 2021, EEA Grants amount to €1.55 billion and Norway Grants to €1.25 billion, with Norway contributing the vast majority of the combined total (96%) compared to Iceland (3%) and Liechtenstein (1%).<sup>34</sup>

EEA States are also committed to making annual payments towards the programmes in which they participate over the 2014-20 MFF. Payments are based on a proportion of the EU's annual budget towards the specific EEA programme, with proportions varying from year to year depending on the relative size of the gross domestic product (GDP) of the non-EU EEA Members compared to the total GDP of the EEA.<sup>35</sup>

### Receipts from regional funding

#### Structural funding and territorial cooperation

The way in which the core regional funds discussed in Chapters 3 and 4 are used is determined by [a broad set of regulations](#) covering all the component funds, as well as [more specific rules for individual funds such as the European Regional Development Fund \(ERDF\)](#). In neither of these cases do the main funds make provisions for funding to non-

<sup>33</sup> These Member States are Malta, Cyprus, Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Slovenia, Hungary, Bulgaria and Romania

<sup>34</sup> A breakdown of the funds by recipient country can be found in the [EEA and Norway Grants 2014-2021 factsheet](#)

<sup>35</sup> EFTA, [EU Programmes with EEA EFTA Participation](#) (accessed 28 December 2016)

Member States, even those that are part of the European Economic Area (EEA).

However, as part of the EU's cohesion policy (which aims to reduce disparities between regions and promote balanced development),<sup>36</sup> there are funds available to "support cross-border, transnational and interregional cooperation".<sup>37</sup> INTERREG is a €10.1 billion fund over the current funding period (2014-20). There are three INTERREG project groupings that affect Norway – Sweden-Denmark-Norway, Sweden-Finland-Norway and Sweden-Norway. Norway cannot directly apply for these funds – in each case it is up to the Managing Authority (a Member State or sub-division of a Member State) to decide that all or part of an operation is implemented outside the Union part of the programme area, and when this is the case it is subject to certain conditions. For example, [funding for the portion outside the EU cannot exceed 20% of the support from the ERDF at programme level](#).

One small part of the territorial cooperation that Norway can apply for is [Interreg Europe](#). It provides a framework for exchanging experience between regional and local bodies in different countries and it covers the whole territory of the EU as well as Norway and Switzerland. Current projects in Norway include management of heritage in coastal landscapes and access to microfinance for small and medium-sized enterprises. Norway contributes around €25 million to Interreg Europe annually.<sup>38</sup>

The funding available for Interreg Europe for all participants is relatively small: **€359 million** compared with the total INTERREG budget of **€10.1 billion (3.6%)**.

#### **Direct funding**

[Article 7 of the EU Regulation establishing Horizon 2020](#) stipulates that non-Member States can be classified as 'Associate Countries'. This includes acceding countries, candidate countries and potential candidates and EFTA Members. Association to Horizon 2020 takes place through the conclusion of an International Agreement between the EU and the country concerned. Organisations from Associate Countries can participate under the same conditions as organisations from the Member States.

EEA EFTA countries take part in some EU programmes. For instance, Norway and Iceland take part in Horizon 2020. EEA EFTA countries contribute to the costs of the EU programmes in which they participate under the EEA Agreement, in proportion to their percentage of EU GDP. The EFTA commitment to EU programmes over the 2014-2020 period is approximately €3.22 billion.<sup>39,40</sup> The EEA EFTA countries have also

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<sup>36</sup> European Commission, [Cohesion Policy Frequently Asked Questions](#), retrieved 8 January 2018

<sup>37</sup> [EU Regulation No 1299/2013](#)

<sup>38</sup> Norway Mission to the EU, [Financial contributions](#)

<sup>39</sup> EFTA, [EU Programmes with EEA EFTA Participation](#) (accessed 6 December 2016)

<sup>40</sup> Further information can be found from the [EEA and Norway Grants 2014-2021 factsheet](#)

committed to second national experts to the Commission as an ‘in kind’ contribution to these programmes.<sup>41</sup>

Non-Member State access to the direct funding EU programmes such as Horizon 2020 (for research and innovation) and Erasmus+ (for boosting skills and employability and modernising education, training and youth work) is determined through provisions in the EEA Agreement or on the basis of bilateral agreements with the EU.

