



## Why the EU should not run regional policy

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## EXECUTIVE SUMMARY

### Key points

- \* Only 10% of EU Structural Funds are spent in the poorest areas
- \* £670m a year is wasted on bureaucracy
- \* Wasteful projects fail to boost growth or employment
  
- The Structural and Cohesion Funds (SCF) account for significant sums of money – £7.2 billion will be spent in the UK over the current funding period (2007-2013). Much of this money will be wasted, because of the EU's failing approach.
  
- Regional spending programmes are poorly targeted on the worst off areas, waste large sums on bureaucratic costs, and fail to boost growth and employment.
  
- While the UK and other member states have argued for control of such spending to be returned to the national level, this was rejected by other member states.
  
- This report argues that the idea of “regional” policies rather than policies to target the most deprived areas is questionable, as it is an approach based on top-down project-spending, rather than other measures like targeted tax reductions. The EU management of regional policy not only locks in this failing approach, but also leads to five main problems:

**1) Very poor targeting of funds:** Data on how the money is spent is hard to obtain. Every single region, rich or poor, gets some funding from the EU. However, undertaking the most detailed analysis to date, we find that as little as 10% of the funds are spent in the poorest fifth of areas.

**2) Huge bureaucratic costs:** The hugely bureaucratic way in which the funds are administered by the EU leads to huge administrative costs. Simply running the funds costs £670 million a year.

**3) Spending on wasteful projects which don't create jobs:** Because of EU rules which say that regional authorities must spend money or lose it, the focus is very much on “getting the money out of the door”. This and other factors lead to the commissioning of wasteful projects which do not boost growth or employment, including:

- Roving “city clowns” in Tampere, Finland
- Conceptual projects to turn Barnsley into a “Tuscan hill village” and create a giant lake in Bradford city centre
- A mobile burger van intended to lecture building site workers on sustainable development
- A €150,000 bike shed, and €180,000 barbecue in Germany
- Trans-national gardening societies in Denmark and Sweden
- A “renaissance” theme-park in Hamelin, Germany which has cost €900 per visitor
- A “democracy museum” and local “storytelling society” in Northern Sweden
- A “nail beauty” course for gypsy women

**4) Poor coordination with national policies:** Gordon Brown has acknowledged that: "There are many things that we want to do to encourage local skills and research and development, and local businesses, but we're not able to do because of the existing rules."

**5) Vulnerability to fraud:** The complexity of the Structural Funds leaves them vulnerable to fraud. Problems with the SCF are one of the main reasons why the European Court of Auditors (ECA) has not cleared the EU budget for 13 years in a row. The Court found that at least €4 billion of the money that the EU Commission handed out "should not have been". According to the latest report from the ECA, of the projects audited, only 31% "were found to be free from error". But the ECA only monitored some 90 projects. Its figures could well be underestimates. For example, Italy's tax and fraud investigator, Guardia di Finanza, noted in its latest annual report that €433 million worth of EU money was subject to outright fraud in Italy alone in 2006.

**Other findings:**

- The EU now has a significant role in defining the shape of the UK's regional Government arrangements. For example, when in 1998 it was proposed that the Isle of Wight be counted as part of the South West region, this change was blocked by Eurostat.
- There is no evidence that the SCF funds are leading to "convergence" between regions – the supposed rationale for the programmes. Of the 44 regions granted Objective One status in 1989, 43 were still eligible for such funding in 2003.

## **BACKGROUND**

### **1.1 What are the EU's Structural and Cohesion Funds?**

- The Structural and Cohesion Funds (SCF) are intended to be the EU's main policy in reducing regional disparities and encouraging economic convergence across the Union. In essence, the concept is to transfer money from richer to poorer regions through grants - by investing in businesses, infrastructure, telecommunications, human resources and by supporting research and development – thereby boosting growth and employment.
- For the 2007-2013 financial period, the SCF account for over one third of the EU's budget. During the 2007-2013 financial period, the SCF are spread over three different funds:
- *The European Regional Development Fund (ERDF)*  
The ERDF aims at encouraging regional development, economic change, enhanced competitiveness and territorial co-operation throughout the EU.
- *The European Social Fund (ESF)*  
The ESF is meant to focus on employment, social inclusion and tackling discrimination.
- *The Cohesion Fund*  
This fund applies only to member states with a Gross National Income (GNI) of less than 90% of the EU average, and covers the new member states as well as Greece and Portugal. Spain will be eligible for the Cohesion Fund on a transitional basis. The Cohesion Fund invests in the environment and trans-European transport networks.
- These funds, in turn, are meant to meet three different main “objectives”:
  - 1) Convergence (previously called Objective One): ERDF; ESF and Cohesion Fund.
  - 2) Regional Competitiveness and Employment (previously called Objective Two): ERDF; ESF.
  - 3) European Territorial Co-operation (ERDF).
- The amount each member state gets is negotiated among the governments for a seven year period. Each fund has a national “managing authority” – i.e. a Government department – through which the money is channelled. EU regulations govern how and to whom money can be granted. The grants are first paid out by the managing authorities, and the Commission then reimburses the member states. The Commission audits about five percent of the projects and has the right to withhold funds.
- Each project that wants grants from the SCF must find “matching funds” from other sources than the EU, such as the UK Government or private actors, usually amounting to around the same amount as that given by the EU.
- Delivery of the funds in England takes place through Communities and Local Government (CLG), which is the Managing Authority for the ERDF (for the 2000-

2006 period through the Government Offices in the regions and for the 2007-2013 period through the Regional Development Agencies) and the Department for Work and Pensions (DWP), which is the Managing Authority for the ESF in England, through Job Centres and the Learning and Skills Councils. In addition, there are five other Whitehall departments involved in the SCF.

## 1.2 The UK Government's position and the failure of reform so far

- In its policy document, "A Modern Regional Policy for the United Kingdom", the UK Government hinted at the "repatriation" of the EU's SCF. It stated:

*"Although EU regional policies have delivered benefits in the UK and EU, there have also been significant challenges in their implementation, and current arrangements are often too centralised. This does not adequately reflect the differing needs across the Union, particularly in the more prosperous Member States where Community aid is a comparatively small proportion of spending on regional development, and this inflexibility places an unnecessary constraint on the freedom nations and regions need in order to support their own locally determined and delivered policies."<sup>1</sup>*

- Elsewhere Gordon Brown has also made similar observations. In 2003 Brown wrote that, "When the economic and social, as well as democratic, arguments on Structural Funds now and for the future so clearly favour subsidiarity in action, there is no better place to start than by bringing regional policy back to Britain."<sup>2</sup>

- And Alan Johnson has called for regional policy to be,

*"resourced domestically in richer Member States, like the UK, with the institutions and financial strength to do so. This would end the unnecessary and inefficient recycling of funds between richer Member States, like the UK, via Brussels, and would concentrate EU activity where it can add most value. We believe that EU resources should be focussed on the poorest Member States that will benefit most. But, equally, it allows for best practice sharing and cross-border initiatives across all Member States, where appropriate."<sup>3</sup>*

- The UK Government pushed for five changes in the last budget negotiation round ahead of the 2007-2013 financial period:

- 1) Ensuring that the SCF add value to domestic policy
- 2) A simplification of the delivery mechanism of the SCF
- 3) Ensuring that the funds are aimed at advancing the Lisbon goals
- 4) Focussing the SCF on poorer member states, with only countries with a GDP under 90% of the EU average receiving funds
- 5) Ensuring the best value for taxpayers' money

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<sup>1</sup> HM Treasury, "A Modern Regional Policy for the United Kingdom", 6 March, 2003.

<sup>2</sup> Times, 6 March 2003.

<sup>3</sup> London Partners/House of Commons, "'London's Perspective' - Consultation on the future of EU Structural Funds post-2006", May 06, 2003.

- On the point of having richer member states managing and paying for their own regional policy, the UK had the support of most other net-payers in the EU. However, the proposal was blocked by the southern member states. In fact, the UK Government walked away from the negotiations with few of its demands met and the SCF remain largely unreformed.
- Concerns about the SCF exist also beyond the UK. Germany, Sweden, France, Austria and the Netherlands all backed the UK proposal to focus the SCF on the poorest member states. German CDU politician and expert on budget issues in the European Parliament, Ingeborg Grassle, has called the system “completely ridiculous”, arguing that “We [Germany] send money to Brussels and receive a large share of it back, along with the program rules and implementation requirements that end up directing the funds where they are needed least.”<sup>4</sup>

### 1.3 Why is it so hard to reform the SCF?

- The SCF are used more as a “political sweetener” than a development tool.
- Despite widespread criticism and its patchy track record, the last two decades have seen a dramatic build-up of the SCF. The Cohesion Funds, for example, have jumped from €3.3 billion in 1987, to €42 billion in 2005. For the 2007-2013 financial perspective, the budget for the SCF will total €347.5 billion – about a third of the EU’s budget.<sup>5</sup>
- There are several reasons why the SCF keep on ballooning. First, politicians want to claim success in the negotiations over the EU budget. Money granted from the SCF is a convenient way of convincing voters at home that negotiations in Brussels will render benefits. The influential Sapir report argued that:

*“National political constraints mean that each government worries more about being able to flag a negotiation success (i.e. obtaining a significant share of EU money to be spent in its own territory) than about being sure that money is spent on worthwhile projects, let alone those fostering convergence in the EU as a whole.”<sup>6</sup>*

- Secondly, the classic EU horse-trading often makes the SCF function as a side-payment. In 1985, for example, the so-called “Integrated Mediterranean Programme” was created. Greece received some €2 billion from this programme, in return for its vote on the accession of Portugal and Spain. Similarly, in the late eighties, Spain, Portugal and Greece received several billions from the SCF, in a kind of “compensation scheme” for the Single European Act and further European integration. The Cohesion Fund was likewise meant to precipitate the introduction of the single currency.

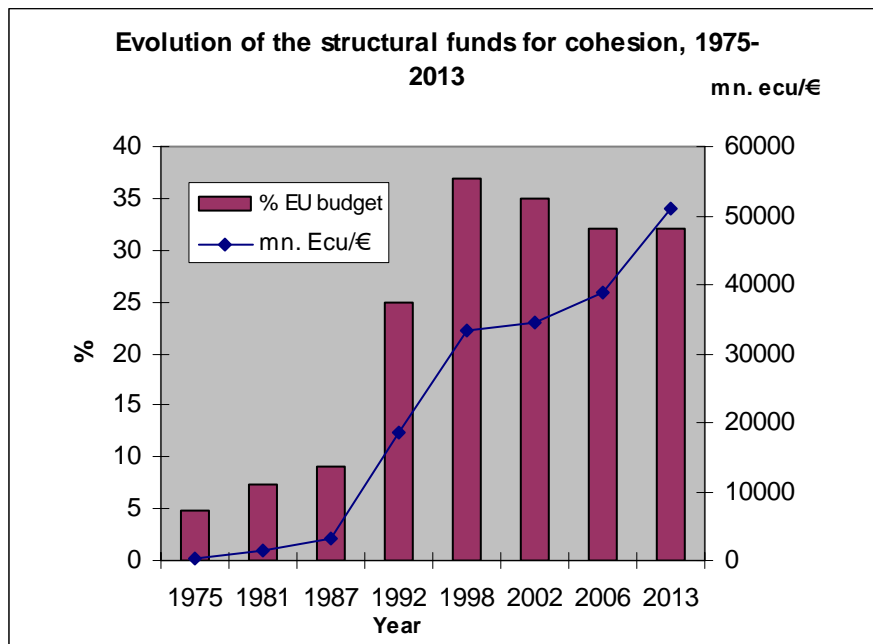
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<sup>4</sup> *Der Spiegel*, 22 March 2007.

<sup>5</sup> *Inforegio*, 2007.

<sup>6</sup> Sapir et al. “An Agenda for a Growing Europe; making the EU Economic System Deliver”, *Report of an Independent High-Level Study Group established on the initiative of the President of the European Commission*, July 2003.

- The concept of the SCF as a compensation for further economic integration is often cited as one of the implicit rationales behind the system. Various subsidies and redistribution programmes are a good way to “compensate” regions for the impact of being a part of an integrated European economy – something many voters naturally feel uneasy about.
- From the Commission’s point of view, the visibility of SCF intervention is worth a lot, especially in terms of improving people’s perception of the EU.
- The SCF have also been pointed to as a way to offset cutbacks in the CAP budget. EU leaders can justify decreases in farm subsidies by making up the difference with the Structural Funds. Justifying expenditure on account of “sustainable development” or “competitiveness” certainly sounds better than on the basis of market-distorting farm subsidies. The overall EU budget and the level of subsidies will meanwhile stay the same.
- Some countries, such as Greece and Italy, also find it more efficient to recycle money through Brussels rather than their own national governments. In member states where governments struggle with corruption and mismanagement, external regulations and control offer a way to impose some sort of fiscal discipline. The solidarity argument also features quite strongly, i.e. getting poorer regions on track is the responsibility of the entire Union, not only that of individual member states.
- Therefore, even richer member states have shown limited desire to exercise budgetary and financial constraints and SCF spending continues to rise. However, the SCF is a wasteful and largely failed policy. Merely shifting money from the CAP to SCF cannot be the way forward. Both policies are in need of urgent reform. Moreover, the reforms that have taken place ahead of the 2007-2013 are largely cosmetic – something noted by both the OECD and BERR.



Source: Allen (2004)

## **EU REGIONAL SPENDING AND THE DEVELOPMENT OF REGIONAL GOVERNMENT**

### **2.1 What role has the EU played in the creation of the UK's regional government structures?**

- The UK's own "regionalisation" is paralleled by the EU's growing role in regional policy. When the EU began its region-based funding, it effectively steered member states to create a regional structure which could facilitate and manage the funds. Also, Eurostat's criteria for how to divide regions have contributed to the UK's regionalisation.
- First, the "partnership" concept required regions of some sort to get involved in the policy process, since the formulation, implementation and monitoring of the funds now had to take place in a sort of a tripartite partnership between the EU, national governments and regional actors.<sup>7</sup>
- Secondly, the "programming" aspect set out specific ways in which the spending of the funds needed to be planned on a national level. It required regional authorities to be consulted in the complex process of formulating spending plans and drawing up objectives for the region. It is unlikely that this criterion could have been fulfilled without the creation of the regions as we today know them.
- The SCF gave the Integrated Regional Offices - later renamed the Government Offices for the Regions (GO) - a major boost and an implicit justification, as the offices were given the role as managing authority for the ERDF.<sup>8</sup> The rules and guidelines for the GOs in terms of spending frameworks and allocation of funding were established by the EU at a very early stage.<sup>9</sup> Often, the regions that received the most funds were also the ones that fastest developed an independent administration. For example, the North West and Yorkshire and Humberside soon created their own European Secretariats with responsibility to implement regional development policy.<sup>10</sup>
- Also the Regional Development Offices (RDAs) – created in 1999 – received a major boost by the SCF, since they were meant to promote economic regeneration and draw up development strategies. Their increased role of the SCF also contributed to the RDA's expansion. The total budget for the RDAs went from £852 million in 2000-2001 to £1.8 billion in 2003-2004, while the total administrative cost doubled during the same time period.<sup>11</sup>
- The significance of the funds for the UK's "regionalisation" is also supported by the emergence of regional representations in Brussels. The early 1990s saw for example 17 different offices representing various British regional actors opening up in Brussels. English RDAs today spend close to £5 million a year on offices overseas.

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<sup>7</sup> Burch et al. "The English Regions and the European Union", *PSA Annual Conference*, 16 April 2003.

<sup>8</sup> Mawson & Spencer, K. "Pillars of Strength? The Government Offices for the English Regions", *Regional Studies Association*, November 1995.

<sup>9</sup> See Regulation 2052/88 EEC.

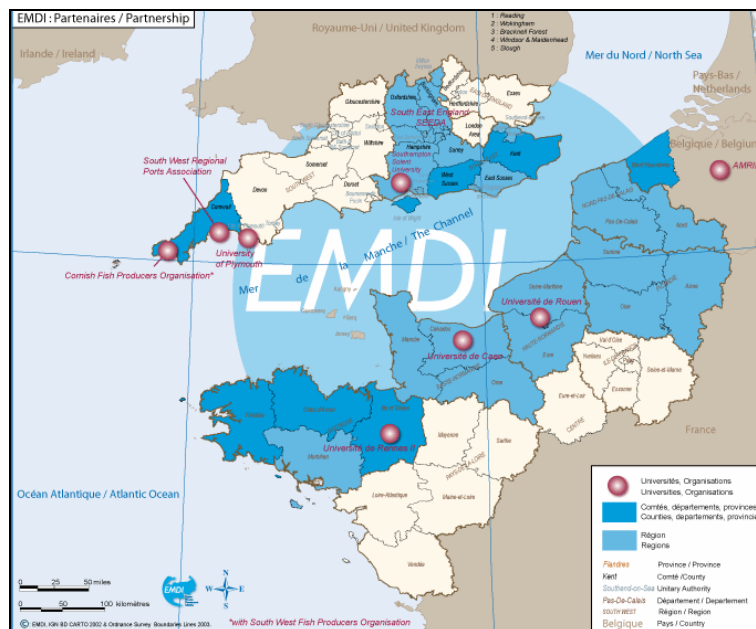
<sup>10</sup> Burch et. al. 2003.

<sup>11</sup> *Hansard*, 22 May 2006, Column 1460W.

## 2.2 Limits on member states' ability to change their regional structures

- The EU also impacts on the way member states divide regions through Eurostat's criteria. Eurostat has a system for regional break-down, called the Nomenclature of Territorial Units for Statistics (NUTS), which serves as basis for the Structural Funds and regional statistics. The NUTS divides each member state into a number of NUTS 1 regions, each of which is in turn subdivided into a number of NUTS 2 and NUTS 3 regions.<sup>12</sup>
- The current NUTS regions in the UK were agreed between Eurostat and the ONS in 1998 and have been used since 1999. The regions are hard to change, even if a member state or a region wanted to. The UK has experienced this. For example, already back in 1998 the Isle of Wight sought to change Government Office, in order to receive more grants for regeneration. Their request was refused and the region took Eurostat to court, but lost. The way Eurostat divides regions has been subject to widespread criticism (see below).
- In addition, along the lines of Interreg – a programme under the Structural Funds intended to encourage cross-border cooperation amongst regions – Eurostat has drawn up a map of Europe based solely on regions. For example, under the scheme, a new 'Arc Manche Regional Assembly', has been created to oversee the 'transnational region' of southern England, northern France, and western Belgium. Such measures suggest that the Delors Commission's concept of a "Europe of the regions" is very much alive still today – at least in the mind of the Commission.<sup>13</sup>

### The Arc Manche Region



Source: EMDI

<sup>12</sup> Eurostat, 2007.

<sup>13</sup> See [http://www.arcmanche.com/pages\\_arc/rub\\_3\\_e.php3?Page=p\\_3\\_1\\_1.php3&commun=1&iActID=73](http://www.arcmanche.com/pages_arc/rub_3_e.php3?Page=p_3_1_1.php3&commun=1&iActID=73)

### **(3) WHAT'S WRONG WITH THE STRUCTURAL FUNDS?**

#### **(A) Bureaucracy**

##### **3.1 Multiple layers of administration**

- The SCF's recycling of money between member states adds layers of additional bureaucracy. Individual actors may of course benefit from EU funding, but any potential benefit must be set against this extra bureaucracy – alongside other deadweight and opportunity costs that are all created by the SCF.
- A Commons report on the ESF by the Work and Pensions Committee concluded that:

*"We have been struck by the sheer cumulative weight of the bureaucracy associated with the administration of the fund that organisations are expected to shoulder... we believe that the administration of ESF represents a significant burden on local authorities, Government Offices and other public and voluntary organisations. The evidence indicates that many organisations, especially those working in the community and voluntary sector, have a problem managing the administrative burdens flowing from applying for funding, making regular claims and monitoring outcomes."*<sup>14</sup>

- The East Midlands Development Agency told the Lords EU Scrutiny Committee:

*"The time is long overdue for a real review and reform of the EU mechanisms that support regional development. Effective delivery on the ground is severely hampered by a plethora of different funding streams, inconsistent timescales, innumerable strategies or funding frameworks and complex centralised bureaucratic administration."*<sup>15</sup>

- Similarly, a report for the DTI and the ODPM based on a surveys of Structural Funds stakeholders generating 1,358 responses, found that stakeholders considered the SCF more cumbersome than domestic funding. 60-65% of respondents felt that more or significantly more resources were required to implement and apply for SCF programmes, when compared to UK domestic programmes. Only 5% found the EU easier to deal with. The study noted:

*"Administration processes are widely described as a burden and more resource intensive than in the case of domestic programmes, despite efforts to streamline and improve some aspects...despite the rigour of the processes and investment in supporting applicants to meet their requirements, there is no clear evidence that this has resulted in better quality, more effective projects offering better value for money."*<sup>16</sup>

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<sup>14</sup> House of Commons Work and Pensions Committee "European Social Fund" Sixth Report of Session 2002-03 Volume I.

<sup>15</sup> Quoted in *Open Europe*, "The EU budget: a historic missed opportunity", 20 December 2005.

<sup>16</sup> DTI/ODPM, "Evaluation of the Added Value and Costs of the European Structural Funds in the UK", November 2003.

### **The SCF process (in brief)**

1. BERR negotiates on behalf of the UK Government on how the money allocated from the EU budget to the Structural and Cohesion Funds is distributed.
2. The UK's Convergence Objective allocations (including phasing in and phasing out) are ring fenced. The UK decides how its Competitiveness allocation is allocated, on a recommendation from the European Commission. The UK also decides how its Convergence and Competitiveness allocations are divided between the ESF and the ERDF.
3. BERR drafts the National Strategic Reference Framework (NSRF) which has to be within the scope of the Community Strategic Guidelines. When consulting on the draft NSRF stakeholders also have an opportunity to give their views on the Government's proposals for allocating its Structural Funds allocations under the Competitiveness Objective; and administrative arrangements for delivering the Funds in the UK during the next budgetary cycle.
4. Once the NSRF has been published, those responsible for the Operational Programmes (OPs) set out in the NSRF begin drafting their Programmes within the scope of the NSRF.
5. The Commission accepts the OPs, their allocations and the additionality tables set out in the NSRF. Once this has been accepted then OPs can be adopted and money made available.
6. Once approved stakeholders can apply for funding through the Managing Authorities' intermediate bodies, for example RDAs for English ERDF programmes. EU funding for each project must be matched by (in most cases) equivalent domestic public money and in addition can include non-public funding.
7. Each OP has a Programme Management Committee (PMC) which sets the rules for the approval of projects and monitors activity from a strategic perspective. The intermediate bodies approve projects in accordance with these rules and the Commission Regulations.
8. The certifying authority in the member state provides additional assurances that money given to projects is in accordance with EU regulations and then reclaims this money back from Commission.
9. The Commission and the audit authority in the member state carries out ongoing audits to ensure that EU Regulations are being met.
10. Spending that does not meet the EU Regulations is deemed ineligible and is not reimbursed by the Commission.