In the case of [Horizon 2020](#) for example, Iceland and Norway are recognised as “Associate Countries”, while Liechtenstein does not participate. Associate Countries must meet the following conditions:

- a) a good capacity in science, technology and innovation;
- b) a good track record of participation in Union research and innovation programmes; and
- c) fair and equitable dealing with intellectual property rights.

Under Horizon 2020, the European Commission has allocated around **€30 million to projects in Iceland** and **€275 million to projects in Norway** for the period 2014-2020.<sup>42</sup>

## 6.2 Arrangements for Switzerland

Switzerland cooperates with the EU in a number of specific areas of mutual interest. It is a member of the European Free Trade Area (EFTA) and an associate member of the Schengen border-free area, and it has a series of [over 100 bilateral agreements with the EU](#).

Like the EEA EFTA countries, Switzerland has participated in a number of projects to reduce the economic and social disparities within the EU through its CHF 1.302 billion (€1.2 billion) [Enlargement Contribution](#) aimed at the EU Member States that have joined the EU since 2004. This is made up of CHF 1 billion that it extended in June 2007 for the ten countries that joined the EU in 2004, followed in December 2009 by a further CHF 257 million for Bulgaria and Romania which joined in 2007, and a further CHF 45 million in December 2014 for Croatia following its accession in 2013.

Switzerland does not receive funding through the ESI funds or European Agricultural Guarantee Fund. It can benefit from INTERREG funding through countries it shares a border with, specifically through the France-Switzerland, Germany-Austria-Switzerland-Liechtenstein, Italy-Switzerland and France-Germany-Switzerland territorial cooperation programmes. However, as with Norway, Switzerland cannot directly apply for these funds and the amount that can be dedicated to funding activities on Swiss territory is capped at 20%.<sup>43</sup> It is not possible to determine the value of this funding to Switzerland through the data published by the European Commission.

<sup>41</sup> EFTA publishes a list of programmes that its Members participate in [here](#).

<sup>42</sup> European Union Open Data Portal, [EU research projects under Horizon 2020](#) (accessed 6 December 2016)

<sup>43</sup> See Article 20 of the specific provisions for the support from the European Regional Development Fund to the European territorial cooperation goal

## Direct funding

### Horizon 2020

Up to the end of 2016, Swiss participation in Horizon 2020 covered only parts of the programme. However, following the ratification of the Protocol on the extension to Croatia of the Free Movement of Persons Agreement between the EU and Switzerland by the Swiss Federal Council on 16 December 2016, Switzerland became associated to the whole of Horizon 2020 as of 1 January 2017.<sup>44</sup> As of December 2016, Switzerland was the home country of organisations that are the lead coordinator on around €500 million worth of Horizon 2020-supported projects.<sup>45</sup>

### Erasmus+

As with Horizon 2020, full participation in Erasmus+ is linked to the principle of free movement. The Swiss authorities and the EU suspended negotiations on Switzerland's full participation in January 2014 as the Protocol on the extension of free movement was not applied to Croatia. Following Switzerland's readmission to Horizon 2020, negotiations for its involvement in Erasmus+ were expected to resume; however, following the establishment of a more limited interim solution (the [Swiss-European Mobility Programme](#)), full participation is not expected to resume until at least 2021.<sup>46</sup>

### Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME)

[Article 6 of the Regulation governing COSME](#) stipulates that certain third countries may participate in the fund; however, Switzerland is not a third country as it has no relevant agreement with the EU and therefore no legal basis under which it could do so.