Source: E-mail from BERR, 10 October 2007.

- The report also quoted a respondent from Wales, saying that it may be instructive to compare “the relative ease of running Higher Education Economic Development funds which are run directly by HEFCW with the pain and complexity of KEF (Knowledge Exploitation Fund) which includes ESF and ERDF funding.”<sup>17</sup>
- In the last round of funding, bureaucracy was perceived to have increased. A 2003 report compiled by academics and civil servants from nine different countries, stated that “The administrative burden associated with the Structural Funds is of universal concern and is perceived to have increased significantly in the 2000-2006 period.”<sup>18</sup>

### 3.2 The cost of the extra bureaucracy

- As extra bureaucracy exists on every level, it is of course a matter of common sense that the SCF also impose unnecessary costs on every level – and that there are savings to be made by cutting out these unnecessary tiers.

#### (i) EU level costs

- First, the EU level. It is difficult to get accurate figures for how much is spent running various programmes at EU level as management is split between various different Directorates General.
- As a very rudimentary calculation, if 5.5 percent – the headline figure the Commission uses for overall administration expenditure in the budget – of the SCF budget is absorbed by administration, the EU spends some €2.73 billion a year on administering the SCF – which on average is €101 million (£70m) per member state, per year.<sup>19</sup>

#### (ii) Central Government

- An FOI request to the DTI/BERR seeking information on the administration costs of the EU funding negotiation, implementation and monitoring processes for the SCF in the UK for the period 2000-2006, was denied, as “It would take more than 24 hours to locate and retrieve the information and to calculate the figures relating to the negotiation process.”<sup>20</sup> We were told that neither the DTI/BERR nor any other department hold such information.
- But there are of course significant costs also for each Whitehall department involved in the SCF – the DWP, BERR, Treasury, DEFRA, CLG, DFT and DCMS. For the DWP, the yearly administrative cost involved in the ESF is £10 million. (This is almost certainly an underestimate).<sup>21</sup> BERR is likely to spend a similar amount. Up to £20 million of the CLG’s central administration cost is absorbed by administering

<sup>17</sup> Ibid.

<sup>18</sup> Bachtler, John & Taylo, Sandra, *European Policies Research Centre*, “The Added Value of the Structural Funds: A Regional Perspective”, June 2003.

<sup>19</sup> *European Commission*, “EU budget in detail”, 2007.

<sup>20</sup> Freedom of Information Act case no 07/0301.

<sup>21</sup> *House of Commons Work and Pensions Committee* “European Social Fund”, Sixth Report of Session 2002–03 Volume I.

the ERDF.<sup>22</sup> Interestingly, in the UK there have been no proper studies that have sought to calculate the administrative costs of the SCF to the central Government. If costs for the other departments are equivalent for those we have figures for (£10 - 20m) then the total cost for central government departments could be in the region of £70 - 140 million with a central estimate just over £100 million.

### The Committee of the Regions

- Nothing sums up the wastefulness of the EU's institutions as well as the Committee of the Regions (CoR). A hotbed of pointless meetings and unnecessary studies, this body costs some €140 million a year.
- In addition, the committee has repeatedly been charged with fraud and corruption. Dutch MEP and former assistant auditor of the Financial Control Directorate, Paul van Buitenen - the whistleblower who brought down the EU Commission in 1999 - said of the CoR that,

*“OLAF...has confirmed through investigation that corruption has taken place there over a number of years. The Committee works with local and municipal bodies in the member states and encourages them to engage with Brussels. However, no important decisions are made on the recommendation of the committee so one could basically abolish the organisation completely.”<sup>23</sup>*

- In addition to the Committee of the Regions, the EU maintains several other committees and groups relating to the SCF. Some €70 million is spent, for instance, under the label “Working in Europe: Social dialogue and mobility” and another €120 million on “Employment, social solidarity and gender equality”.<sup>24</sup> There is also the Assembly of the European Regions. Also the EU's Economic and Social Committee, costing some €120.000 million a year, is involved in the Structural Funds. It is far from clear what all these committees and groups actually *achieve*.

### (iii) Regional Government

- And then there is the cost for the regions and the devolved administrations. An evaluation of the Peace 2 programme in Northern Ireland concluded that out of the £641.2 million that was allocated for the programme, £57.1 million - or 11 percent - was absorbed by administration.<sup>25</sup>
- A report from the Scottish Parliament put the figure for administering the SCF in Scotland at £30.9 million, equivalent to 10 percent of the funds allocated.<sup>26</sup>

<sup>22</sup> CLG, Annual Resource Account 2006-2007, available at, <http://www.communities.gov.uk/documents/corporate/pdf/451812>

<sup>23</sup> *Deutsche Welle*, 2 April, 2007.

<sup>24</sup> *Official Journal of the European Union*, Volume 50, 16 March 2007, available at <http://eur-lex.europa.eu/JOHtml.do?uri=OJ:L:2007:077:SOM:EN:HTML>

<sup>25</sup> The figure comes from Northern Ireland's Brussels representative Jim Nicholson, and was reported by *PA*, September 10, 2007.

<sup>26</sup> *Scottish Parliament*, European and External Relations Committee Official Report 6 June 2006.

- The English GOs and RDAs (and at present regional assemblies) cost £366 million to administer. It is not possible to distinguish between the administrative costs created by the SCF and other spending. Nor would it be possible to get rid of the regional tier while the EU's current spending framework stays in place.

Region	Admin cost, RDA	Overseas spending, RDA	Admin cost, Government Office for Region	Grants, Regional Assembly	Total
North East	22,607	836	13,055	2,073	38,571
North West	38,144	577	17,400	3,045	59,166
Yorks & Humber	19,290	606	13,286	2,339	35,521
West Midlands	20,000	1,056	14,972	2,518	38,546
East Midlands	16,000	375	11,496	2,507	30,377
East	10,900	180	12,672	2,469	26,221
South West	19,290	672	14,766	2,470	37,198
South East	21,222	443	14,095	3,771	39,531
London	29,500		17,881	65 (admin)	112,381
<b>Total</b>	<b>166,063</b>	<b>4,745</b>	<b>129,624</b>	<b>21,436<sup>27</sup></b>	<b>366,868</b>

Sources: GLA, Greater London Authority Consolidated Budget 2006-07, February 2006, p.9; Hansard, 19 July 2007, col.494W; Hansard, 22 May 2006, Column 1460W; Hansard 10 May 2006, col. 376WA onwards; Hansard, 11 January 2007, column 738WA.

- Assuming Wales faces similar costs to Scotland and Northern Ireland, the total admin cost of the regional tier will be approximately £500 million a year.

(iv) Total

- Taking into account the administrative costs of the EU, national and regional policies suggests that even while spending the same amount of money on regional / regeneration policies as at present, it would be possible to save up to £670m in administrative costs by sweeping away the costly bureaucracy involved in the EU's regional policies and replacing it with targeted tax breaks.

Share of EU admin per member state	£70 m
Cost for central Government	£100 m
Cost of Regional tier	£500 m
Total	£670 m

- Alan Johnson has argued that,

*“Devolving the delivery of regional policy in support of common objectives to Member States would entail less red tape and bureaucracy. The Italians believe it is more efficient to recycle funds through Brussels than through Rome. That's an issue for the Italians. We believe that actually we could introduce huge cuts in bureaucracy and rid ourselves of the frustration of dealing with that process by*

<sup>27</sup> Figure include £244,000 for the English Regions Network.

*having a properly structured, debated and set out method, whereby, richer European Union countries did not go through that wasted process.”<sup>28</sup>*

### 3.3 Costly bureaucracy for recipients too

- For smaller firms and organisations, the EU’s requirements for accounting and record can be a nightmare. Lib-Dem MP Archy Kirkwood argues:

*“At the end of the day, the amount of accounting and record keeping is an issue. The famous example is the need to keep records for 12 years. Of course, if a motorway is being built under objective 2 of the European regional development fund, such a requirement might well be necessary to protect public money. However, if someone is running a little café as an intermediate labour market opportunity for the mentally ill in Aberdeen, as was the case with a project that the Committee visited, the requirement to keep records for 12 years seems bizarre, overdone and unnecessary.”<sup>29</sup>*

- These types of disproportional rules have led to scenarios where, for example, one training organisation funded by the ESF with only 12 trainers had to employ five support staff in order to fulfill all the administrative requirements.
- Of course, public money needs to be properly accounted for, but the entire structure of administrative control and audit seems to be both disproportionate to the amount of funds given and out of touch with economic reality. As the DTO/ODPM report pointed out, there is little evidence that the rigorous regulations have actually led to better and more efficient spending (see section E on fraud).
- Actors with limited resources, such as small or struggling firms and community or voluntary organisations, have a particularly hard time absorbing these costs. Therefore, those possibly in most need of the funds are naturally also the ones worst at applying. As Lib-Dem MP Paul Holmes, speaking of the ESF, puts it:

*“Larger organisations...may be able to absorb some of those costs into their much wider overheads, but smaller organisations may be completely put off. One of the points of ESF funding is to encourage localised, small-scale community initiatives that are bottom up rather than top down. Those are all different issues that relate to the bureaucratic process.”<sup>30</sup>*

- It is easy to see how such excessive red tape often offset potential benefits, and deters organisations in need of grants from applying. In 2003, Wiltshire College applied for ESF money. Under EU-regulations, the college principal had to provide the local learning and skills council with information on the 2,000 learners enrolled in the college, in order to access the funds. Only 10 percent – or 200 – of those learners were in the scheme funded by the ESF, but the college was still required to provide information for all 2,000. Although approved, the College found that the time

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<sup>28</sup> London Partners/House of Commons, 2003.

<sup>29</sup> Hansard, 17 Jun 2004 : Column 275WH.

<sup>30</sup> *Ibid.*

and resources it took to collect the data outweighed the benefits of the funds and chose not to re-apply.<sup>31</sup>

- British proposals to simplify and streamline the regulations have also been found to conflict with the Commission's rules. For example, a type of fast-track procedure for projects of less than £50,000 – which would make life a lot easier for smaller players – was discarded as it did not comply with the Commission's rules on open and competitive tendering. Similarly, the UK attempted to drop the requirement to keep records for 12 years, but was found to be in breach of EU-regulations and had to give way.<sup>32</sup>

## **(B) Lack of coordination with national policies**

### **4.1 Duplicating national initiatives**

- One of the Commission's main criteria for granting Structural Funds is the principle of *additionality* – essentially the idea that EU funding should complement and add value to domestic funding. The evidence as to whether the EU adds value is critical as much of the EU's justification for running a regional policy rests on this very concept. After all, why otherwise involve Brussels in *regional* matters?
- However, the Treasury has admitted that, "It is not clear that the use of Structural Funds adds significant value in comparison to domestic initiatives."<sup>33</sup> In the UK, both EU and Government spending are often aimed at identical outcomes, such as new and small firm development, education, sustainable development, innovation, etc.
- A mid-term review of Objective One funding in Wales sampled a number of projects under different objectives and priorities.<sup>34</sup> It concluded that most ESF projects would have happened also without EU aid and noted that, "In terms of policy additionality, few of our project sponsors believed that the Objective One programme had of itself stimulated or produced novel policy approaches."
- And a report for the DTI/ODPM argued that, "There is no conclusive evidence that projects supported by the Structural Funds are consistently and substantially different to those funded by domestic initiatives in terms of the type of their quality or effectiveness. Evidence is weak in this area."<sup>35</sup>

### **4.2 Restrictions on what SCF money can be spent on**

- The flip side of the SCF duplication of national spending programmes is that EU rules mean there are various types of activities which SCF cannot be used to fund.
- For example the SCF cannot be used for schooling or social housing projects. Stephens (1999) noted that "Arguably, the current asymmetry between allowing

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<sup>31</sup> *Ibid.*

<sup>32</sup> *Hansard*, 17 Jun 2004 : Column 275WH.