## 6.3 Arrangements for countries seeking EU accession

The EU provides funding to a number of countries which are candidates (or potential candidates) for joining the Union. The intention of this funding, according to the European Commission, is to "help the beneficiaries make political and economic reforms, preparing them for the rights and obligations that come with EU membership".<sup>47</sup>

The funding comes from the EU's 'Instrument for Pre-Accession Assistance' funds. There have been two of these; the one covering 2007-13 had a budget of €11.5 billion, and its successor for 2014-20 increased this slightly to €11.7 billion. The money was allocated to the recipient countries as follows:

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<sup>44</sup> European Commission, [Swiss participation in Horizon 2020](#) (December 2016)

<sup>45</sup> EU Open data Portal, [EU research projects under Horizon 2020 \(2014-2020\)](#) (accessed 16 December 2016)

<sup>46</sup> The Local, [Switzerland won't rejoin Erasmus before 2021](#), 29 August 2017

<sup>47</sup> European Commission, [European Neighbourhood Policy And Enlargement Negotiations](#), 6 December 2016

Indicative allocations from the Instruments for pre-Accession Assistance													
€ millions													
	IPA I 2007-2013							IPA II 2014-2020					
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018-2020	Total 2014-2020
Albania	61.0	70.7	81.2	94.1	94.4	94.5	95.3	83.7	86.9	89.7	92.9	296.3	649.5
Bosnia & Herzegovina	62.1	74.8	89.1	105.3	107.4	107.8	63.6	39.7	39.7	42.7	43.7	*	165.8
Croatia	141.2	146.0	151.2	153.5	156.5	156.1	93.5	-	-	-	-	-	-
The former Yugoslav Republic of Macedonia	58.5	70.2	81.8	91.6	98.0	101.8	113.2	85.7	88.9	91.6	94.9	303.1	664.2
Iceland	-	-	-	-	12.0	12.0	5.8	-	-	-	-	-	-
Kosovo	68.3	184.7	106.1	67.3	68.7	68.8	71.4	83.8	85.9	88.7	91.9	295.2	645.5
Montenegro	31.4	32.6	34.5	33.5	34.1	35.0	34.5	39.6	35.6	37.4	39.5	118.4	270.5
Serbia	189.7	190.9	194.8	197.9	201.8	202.0	208.3	195.1	201.4	207.9	215.4	688.2	1,508.0
Turkey	497.2	538.7	566.4	653.7	779.9	860.2	902.9	620.4	626.4	630.7	636.4	1,940.0	4,453.9
Multi-country	129.5	137.7	188.8	141.7	186.2	176.2	177.2	348.0	365.0	390.0	410.4	1,445.3	2,958.7

Note: \* = Amounts to be decided at a later stage.  
Source: European Commission, European Neighbourhood Policy And Enlargement Negotiations, 6 December 2016

Turkey received 41% of the total funding from the IPAs since 2007, allocated to a number of different policy areas. Details of the funding given to each country are available [on the European Commission's website](#).

## 6.4 European Neighbourhood Policy funding

The EU also provides funding to 16 countries<sup>48</sup> in its immediate neighbourhood, with the objective of "avoiding the emergence of new dividing lines between the enlarged EU and its neighbours and instead strengthening the prosperity, stability and security of all".<sup>49</sup> Its main fund for providing this money is the European Neighbourhood Instrument, which has a budget of €15.4 billion for 2014-20.

Allocations for individual countries can be found in their bilateral Support Framework documents on the [European Union External Action](#) website. Along with the country-specific bilateral programmes, there are also regional programmes and the [Cross Border Cooperation](#) programme, which also involves Russia and is funded by both the European Neighbourhood Instrument and the ERDF.

## 6.5 Developing countries

In line with many countries' aims of reducing poverty and promoting economic development, the EU has its own development policy aimed at other countries, and in fact has an [International Cooperation and Development directorate](#) to carry out this policy.