<sup>33</sup> *HM Treasury*, 2003.

<sup>34</sup> *CRG Research, Cardiff University & Fitzpatrick Associates*, "Mid-term Evaluation of the Objective 1 Programme for West Wales and the Valleys", September 2003

<sup>35</sup> Jan Shury et al. "A quantitative survey of companies supported by European Social Fund Objective 3", *Department for Work and Pensions*, Research Report No 361.

European funds to be used to attract physical capital, but excluding housing as a key aspect of enhancing human capital, is itself a breach of subsidiarity.”<sup>36</sup>

- An example is Cornwall – the only region in the UK that will receive Objective One funding throughout the 2007-2013 financial perspective. One of the main problems in Cornwall is the disproportionately high property prices, due to the number of houses sold as second homes to wealthy outsiders (estimates vary – some argue levels are as high as up to 50% in some districts). In some areas the average house price is 17 times the average annual income in the region – while average income, in turn, is 25 percent below the national average. As a consequence, Cornwall has seen what MP Matthew Taylor calls a “shocking” rise in the number of people seeking social housing.<sup>37</sup>
- In this scenario it would be sensible to at least have the flexibility to direct Structural Funds towards social housing – and so meet a clear need in the region.
- Given the absence of evidence supporting any significant impact of the SCF, these regulations emerge as an incredibly unnecessary restriction on the UK’s regional development policies. Gordon Brown himself has admitted that “There are many things that we want to do to encourage local skills and research and development, and local businesses, but we’re not able to do because of the existing rules.”<sup>38</sup>

#### 4.3 Conflicting strategies

- And of course, in some instances, EU rules mean that funds are spent on projects which the member states do not regard as a priority. The UK’s and the EU’s development strategies can conflict – something the Government readily admits in its 2003 policy document.<sup>39</sup>
- Through the “matching” system, the risk is that the UK Government ends up spending money on projects it does not necessarily prioritise itself. Stephens argued that this system can lead to major “welfare waste” – the opportunity costs that arise from the restrictions on the use of funds which may lead to their use on projects that do not maximise welfare.<sup>40</sup>

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<sup>36</sup> Quoted in *Open Europe*, 2005.

<sup>37</sup> *Observer*, 19 November, 2007.

<sup>38</sup> *BBC*, 6 March 2003.

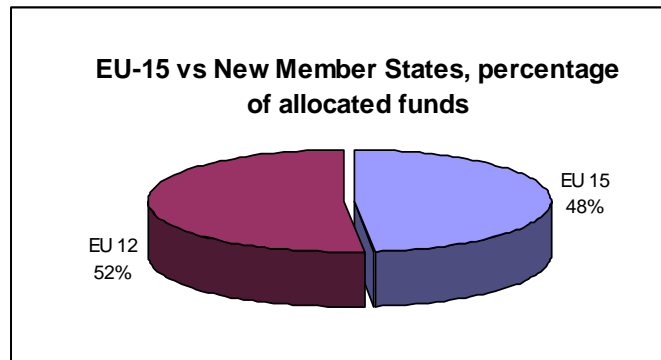
<sup>39</sup> *DTI/ODPM*, 2003.

<sup>40</sup> Quoted in *Open Europe*, 2005.

## (C) Failure to target money on the poorest areas

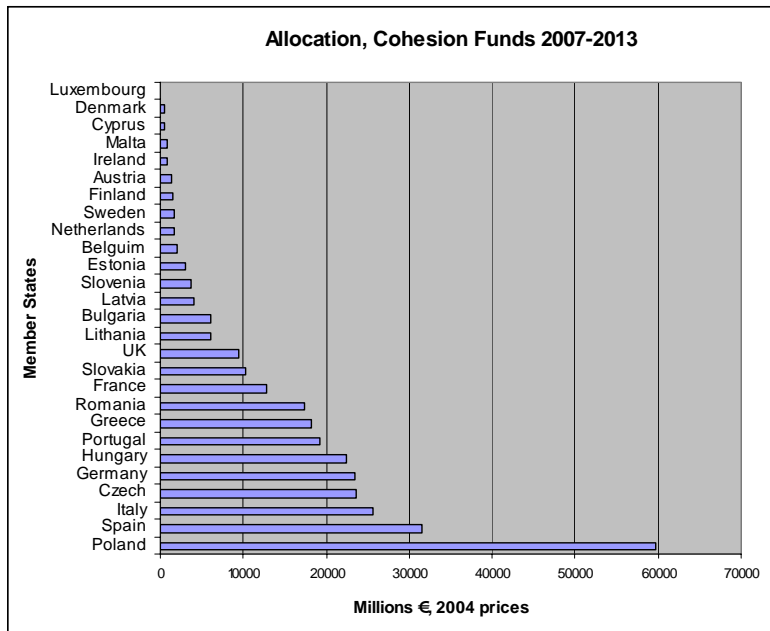
### 5.1 Spending is off target at several levels

- 48 percent of the SCF - or close to €150 billion for the 2007-2013 period - still goes to the bloc's 15 richest member states.<sup>41</sup> And the aid is not reserved for the poorest regions even in these countries - every single region is a recipient of EU money in some form.



Source: Inforegio 2006

- The large amounts of money spent in richer member states highlight the problems with the targeting of the SCF. The lack of focus is two-fold: First, money does not sufficiently go to areas where poverty is a real problem. Small sub-regional pockets are often omitted. Secondly, the money is too often spent on projects with questionable long-term economic merits. In short, the money is not spent where it can do the most good.



Source: Inforegio 2006

<sup>41</sup> Inforegio 2006.

## 5.2 Failure to target poorer pockets within larger regions

- One of the most fundamental criticisms of the SCF is their failure to specifically target smaller pockets of poverty that can exist within a region. Since all funds are calculated and allocated based on larger regions, local areas can lose out. This is a major shortcoming in a country such as the UK, where local pockets of poverty often exist within affluent larger areas. In urban areas, for example, discrepancies can come down to as small units as a block of council estates. As a development tool, the SCF are way too inflexible to address such gaps.
- The South East is a good case study. In 2004, the South East was the 13<sup>th</sup> wealthiest region in the EU<sup>42</sup> with a household disposable income 12% above the national average. The region was unsurprisingly given Objective Three status – which reflected its wealth levels – and was granted close to £300 million for the 2000-2006 financial perspective.<sup>43</sup>
- However, within the South East there are smaller areas of economic deprivation such as Hastings, where 27 percent of all children come from families living on out of work benefits.<sup>44</sup> This and other indicators make it one of the most deprived areas in England. But Hastings is situated within the NUTS 3 region of East Sussex, which has a GDHI above the national average. NUTS 3 is the smallest unit in the EU's classification system. Consequently Hastings is completely omitted. For the 2000-2006 financial period, it has only been given ESF grants worth £1.1 million. This translates into 0.4 percent of the total ESF amount given to the South East.<sup>45</sup>
- Likewise, some parts of Thanet belong to the one percent of the most deprived areas in the UK.<sup>46</sup> Its NUTS 3 region, however, is Kent, whose GDHI is above the national average. Thanet received some £1.8 million from the ESF over a six year period. Although both towns get substantially more money from the ERDF, it still seems rather odd that they would end up with so little money from the ESF.
- In comparison, Canterbury – a wealthy area by all measures – has been given some £2.6 million from the ESF.
- Examples like these seem to suggest that a substantial share of the SCF ends up in areas which, comparatively speaking, are not in need of the money.
- We used the ACORN system for UK postcodes – which categorises the UK population according to income, lifestyle choices and a whole range of demographic statistics – to get an idea of where the SCF actually end up. In the South East, we found that postcode areas whose populations are classified as “wealthy achievers” received 5.5 percent of the funds. The upper half of the population, from the “wealthy achievers” to “secure families” in the “comfortably off” category got almost 30 percent of the money granted. Only 10 percent of the funds had gone to the bottom one fifth

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<sup>42</sup> According to the GVA measure.

<sup>43</sup> DTI/BERR, UK Structural Funds Allocations 2000-2006.

<sup>44</sup> *End Child Poverty*, 2007. Available at <http://www.ecpc.org.uk/south-east.html>.

<sup>45</sup> *South East Government Office* 2007, List of all projects by post code and ESF value.

<sup>46</sup> DWP, “Indices of Multiple Deprivation 2007”, available at, <http://www.communities.gov.uk/communities/neighbourhoodrenewal/deprivation/deprivation07/>

of households that fall under the category “hard pressed”. For the upper categories, we excluded grants that have been given to councils under general headlines, as opposed to specific projects. It is fair to assume that lump sums given to councils are redistributed elsewhere.

- As said, one of the major problems with evaluating the SCF is the poor quality of the available data. The South East is the only region that provides detailed information on where its SCF money has gone in terms of smaller units. In virtually every other region, data is only available for the NUTS 2 level – at best. As discussed above, this is not very useful if we want to investigate whether the funds in reality are targeted at areas where they can do most good.
- However, if we assume that the South East is indicative for the UK as a whole and using the SCF allocated to the UK for the 2000-2006 financial period, which is around £10 billion, more than £3 billion has gone to the top 50 percent of the population in terms of wealth. The wealthiest 20 percent have received about £550 million from the SCF. Meanwhile, as little as £1 billion has gone to the bottom 20 percent of the UK’s population. Even assuming that all the grants that have been given to Councils in the wealthiest areas have been redistributed to the bottom 20 percent (something that seem very unlikely), the bottom one fifth has only been granted £3 billion out of the £10 billion given to the UK.
- This is a rough estimate, but it does show how off target the SCF are.

#### **(D) Failure to channel money towards projects which create real jobs and growth**

##### **6.1 Spending is not focused**

- The long-term economic merits of many of the actual projects that receive money are debatable. In fact, the range of projects that benefit from the SCF is staggering and the link to the Lisbon agenda too often unclear. A 2007 OECD study noted:

*“Cohesion policy aims to reduce regional disparities and encourage economic convergence. Its record so far has been patchy... The budget is too small to make a real dent in income gaps, so the challenge is to get the maximum benefit from the available funds by making sure member states focus on activities that will spark sustainable growth.”<sup>47</sup>*

- And the Sapir report argued that,

*“Indeed, not only does the current EU cohesion policy cover virtually all countries, but it can also finance a very wide and dispersed set of activities, without necessarily prioritising those investments with the greatest impact on growth. This unfocused policy design hampers the aim of fostering growth and economic development in the EU and it must be discontinued. Although some improvement has taken place in recent years, a quantum leap towards greater focusing of the use of money and the choice of beneficiaries is now certainly warranted.”<sup>48</sup>*

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<sup>47</sup> OECD, “Economic survey of the European Union 2007”, 20 September 2007.

<sup>48</sup> Sapir et al. 2003.

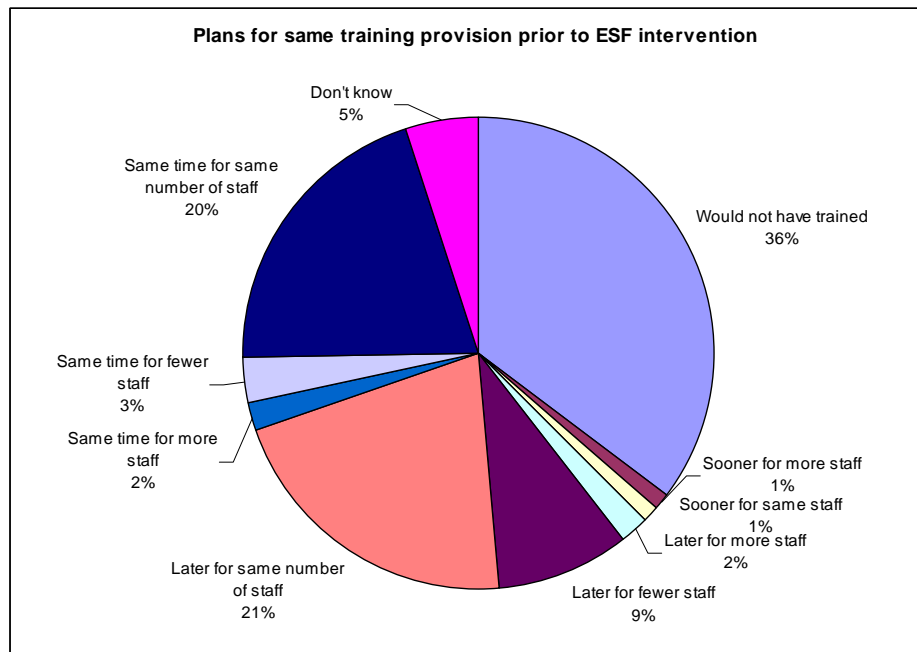
- However, as argued in the OECD report and as noted above, this “quantum leap” has not happened. The reforms ahead of the 2007-2013 financial period will not make any significant difference, and the SCF are likely to be spent all over the place also in the future.

## 6.2 Paying for things that would have happened anyway

- A 2006 Court of Auditors’ report on the implementation of the Structural Funds, noted that in the UK, the ESF programme has had,

*“Very modest success in securing sizeable net movements of individuals into the labour market who were previously outside it...support tended to reinforce existing patterns of training within companies in which well-qualified individuals generally receive more training.”<sup>49</sup>*

- A report on the ESF by IFF Research on behalf of the DWP noted that vocational training – such as advice or guidance, or ‘instructional’ presentations, seminars or workshops – accounted for almost 80 percent of the ESF support given.<sup>50</sup> However, in 77 percent of the cases, the training was intended to improve existing skills, rather than being aimed at people outside the job-market. In a quarter of cases, beneficiary companies would have trained a similar or larger proportion of staff to a similar or earlier timeframe. Only 36 percent would not have trained the staff.



Source: DWP/ IFF Research 2006

<sup>49</sup> Court of Auditors, “Special report No 1/2007 concerning the implementation of the mid-term processes on the Structural Funds 2000-2006”, May 6, 2007.

<sup>50</sup> Jan Shury et al. “A quantitative survey of companies supported by European Social Fund Objective 3”, Department for Work and Pensions, Research Report No 361.

- If this is indicative for the ESF as a whole, of the roughly £10 billion the UK is spending through the ESF, running between 2000 and 2008 (£4.5 billion from the EU, £5.5 billion from the UK Government)<sup>51</sup>, over £6 billion was spent on improving existing skills in the work place rather than retraining, or helping unemployed and inactive people to enter the job market – something said to be one of the ESF's main objectives.
- Furthermore, the chart above suggests that at least £2 billion was spent on projects that, according to the beneficiaries themselves, would have taken place even in absence of the funds. Adding the beneficiaries who said that the same number or more staff would have been trained, but within a different timeframe, the figure is some £3.8 billion.
- In other words, the UK is currently spending between £300 million and £540 million a year via the EU on training workers that would have been trained anyway.

### 6.3 Spending on wasteful projects

- A glance at the various projects across Europe receiving funding highlights the problems mentioned here. Indeed, the funds are spent on everything from goat farms in Northern Sweden to street theatres in Greece. Looking at the actual projects, a few observations reassert themselves:

- 1) In theory, the objectives centre around the Lisbon goals, but in practice the list of eligible activities is too long and too unfocussed.
- 2) Projects are often inflated and adjusted to receive funds and meet the EU's criteria, rather than being based on economic opportunity.
- 3) As a consequence, projects are often unsustainable and dependent on ever more grants to survive.
- 4) Too much money goes to areas and projects that are not in need of the funds, or where the funds are unlikely to create long-term wealth – or both.
- 5) EU regulations are too inflexible and out of touch with the reality on the ground.

A few examples serve to illustrate:

- In Italy, a £20 million EU-funded reconstruction of Thomas Cook's 19th-century funicular railway is currently taking place, for the purpose of transporting tourists to the top of Vesuvius in Italy. The only problem is that there is a "one-in-two" chance of the volcano erupting in the next few years. Alessandro Crocetta, a spokesman for the regional transport authority, simply said: "Well, if it erupts, it erupts."<sup>52</sup>
- The railway project is part of a £5.5 billion transport project in Italy. However, Italy's record with these types of projects is not convincing. A 2002 study of an €800 million EU-funded investment project to modernise the rail network in southern Italy, concluded that 50 percent of the network had been electrified after all projects had been completed, compared to "just under half" before the funding began. Likewise, despite the grants, 75 percent of railways in southern Italy have remained single

<sup>51</sup> See, [http://www.esf.gov.uk/02\\_About\\_ESF/01\\_ESF\\_Structure/15\\_What\\_ESF\\_does.asp](http://www.esf.gov.uk/02_About_ESF/01_ESF_Structure/15_What_ESF_does.asp)

<sup>52</sup> *Daily Telegraph*, 16 May, 2007.

track lines. It is unclear exactly where the money has ended up, but syndicated crime – with the mafia for example controlling 12 percent of the construction business – is the prime suspect according to a report in *Der Spiegel*.<sup>53</sup>

- In the UK, ERDF has often tended to be directed towards various regeneration projects, such as art centres and town halls. An artificial lake in central Bradford, or a “glowing” medieval village in Barnsley, as part of the town’s “Remaking Barnsley” plan are examples of projects that do little to boost growth and competitiveness.
- In Wales, 200 local people living in Tregarth, Rhiwlas and Mynydd were granted several thousands from the ESF to pay off a loan it had obtained to buy a mountain. The mountain was meant to be used as a centre to develop recycling, organic farming and woodland management. The centre was also meant to provide training for stonewallers.<sup>54</sup>
- In the South East an ESF grant was given to a “café van”, whose owner is meant to tour the country for the purpose of teaching builders about sustainable development.<sup>55</sup>
- A grant of £108,000 was given to the International Federation of Actors, to investigate why older women only get “stereotypical” roles. The funding will pay for a survey to be executed among film and TV producers as well as actresses in all EU-member states.<sup>56</sup>
- Grants from the ESF have also been given to fund golf seminars in Dublin, Ballinrobe and Limerick, entitled “Pace of Play and how to manage it”. The idea behind the seminars is to illustrate to players “the secrets” of how to change the mentality of club members in accepting and developing a system for a “pace of play” strategy in their club.<sup>57</sup>
- Riverbirds Youth Club in London has been given £9,913 from the ERDF for a six month hairdressing and nail beauty course for traveller women.<sup>58</sup>
- In Holtland in north-western Germany, a €150,000 bike shed was built, after the project was inflated to meet the threshold for EU’s Village Renewal Programme (under the ERDF). In other words, the villagers had to find ways to make the bike shed as expensive as possible. The result is an over-sized brick building with a tiled roof, standing at the entrance of the town. “We really wanted to build just a simple shelter with a few bike racks”, said Uwe Themann, head of Holtland’s town council.<sup>59</sup>
- Incidentally, in Sweden, “green” bike sheds received grants worth thousands of euros, simply because their roofs were covered with grass and were therefore seen as eco-friendly.

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<sup>53</sup> *Spiegel Online*, 22 March, 2007.

<sup>54</sup> *Guardian*, June 11 2003.

<sup>55</sup> *Building*, October 27, 2006.

<sup>56</sup> *PA*, December 6, 2007.

<sup>57</sup> *The Sligo Weekender*, 20 November 2007.

<sup>58</sup> See, <http://www.gle.co.uk/services/Programmes/FFG-ProjectSummaries07-08.htm>

<sup>59</sup> *Western Mail*, December 20, 2005.

- In the village of Betheln in Lower Saxony, Germany, a mayor promised to build a barbecue pavilion and raised the €18,000 needed to complete the building, but soon realised that the EU was more than happy to fund the project – if it only was made expensive enough. Arguing that the project would promote rural tourism, the mayor had to bring spending in line with EU criteria and eventually received grants worth €120,000. The pavilion was completed and looks great – but the tourists have reportedly been absent.<sup>60</sup>
- Hamelin in Northern Germany launched a project called “The Renaissance Experience World” – turning a small museum into “five historical scenes along the Weser River”. The project was inflated, and the planners opted for the most expensive technology available. But things did not work out according to the plans. The cost of the project kept on ballooning, and in addition to the Structural Funds, the state and the region of Lower Saxony had to pour in vast sums of tax money into the project in order to avoid bankruptcy. Instead of the expected 185,000 visitors, the “museum” has attracted only 20,000. Meanwhile, the cost of the project has gone from €2 million to €18 million.<sup>61</sup>
- Holtland in Germany also got EU grants to restore its old mill, but despite the mill now being in full working condition it cannot be used – because it violates the EU’s hygiene requirements.
- The Coigach peninsula in the northwest Highlands is a town of some 240 people. The town was given money from the ESF to build a £125,000 piping school, despite the fact that there already are two well-established similar facilities in Glasgow. The second year saw 79 students showing up, and the project seemed on track. This was also the year a delegation of the ERDF visited the facility, which led to a largely positive report on the project. However, already in 2004 the number of students had dropped to 33. 2005’s turnover was just £3,300, way under the projected turnover, and the project continues to struggle and has had no visible impact on the community.
- Another ERDF-project was intended to supply at first five communities, Coigach among them, and later 50 areas with broad-band technology in a £2.6 million scheme. However, BT announced just two months later that virtually every house would soon receive broadband for the usual subscription fees. Despite this making the whole project completely redundant, a £800,000 grant was paid out in a first instalment. It has been noted that Coigach, in fact, is not particularly fragile at all, with population growing and unemployment rates remaining low.<sup>62</sup>
- Across Europe, the support earmarked for enterprises and enhancement of the business-climate is too often spent on inefficient or odd projects. Often precisely because projects follow the regulations governing the funds, rather than economic opportunity. In the Ruhr area in Germany, the Commission’s propensity to prioritise projects in the high-tech, media or software sectors generated a disproportionate

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<sup>60</sup> *Ibid.*

<sup>61</sup> *Spiegel Online*, 22 March, 2007

<sup>62</sup> *Times*, 8 January, 2006.

number of applications for such projects, leading to several misdirected “foundation centres” and “media parks”, now standing largely empty.