Money to fund this aid spending comes both from the EU budget and from the various incarnations of the European Development Fund (EDF). These Funds sit outside the main EU budget and are financed directly by contributions from Member States. The current Fund is the 11<sup>th</sup> EDF, and is set to run from 2014 to 2020; it has a total budget of €30.5 billion.<sup>50</sup>

<sup>48</sup> These countries are Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, Moldova, Morocco, Palestine, Syria, Tunisia, and Ukraine.

<sup>49</sup> European Commission, [European Neighbourhood Policy](#), 6 December 2016

<sup>50</sup> European Commission, [International Cooperation and Development](#), 22 November 2018

## 7. Current status of post-Brexit funding

The UK will continue to receive funding from the EU as long as it is a Member State, and possibly beyond this (depending on whether the UK and EU conclude a Withdrawal Agreement, and on the terms within this agreement). The Government has also guaranteed that recipients of any EU funding secured until the end of 2020 will continue to receive their money, even if no deal is reached.<sup>51</sup>

### 7.1 ESI funds

If the Withdrawal Agreement is concluded in its current form<sup>52</sup> (or one that is substantially similar), the UK will be eligible to continue to take part in ESI funding in the same way as it does today throughout the transition period (which is currently expected to end in 2020).<sup>53</sup> Even if the deal reached is different, or no deal at all is concluded, the Government's funding guarantee will continue to apply until the end of 2020.

After the UK has left the EU (and any transition period ends),<sup>54</sup> ESI funding will cease. It is not yet entirely clear how these funds will be replaced after this point. The [2017 Conservative manifesto](#) included the following section on a replacement for the structural funds (emphasis added):

We believe in one nation – in helping every part of our country share in the prosperity and opportunity of our great United Kingdom. Yet there is much to do. Current EU-wide structural funding was designed to tackle disparities but it is expensive to administer and poorly targeted. As we leave the European Union, we must look at how we can better reduce and eliminate these inequalities.

**We will use the structural fund money that comes back to the UK following Brexit to create a United Kingdom Shared Prosperity Fund,** specifically designed to reduce inequalities between communities across our four nations. The money that is spent will help deliver sustainable, inclusive growth based on our modern industrial strategy. We will consult widely on the design of the fund, including with the devolved administrations, local authorities, businesses and public bodies. The UK Shared Prosperity Fund will be cheap to administer, low in bureaucracy and targeted where it is needed most.<sup>55</sup>

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<sup>51</sup> HM Treasury, [Funding from EU programmes guaranteed until the end of 2020](#), 24 July 2018

<sup>52</sup> The Withdrawal Agreement can be found on the Department for Exiting the European Union's page [Progress on the UK's exit from, and future relationship with, the European Union](#).

<sup>53</sup> See Article 126 of the [Withdrawal Agreement](#), as of 14 November 2018

<sup>54</sup> According to Article 132 of the Withdrawal Agreement, ESI funding would also stop after the end of 2020 even in an extended transition period, as the ESI funds are part of the 2014-20 MFF.

<sup>55</sup> Conservative Party, [Forward, Together: Our Plan for a Stronger Britain and a Prosperous Future](#), 18 May 2017

In July 2018, James Brokenshire (Secretary of State for Housing, Communities and Local Government) made a [Written Statement](#) setting out more details about the Shared Prosperity Fund. The statement confirmed that the Fund's purpose is to "tackle inequalities between communities by raising productivity, especially in those parts of our country whose economies are furthest behind", and that it will operate right across the UK. It also stated that the Government would consult on how the Fund should work during 2018.

[A PQ](#) answered by the Ministry of Housing, Communities and Local Government has confirmed that this consultation is still intended to take place before the end of 2018, and that decisions on the operation and allocation of the Fund will be taken as part of the Spending Review in 2019.