- One example of failed business support, which *Der Spiegel* calls “one of the most bizarre monuments of [the EU’s] subsidies programs”, is the “Tropical Islands” indoor water park in Brand, close to Berlin. The building is 1,181 feet long, 689 feet wide and 351 feet tall and is home to all kinds of water attractions. The scheme has in total absorbed some €59 million – several millions have been drawn from EU funding - including the cost of converting and maintaining the giant building. But, as German Green MEP Elisabeth Schroedter says, the entire project was “economically and environmentally questionable” from the start, with just the cost of heating up the building being astronomical. The Tropical Islands has managed to attract less than a million visitors – the projected number was 2.5 million – and it remains unprofitable and dependent on grants to survive. Originally, the building was meant to be used as a factory for cargo blimps.<sup>63</sup>
- Two EU-funded projects in the north of Sweden got caught in a strange catch-22 situation. The companies were meant to digitalise picture archives – something for which there was limited demand in the first place. The support was aimed at business-creation and the companies were also meant to offer job opportunities for disabled workers. However, the two companies essentially handed jobs to each other and paid with EU money. This circulation came to a halt when one company fell out with the EU’s auditing and accounting regulation and could not pay the other company, since the funds were frozen. Two EU financed projects had to be simultaneously terminated and several hundreds of thousands just went down the drain.<sup>64</sup>
- Northern Sweden has seen several other EU projects that seem unlikely to boost the region’s competitiveness. Several hundred thousand euros have been paid out to goat and sheep farms. Such projects will almost inevitably depend on ever more grants to survive.<sup>65</sup>
- Projects can be even odder. In Tampere, Finland, the “Creative Tampere” programme, aimed at boosting business under the ERDF, with a budget of some €12 million worth of EU funds, has given grants to “city clowns”, whose purpose is to contribute to the well-being of the town, by simply walking around entertaining the public.<sup>66</sup>
- Likewise, projects pursued under the ESF are too often inefficient. A parliamentary report in the Netherlands in 2001 revealed that a gigantic £3 billion ESF job-creation scheme had not led to any new real jobs.<sup>67</sup> Enough money is often granted to train a great number of workers several times around, but unemployment remains unaffected.

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<sup>63</sup> *Spiegel Online*, 22 March, 2007.

<sup>64</sup> *Sundsvalls Tidning*, 2 February, 2002.

<sup>65</sup> See, <http://www.bd.lst.se/publishedObjects/10001244/030219.pdf>

<sup>66</sup> *Helsingin Sanomat*, 23 May, 2007.

<sup>67</sup> *Het Financieele Dagblad*, August 25, 2001.

- As noted above, under the Interreg Programme, money is spent on projects such as “The Transmanche Electronic Atlas” and a separate regional assembly for the Transmanche region. The total budget for the Transmanche programme is over €100 million.<sup>68</sup>
- In the Öresund region in Sweden/Denmark, €150,000 is spent on a project called “music in our time”, aimed at integrating Swedish and Danish composers. A similar grant has been given to garden societies on both sides of the strait, for the purpose of encouraging interaction in the fields of gardening and flora.<sup>69</sup>
- Similarly, the EU directs substantial amounts of money towards various cultural-type projects under the ERDF and the ESF. Some £300,000 was granted a “Democracy Museum” and a local “story telling society” in Northern Sweden.<sup>70</sup>
- In the new member states, much of the money has not reached the intended recipients – only 26 percent of the funds granted to the new member states was paid out between 2004 and 2006.<sup>71</sup> Giving large amounts of grants without having in place a corresponding institutional structure often leads to problems.
- One example is the infamous Polish “road to nowhere” – a project involving several millions of euros. A route was planned to link Wroclaw in the south west to Bialystok in the north east. However, inadequate planning meant that the two halves ended up about five miles apart when construction ended.
- In Romania and Bulgaria PHARE and SCF have often suffered from what the ECA calls “overambitious targets and deadlines”. A €3.1 million bridge linking Romania and Moldova with no access road on the Moldovan side is one example.<sup>72</sup>
- A project in Romania entitled “Modernisation and Development of Tourist Infrastructure in Piatra Neamt”, was given €2.3 million. The ECA notes that the project title was “misleading”. The money had gone to a bridge and a 3 km street regularly used by local traffic. The area originally intended for the project contained an eyesore and an empty Olympic-size swimming pool.<sup>73</sup>
- Other examples include a public prosecutor's office in Bulgaria that was granted a €1.8 million computer system, but where 37 work stations were found in a store room, and a newly-built asylum centre in Romania that had an occupancy rate of just 7.6 percent.<sup>74</sup>
- A £1.5 million community centre in Newcastle was given ERDF grants to host a “winter festival”. Activities included Indian head massages, garland-making and artist workshops, face-painting, a magician and a climbing wall.<sup>75</sup>

<sup>68</sup> See, [http://www.eastsussex.gov.uk/NR/rdonlyres/91AD1127-81AC-40FF-A73A-9317475DC467/0/interreg\\_newsletter\\_summer06.pdf](http://www.eastsussex.gov.uk/NR/rdonlyres/91AD1127-81AC-40FF-A73A-9317475DC467/0/interreg_newsletter_summer06.pdf)

<sup>69</sup> See, <http://www.interreg-oresund.dk/neobuilder.2005062209434860000027512.html>

<sup>70</sup> See, <http://www.bd.lst.se/publishedObjects/10001244/021127.pdf>

<sup>71</sup> *Spiegel Online*, 22 March, 2007.

<sup>72</sup> *European Court of Auditors*, Special Report 4/2006.

<sup>73</sup> *Ibid.*

<sup>74</sup> *Ibid.*

<sup>75</sup> *Evening Chronicle*, December 7, 2007.

- Newquay Children's Centre in Cornwall funded by the ERDF hosted a 'dads' day out' for children to spend quality time with their fathers.<sup>76</sup>
- Two glass artists were given ERDF grants to create sculptures by taking casts from the sand on the beaches at North Berwick and Whitley Bay, and craft wall mounted panels.<sup>77</sup>
- £2 million has been given to revamp a fish market in Devon. However, the project has had a hard time spending the grants. Much of the money now risks being wasted or paid back to the EU. Tim Jones, who sits on a Government committee overseeing the spending of Objective Two funding in the region, said that many projects in the area have experienced similar problems, suffering from planning delays, problems with contractors and match-funding issues.<sup>78</sup>

#### **6.4 Why EU funds go to wasteful projects – the focus is on getting the money spent, not spending wisely**

- One of the main reasons why the SCF are struggling to channel money towards projects and areas where they can do most good is the focus on absorption capacity rather than results. The Court of Auditors has pointed to problems with the Commission's so-called N+2 rule. The rule means that the commitment by the member states to spend the allocated funds must lead to payments within two years of being entered into the budget or the money will be cancelled. The objective behind the rule is to prevent unused funds from storing up and ensuring that the spending is well planned. However, the Court argues, it also provides a tremendous incentive for the member states to spend where the money can be quickly absorbed, rather than where it can lead to long-term and sustainable gains. In other words, the Commission prioritises spending fast rather than spending right.
- The report concluded that for the 2000-2006 financial period, "budgetary allocations were determined less by a well established development strategy and the effectiveness of the Structural Funds than by maximising likely take-up of funding."<sup>80</sup>
- A better solution would be to leave governments free to choose the investment project to be financed by EU grants, but oblige them to declare beforehand the expected results of the project. Disbursement of the funds could then be made in lump sums, and would depend upon reaching these results – rather than ability to spend. This is essentially the solution the Sapir report suggested. However, from such a system there is a very small step to bringing back regional policy to the national level altogether, which of course would be the most sensible thing to do.

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<sup>76</sup> *Cornish Guardian*, November 21, 2007.

<sup>77</sup> *The Journal*, December 14, 2007.

<sup>78</sup> *Western Daily Press*, October 29, 2007.

<sup>80</sup> *European Court of Auditors*, 2007.

## **(E) Fraud and mismanagement**

### **7.1 Complexity and scale leave the SCF vulnerable to fraud**

- Like all welfare and redistributive schemes, the Structural Funds are open to corruption and mismanagement. But as the ECA has pointed out, the Structural Funds are particularly prone to errors, due to the set-up. There are several reasons for this:
  - 1) The large number of programmes and projects which are implemented over several years;
  - 2) The large number of eligibility conditions which are hard to follow and sometimes open to divergent interpretations;
  - 3) The variety of entities and actors which for different reasons intervene in the management process;
  - 4) The large number of diverging countries and regions subject to the same centralised regulations.
- In other words, there are a great number of instances and intermediaries where fraud and mismanagement can take place. Due to its size and widespread nature, the SCF are simply unmanageable – proper auditing of the programme is virtually impossible. The Commission currently follows up only 5 percent of the projects which receive grants.

### **7.2 The extent of fraud**

- According to the latest ECA report, of the projects audited, only 31% "were found to be free from error". The ECA warned that there was a "high risk" that the project costs were "overstated" and that there were large numbers of claims for "ineligible expenditure." The report stated that there was generally "a lack of evidence to support the calculation of overheads or the staff costs involved." As well as criticising the member states' control of these funds it also criticised the EU Commission's supervision of how the funding was spent.
- The ECA found that at least 4 billion euros of the money that the EU Commission handed out "should not have been".<sup>81</sup>
- But the ECA only monitored some 90 projects. Its figures could well be underestimates. For example, Italy's tax and fraud investigator, Guardia di Finanza, noted in its latest annual report that €433 million worth of EU money was subject to outright fraud in Italy alone in 2006.<sup>82</sup>
- And there is no shortage of examples of fraud and corruption involving the funds. First, possibly most disturbing, the EU's institutions themselves have been subject to charges of corruption. The Committee of the Regions has come under investigation several times for mismanagement of accounts and irregularities over staff appointments and expenses claims.

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<sup>81</sup> *European Report*, July 10, 2007.

<sup>82</sup> Quoted in *Spiegel Online*, 22 March 2007.

- In fact, the ECA has found the CoR to be guilty of "breaches of the Belgian criminal code" and "systematic and flagrant incompetence".<sup>83</sup>
- In 2003, for example, several instances of fraud were detected. In one case, a high-ranking member of the CoR arranged fake meetings ahead of official meetings to be able to claim additional daily allowances, receiving some £7,000 before being caught. Another member claimed non-existent airline tickets for some €11,000.<sup>84</sup> Scandalously, Robert McCoy, the internal auditor at the Committee of the Regions who revealed the scams, was forced out of his job.
- In July 2007, several members of the Committee attempted to boost their pay checks by claiming that they resided in other EU countries.<sup>85</sup>
- Across Europe, corruption involving EU money is far too common. Some reports claim that up to 13 percent of the SCF in Poland are affected by fraud.<sup>86</sup> An ECA report in 2006 found that over half of EU funded projects in Romania and Bulgaria "are not operating as intended".<sup>88</sup> There are of course a series of rather conspicuous cases, such as a recent incident in the Liberec region in the Czech Republic, where the mayor forged documents and altered a building permit he needed for a project worth some €2 million, which he received from the Structural Funds.<sup>89</sup>
- But also in the EU-15 errors often occur. One of the bigger mismanagement cases in EU history, involved hundreds of millions of euros worth of ESF grants in the Netherlands. In Italy, a children's cancer centre in Avellino was given 4 million pounds in 1992. But the hospital has still not installed a single bed. Another hospital on EU grants was found to be used by the mafia as a weapons store.<sup>90</sup>
- And the UK is far from immune. A charity on ESF grants in the Midlands was meant to provide support and employment for 2000 adults with learning disabilities, but the charity's factory only employed 15 people with special needs - and they were all unpaid. Meanwhile, the boss awarded himself a substantial salary.<sup>91</sup> A more recent case in Durham in 2007 showed similar vulnerabilities in the system, with fake companies set up and fake services provided.<sup>92</sup>
- The UK's National Audit Office (NAO) has consistently pointed out that projects funded by the SCF lack adequate audit trails. In 2005, the NAO noted that "there is still a long way to go to secure the standards that the European taxpayers are entitled to expect."<sup>93</sup>

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<sup>83</sup> *Sunday Times*, August 1, 2004.