In relation to the CAP payments from the EAGF and EAFRD, on 4 January 2018, Environment Secretary Michael Gove said in a speech to the Oxford Farming Conference that:

We will formally leave the EU in March of 2019 but the Government anticipates that we will agree an implementation or transition period for the whole country with the EU lasting for around another two years.

We have guaranteed that the amount we allocate to farming support - in cash terms - will be protected throughout and beyond this period right up until the end of this Parliament in 2022.<sup>56</sup>

The Agriculture Bill currently before the House of Commons proposes to implement a seven-year transition period after 2021 that will slowly replace the current levels of payments to farmers with a new system. For more details, see the Library's briefing on [The Agriculture Bill](#).

### Access to ESI funds as a third country

The Political Declaration made by the UK and EU in November 2018 stated that both parties would "establish general principles, terms and conditions for the United Kingdom's participation in Union programmes...in areas such as science and innovation, youth, culture and education, overseas development and external action, defence capabilities, civil protection and space." The Declaration also said that such conditions would include "a fair and appropriate financial contribution" from the UK.<sup>57</sup>

Some minor ESI programmes already include countries that are not EU member states, such as the INTERREG programme which can support cross-border projects with non-Member States. However, these funds are relatively small – [projects in Norway](#) through Interreg Europe, a sub-division of INTERREG, are currently worth around €8.2 million. Aside from these, no non-Member States currently take part in EU budgetary programmes.

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<sup>56</sup> Defra, [Farming for the next generation](#), 4 January 2018

<sup>57</sup> Department for Exiting the European Union, [Political declaration setting out the framework for the future relationship between the European Union and the United Kingdom](#), 22 November 2018



## 7.2 Direct funding

As with the ESI funds, direct funding is covered by the Government's guarantee, and beneficiaries will therefore continue to receive funding until the end of 2020 regardless of whether a deal is reached. However, it is not clear whether UK organisations will be able to continue to participate fully in collaborative projects with organisations in EU Member States in the event of no deal; the Government has said in its guidance that it "is seeking to discuss how this could best be addressed" with the European Commission.<sup>58</sup>

### Access to direct funding after Brexit

As noted for ESI funds above, the Withdrawal Agreement concluded between the UK and EU's negotiators says that the UK's involvement in directly-funded programmes will continue for the lifetime of those programmes, and the Political Declaration says that the UK is looking to remain part of some programmes even after leaving.

The major sources of direct funding from the European Commission have provisions for non-Member State participation. In the case of Horizon 2020, there are three categories of non-Member "Associated Countries":

- a. Acceding countries, candidate countries and potential candidates;
- b. European Free Trade Association (EFTA) members, or countries or territories covered by the [European Neighbourhood Policy](#) (ENP); and
- c. Countries or territories associated to the Seventh Framework Programme (a programme under the 2007-2013 MFF, similar in nature to Horizon 2020).<sup>59</sup>

Under the Regulations, the UK could qualify as an Associated Country under the third category or potentially the second if it was covered by the ENP. Regulations for other direct funds (e.g. COSME) have similar provisions.

However, as discussed in [section 6.2](#), full participation in certain funds may be conditional on a Free Movement of Persons Agreement, like the one established between the EU and Switzerland.

In December 2017, the Exiting the European Union Committee published a report on "The progress of the UK's negotiations on EU withdrawal". This report included suggestions that the UK would seek to continue to participate in some direct funding programmes:

The Government has said that it intends to continue contributing to a range of programmes after it has left the EU. The Secretary of State said it was "likely" that the UK would continue to contribute to Horizon 2020 and the Galileo Space programmes as well as nuclear programmes. That chimed with the Prime Minister's statement that the UK intends to continue to take part in specific policies and programmes such as "those that promote science, education and culture—and those that promote our

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<sup>58</sup> BEIS, [Horizon 2020 funding if there's no Brexit deal](#), 23 August 2018

<sup>59</sup> EU, [Regulation No 1291/2013 establishing Horizon 2020, Article 7](#)

mutual security.” Non-EU members already participate in some of these programmes. For example, Turkey participates in Horizon 2020. Universities have also raised the implications of leaving Erasmus.<sup>60</sup>

A report from the European Scrutiny Committee in July 2018 noted that the European Commission has called for a mechanism to ensure that the UK cannot become a net beneficiary of EU programmes after its exit, and also estimated that its participation in EU programmes could have a gross cost of around £4 billion per year.<sup>61</sup>

### 7.3 European Investment Bank

[In response to several Parliamentary Questions](#), the Government has asserted that:

“The UK is and continues to be a shareholder of the European Investment Bank (EIB), and the EIB has publically stated that its engagement in the UK is unchanged. All existing loan contracts signed between UK promoters and the EIB remain in force, and the EIB has continued to sign and approve new projects since the EU referendum.”

However, questions remain about the relationship with the EIB beyond Brexit.

#### Could the EIB still lend to the UK after Brexit?

In 2011-2015, 89% of the EIB’s €339 billion in total investment was invested in EU Member States. The remaining 11% was spent outside the EU, including in Norway (as a member of the European Free Trade Area), EU membership candidate countries (such as Montenegro, Serbia and Turkey) and other areas such as Latin America and ACP (Africa, Caribbean and Pacific) states. EIB lending outside the EU is governed by a series of mandates from the European Union in support of EU development and cooperation policies in partner countries. As a result, any continued lending to the United Kingdom would have to be unanimously agreed by the EIB’s board of governors (the finance ministers).

The joint report in December 2017 from the UK and EU’s negotiators made clear that “after the date of withdrawal, UK projects will not be eligible for new operations from the EIB reserved for Member States”. However, it also makes note of the UK’s desire for a continuing arrangement with the EIB, and says that “the UK wishes to explore these possible arrangements in the second phase of the negotiations”.<sup>62</sup>

Similar sentiments were included in paragraph 15 of the Political Declaration on the future relationship of the UK and EU, published in

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<sup>60</sup> Exiting the EU Committee, [The progress of the UK’s negotiations on EU withdrawal](#), 1 December 2017, HC 372 2017-19, para 56

<sup>61</sup> See paragraph 6.9 of European Scrutiny Committee, [Thirty-fourth Report of Session 2017-19](#), 4 July 2018

<sup>62</sup> European Commission, [Joint report from the negotiators of the European Union and the United Kingdom Government](#), 8 December 2017

November 2018.<sup>63</sup> However, in evidence to the Treasury Committee on 5 November, Chancellor of the Exchequer Philip Hammond downplayed the significance of the EIB for infrastructure funding, saying that most of this funding goes to “players with big balance sheets who are perfectly able to fund themselves elsewhere”.<sup>64</sup> He also said that the European Investment Fund was more of a concern because it is aimed at “smaller, high-growth companies”, and mentioned greater funding for the British Business Bank as a way of replacing funding from this source.

### **What are the alternatives?**

It is unclear what approach the Government will take to fill any gaps left by any post-Brexit withdrawal of EIB funding. [Reports suggest](#) that with respect to infrastructure, it may be considering a number of possibilities, including the Treasury issuing “infrastructure bonds” (a way to match private investors and pension funds with new transport and energy schemes) or the launch of a UK investment bank.

For non-infrastructure schemes, many (such as JEREMIE) are co-financed by European Structural and Investment (ESI) funds and the EIB. As noted earlier, funding from the ESI funds is guaranteed even in the event of no deal. However, there has been no indication that the funding share from the EIB falls under this guarantee and thus there is uncertainty over overall funding for many projects.

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<sup>63</sup> Department for Exiting the European Union, [Political declaration setting out the framework for the future relationship between the European Union and the United Kingdom](#), 22 November 2018

<sup>64</sup> Treasury Committee, [Budget 2018 – oral evidence](#), Q271, 5 November 2018

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