<sup>84</sup> *Financial Times*, April 14, 2003.

<sup>85</sup> *Irish Times*, July 10, 2007.

<sup>86</sup> *PAP News*, November 15, 2006.

<sup>88</sup> *Express*, 31 August 2007.

<sup>89</sup> *Czech News Agency*, August 10, 2007.

<sup>90</sup> *The Telegraph*, 9 May, 2006.

<sup>91</sup> *Sunday Mercury*, June 4 2000.

<sup>92</sup> *BBC news*, December 19 2007

<sup>93</sup> *National Audit Office*, "Financial management in the European Union", 29 March, 2006.

## **ANNEX 1 – SOME REASONS WHY FUNDS ARE POORLY TARGETTED**

### **8.1 Do the EU's criteria for targeting funds make sense?**

- Critics have argued that the EU's criterion for special status regions - 75 percent of average EU GDP - is outdated. It may have made sense when the regions were either well above or well below the threshold. Since enlargement, however, the regions are now much more evenly scattered, with several areas being around the threshold. This opens up for regions with similar wealth levels, receiving very different amounts of funding.
- Secondly, the Commission's preferred measure for wealth – the Gross Value Added (GVA) measure - has come under criticism.<sup>94</sup> GVA measures the contribution to the economy of each individual producer, industry or sector. GDP is derived from GVA by adding taxes and subtracting subsidies on products.<sup>95</sup> Essentially, GVA measures output divided by population.<sup>96</sup>
- However, since GVA does not take commuting into account, it tends to produce an upwards bias for regions that have large levels of inward commuting, and vice versa.
- Gripaos & Bishop note that the allocation of funds has been distorted by the fact that some NUTS 2 regions are urban areas or cities (i.e. Hamburg, Bremen or even Inner and Outer London), whereas others are coastal or rural areas. The urban areas naturally have higher GVA per head, due to concentration of financial and business services, more value-added activities and so forth. Because GVA is based on workplace, rather than place of residence, areas with a large share of inwards commuters will have artificially high GVA per head. The reverse is then true for areas where commuters tend to live. Some estimates put the Greater London's upwards bias in the GVA calculation in the area of 15%.<sup>97</sup>
- This is precisely the scenario in Lüneburg outside Hamburg, Germany. The district serves as residential area for Hamburg's professionals, and is considered one of the wealthiest commuting areas in Germany, growing by 2,000 residents each year. However, since GVA focuses on workplace, the high income of Lüneburg's residents counts towards Hamburg wealth statistics.<sup>98</sup> Consequently, Eurostat has identified Lüneburg as an Objective One region, marginally poorer than Merseyside.
- Lüneburg was granted a staggering €900 million from the SCF for the 2000-2006 period – only slightly less than what was given to Merseyside for the same time period. This, of course, adds to the criticism of the insufficient targeting of the SCF, and the failure of the funds to target smaller pockets of poverty while wasting money on richer regions.

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<sup>94</sup> *House of Commons/ODPM, 2003; Gripaos & Paul Bishop, "Objective One Funding in the UK: A Critical Assessment", Regional Studies, November 2006.*

<sup>95</sup> *CLG, Technical note accompanying the Public Service Agreement, 2002.*

<sup>96</sup> Reasons given for using GVA rather than, say, GDP per capita combined with other measures, are, amongst other factors, that the former is internationally comparable and may also be less susceptible to political manipulation. Since it is a single measure, it cannot be manipulated through shifting the weights of the various measures.

<sup>97</sup> Roberts 2004.

<sup>98</sup> *Daily Telegraph, 21 June, 2007.*

- In addition, GVA does not adequately account for demographic trends, productivity factors and population structure. Neither does it reflect lifestyle choices. For instance, an area that has a large number of pensioners, students or part-time workers will have low GVA per head since that type of income is omitted in the GVA measure. This, without the area necessarily experiencing a shortage of economic opportunities.<sup>99</sup>
- Many have pointed to Cornwall and Cumbria as being on opposite ends of this problem. Professor Gripaios argues,

*“Cornwall is often described as the poorest county in England because GDP per head is only 65% of the UK average. But economic factors such as a high percentage of low wage unemployment are only part of the explanation. Cornwall also has low measured GDP per head because it has large numbers of retired people and large numbers of commuters to Plymouth where their output is measured. If we look at other measures such as household disposable incomes, Cornwall looks much better off, certainly relative to other UK areas which qualified for Objective One and indeed relative to some which did not.”<sup>100</sup>*

- The ONS has instead recommended two separate variables for measuring regional prosperity:
  - a) regional GVA per full-time employee, which they argue is the best way to measure regional differences in productivity as it is not affected by the number of non-working residents; and
  - b) regional gross household disposable income, which indicates the prosperity of residents.<sup>101</sup>

## 8.2 Do the regions even make sense?

- If regional development spending is to be effective the regions themselves must correspond to economic reality. This is all the more important as the SCF are very strict about spending within a given region, with no flexibility to shuffle funds around according to results or functional criteria (i.e. commuting patterns or business links). Many observers, however, have pointed to flaws in how the EU and the UK have divided the regions. For example, it is often observed that the South West is a very artificial entity with Wiltshire, Dorset and Gloucestershire having little in common economically or socially with Devon and Cornwall.
- Other examples include the regions in Wales. Two relatively coherent regions were split into the much less coherent East Wales and West Wales/Valleys.
- Gripaios & Bishop analyse the economic coherence of the UK’s regions by looking at travel-to-work patterns. For example, they note that in relative terms, the net out-flow

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<sup>99</sup> Gripaios & Bishop 2006.

<sup>100</sup> House of Commons/ODPM, 2003.

<sup>101</sup> House of Commons/ODPM, 2003.

<sup>103</sup> European Commission, Fourth Report on Economic and Social Cohesion, 5 May, 2007.

of workers from West Wales/Valleys and Cornwall is higher than the other Objective One regions (calculated from the 2000-2006 financial perspective).

### Travel-to-work patterns in UK Objective One regions 2001 (2000-2006 perspective)

	Inward	Outward	Net Outflow	Net Outflow (% of unemployment)
Cornwall	7292	17 462	10 179	5.0
Merseyside	63 984	75 376	11 392	2.2
South Yorkshire	51 457	61 417	9960	1.9
West Wales/Valleys	38 438	94 910	56 472	8.5

Source: Grippaios & Bishop (2006); Census of Population

- Considering the travel-to-work trends in more detail, they also note that there a large outflows from West Wales/Valleys to Cardiff and Newport, noting that Cardiff and Newport used to fulfil an important role as the main port for coal transport in the region and today remain an important centre for services and retail for the former South East Wales region. A different regional arrangement would have been more appropriate in Wales. Likewise, there is a larger net commute to Plymouth in Devon than to bordering West Devon or South Hams, suggesting that combining Cornwall and Devon might be a better idea for a region. Overall, there are large flows from and in between different regions of the UK, such as South Yorkshire to Leeds/Bradford, and in between Liverpool and greater Manchester.

### Major net outflows from UK Objective One regions 2001 (for 2000-2006 perspective)

Cornwell	Merseyside	South Yorkshire	West Wales/Valleys
Plymouth 7161	Warrington 5426	Leeds 6354	Cardiff 24 920
South Hams 701	Manchester 3506	Wakerfield 5213	Newport 12 140
Exeter 405	Chester 1313	Selby 1240	The Vale of Glamorgan 2410
West Devon 271	Ellesmere Port and Neston 1308	Bradford 560	Monmouthshire 1533
	Trafford 1284		Flintshire 1238
	Flintshire 1271		Bristol 1187
	Salford 1225		Chester 813
			Wrexham 767
			South Glouc. 687
Total Net outflow: 10 170	11 392	9960	56 471

Source: Grippaios & Bishop (2006); Census of Population

- This further highlights problems with having such a region-based funding stream. As noted above, the SCF fail to take into account significant differences that exist even within the smallest units in the EU's classification system. Such problems are made worse by the artificial nature of some of the UK's regions.

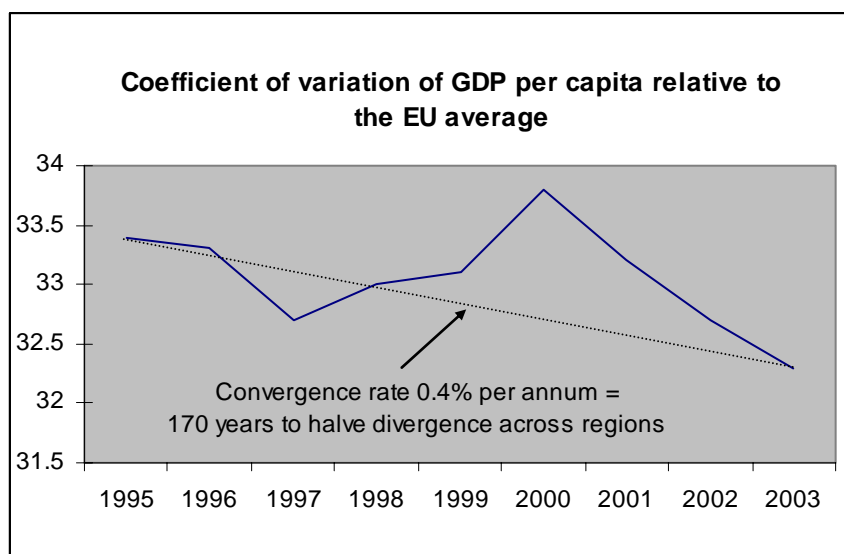
## **ANNEX 2 HOW THE STRUCTURAL FUNDS HAVE FAILED TO CREATE “CONVERGENCE”**

### **9.1 The Commission’s claims**

- Several reports from the Commission (1997, 1999, 2007) suggest – not entirely unexpectedly – that the SCF are having a positive impact on Europe’s economy, e.g. that they contribute to reducing regional disparities. The latest report suggests that the number of regions with GDP levels under 75 percent of the EU average have fallen in the last decade, pointing to countries like Greece, Estonia, Czech Republic and Ireland as success stories. The report links this development to the Structural Funds, claiming, for example, that every euro invested by cohesion policy between 2000 and 2006 led to further expenditure. According to the Commission, in Objective One regions the average additional investment was 0.9 euros, and in Objective Two regions the amount has at times been three times that which was originally invested.
- It is also stated that “For the period, 2007–2013, studies suggest that the investment undertaken under the programmes will add some 5–15% to absolute levels of GDP in most of the new Member States, in comparison with the baseline scenario. In addition, it is estimated that by 2015 around 2 million additional jobs will be generated due to these levels of investment.”<sup>103</sup>

### **9.2 But is meaningful convergence really happening?**

- However a recent OECD report noted that regional disparities in Europe are not falling, or at best are declining very slowly. At the current rate of convergence, the report stated, it would take 170 years to halve divergence across the regions in the EU.<sup>104</sup> The report argued that this should put a big question mark next to the SCF.

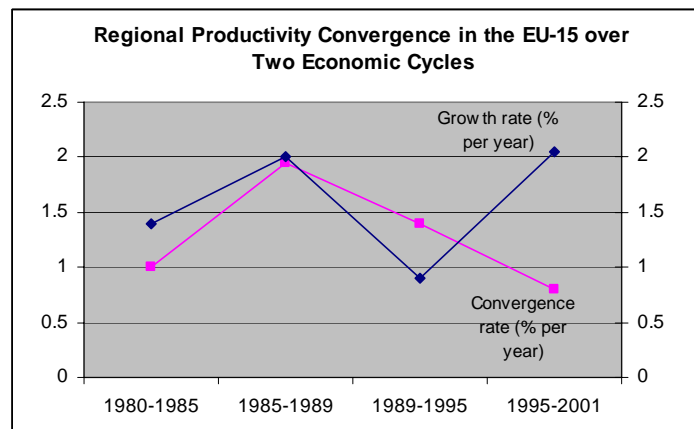


Source: OECD 2007

<sup>104</sup> OECD, 2007.

- A paper by Gardiner et. al. concludes that almost all of the empirical analyses that have been conducted to date have focused on regional GDP per capita and “have suggested that regional convergence in the EU is at best a very slow process typically only 1-2 percent per annum, implying that it would take several decades for any significant narrowing of regional disparities in per capita GDP to occur.”<sup>105</sup>
- But also when focussing on regional productivity, the issue of convergence remains unclear. The paper argues that,

*“It is of course difficult, if not impossible, to construct a meaningful counterfactual of what would have happened to regional productivity differences across the EU-15 in the absence of the Structural and Cohesion Funds. But if the hope was that increasing integration and regional policy together would promote greater regional cohesion and enhance the competitive performance of the poorer, lagging regions, then the lack of any real substantial convergence in productivity or GDP per head must be disappointing.”<sup>106</sup>*



Source: Gardiner et. al. (2004).

- And as the Sapir report has argued, the available empirical data on economic convergence in the EU gives a very different picture depending on whether one looks at the Member States of the EU-15, or its NUTS 1 regions across the Union.<sup>107</sup> On the one hand, the report argues, in the period 1980-2000 convergence of GDP per capita took place between member states. In other words, low-income countries grew faster, on average, than high-income ones (hence the Commission’s claims).
- However, within each country, GDP levels and unemployment rates have tended to diverge across regions. It is noted that inequality within each country accounted for roughly half of total EU regional inequality in the early 1980s, but this rose to about two thirds by the mid-1990s, while inequality between countries fell by about a third during that period.

<sup>105</sup> Gardiner et. al., “Competitiveness, Productivity and Economic Growth across the European Regions”, *Regional Studies*, December 2004.

<sup>106</sup> Ibid.

<sup>107</sup> Sapir et. al., 2003.

- Such is the case with the EU-15 regions which received the bulk – around 68 percent – of the Structural Funds in the EU-15 during the last financial period (regions in Greece, Spain, Ireland, Portugal, the six eastern German Länder and the Mezzogiorno in Italy). The Italian Mezzogiorno showed no sign of convergence, while the regions in Spain, Portugal and Greece grew only slightly faster than the EU average. There are no signs that these trends are about to change.
- Even the Commission's report admits the continuing divergence across the regions (in passing), stating that "in spite of progress, absolute disparities remain large. This is partly as a result of recent enlargement and partly as growth tends to concentrate — during the initial phases of development — in the most dynamic areas within countries."
- Elsewhere, the report also points out that in the period 2000–2004, real GDP per head fell in 27 regions and in 24 regions it grew by less than 0.5 percent a year. In five regions, GDP per head slipped below 75 percent of the EU average.
- The Commission seems to argue that such discrepancies reflect different stages of development and will naturally disappear in due course. However, first, as we saw, convergence is very slow – 170 years to halve welfare gaps can hardly be an acceptable rate. Secondly, Objective One regions – those with an average GDP under 75 percent of the EU average - have remained remarkably stable. Of the 44 regions originally granted Objective One status in 1989, 43 were still eligible for such funding in 2003, suggesting that the problem is of more permanent nature than the Commission claims.
- Meanwhile, contrary to the aim of the SCF, households in the EU's poorer regions have increased their dependency on grants and social transfers for their disposable income.<sup>108</sup>
- The opportunity cost of the SCF also needs to be brought into the equation. If enterprises adjust according to the criteria of the grants, rather than the economic opportunities, regional convergence can in fact be negatively affected, as resources and talent are diverted. There seems to be some evidence supporting this being the case. For example, a Court of Auditors' report found the dead-weight effect of the SCF in Italy to be 50 percent.<sup>109</sup>
- A major problem in assessing the value of the SCF is the lack of information on how the funds are actually spent. Data in this area is exceptionally poor (see above). EU Anti-fraud Commissioner Sim Kallas has admitted that, "There is a lack of information on the distribution of EU structural development funds. Information to the general public is often provided simply by erecting billboards at the sites of projects. Nobody monitors the quality of the information."<sup>110</sup>
- However, as Professor John Bachtler from the University of Strathclyde told a Lords Committee:

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<sup>108</sup> Eurostat, "Private household income in the European Union regions, 2003", 25/2007.

<sup>109</sup> Court of Auditors, 2007.

<sup>110</sup> Kallas, "The Commission Wants More Transparency in Brussels", *European Affairs*, Winter/Spring 2005, available at [http://www.europeanaffairs.org/current\\_issue/2005\\_winter\\_spring/2005\\_winter\\_spring\\_03.php4](http://www.europeanaffairs.org/current_issue/2005_winter_spring/2005_winter_spring_03.php4)

*“The effectiveness of Structural Funds is not easy to quantify given the wide range of interventions, the inadequacy of monitoring indicators and poor data quality... As the Swedish and UK contributions to the reform debate point out, while there has been some convergence between EU countries in recent years, disparities between regions have increased.... it has been suggested that EU cohesion policy may have even inhibited convergence by undermining labour mobility and structural reform.”<sup>111</sup>*

### **9.3 Have the funds had a positive impact on regional convergence in the UK?**

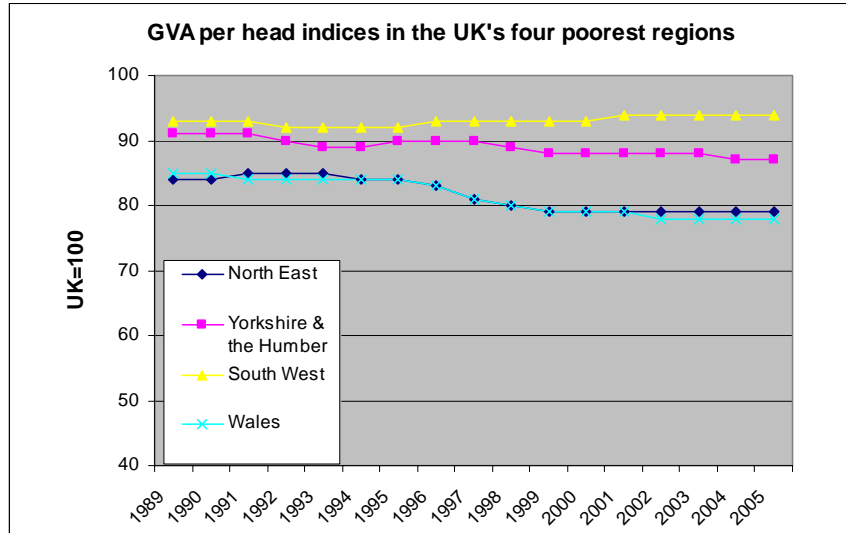
- Stephen Crabb, MP for Preseli Pembrokeshire, which currently receives Objective One funding told the House of Commons, “I am more than a little sceptical of the long-term success of EU Structural Funds in closing the wealth gap between regions. The targets for the EU cohesion and Structural Funds have consistently not been met”.<sup>112</sup>
- As with the rest of Europe, evaluating the impact of the SCF on the UK’s economy is difficult, due to the poor quality of available data and number of factors involved. Most regions do not hold detailed information on how and where the funds are spent. There is, for example, no in depth data available on the amount of funds allocated according to smaller units, such as parliamentary constituencies. Studying larger regions is not very meaningful, as welfare gaps often involve deprived local areas within larger regions (see above).
- On its most basic level it seems rather unrealistic, of course, to expect that the SCF can have an impact on economic discrepancies, given their proportionally small contribution to the British economy. For the UK as a whole, the annual allocation of the Structural Funds will amount to about 0.1 -0.15 percent of national GDP for the 2007-2013 financial perspective. Across the regions, the share of GDP varies between 0.2 percent (Northern Ireland) and 0.02 percent (South East).<sup>113</sup> This small share reflects the shrinking significance of the Structural Funds in the UK, following the latest two rounds of enlargement.
- For the less affluent regions, GVA per head has remained steady or even decreased relative to the national average. Although not a hugely meaningful measure, it still undermines the Commission’s case, as the very idea behind the SCF is to raise GVA per head, as poorer regions are granted aid precisely on the basis of their low levels of GVA per capita relative to the EU average.

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<sup>111</sup> Quoted in *Open Europe*, 2005.

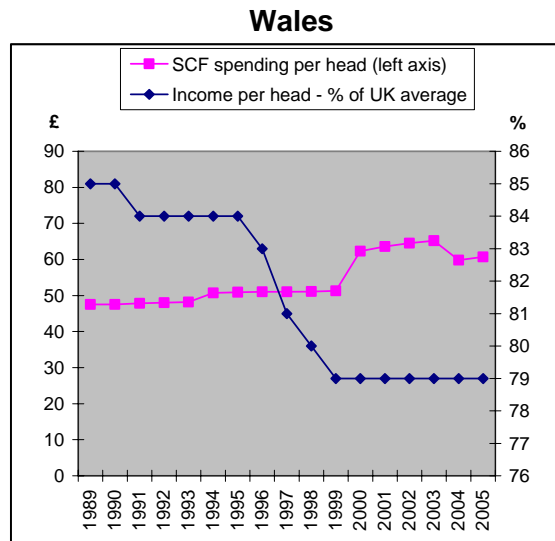
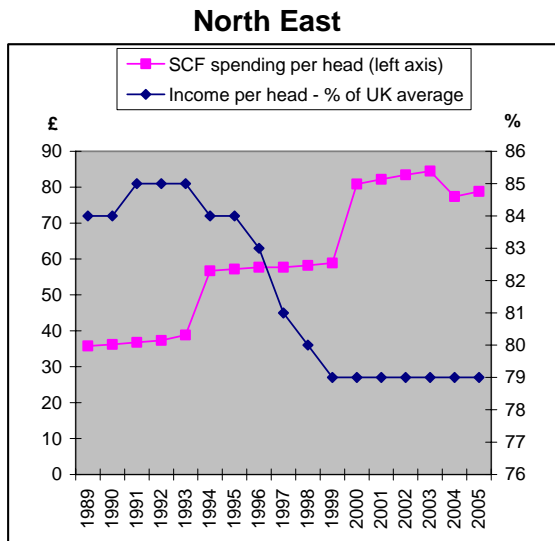
<sup>112</sup> 25 May 2005.

<sup>113</sup> *DTI*, 2007; *ONS*, 2007.



Source: ONS, 2005

- Likewise, when comparing EU funding with the GVA per indices there seems to be little evidence that the Structural Funds have had a net effect on wealth and job creation. If the Structural Funds were efficient, we would expect to detect some sort of boost in a regions' GVA as EU funding increases. This is not the case, however.
- The tables below compare GVA per head indices to the allocated SCF per head for the North East and Wales regions between 1989 and 2005. For the North East, SCF doubled during the period while GVA per head dropped 6 percent compared to the UK average. In Wales, funding increased by close to 16 percent, while GVA fell by 7 percent. The trend recurs in Yorkshire, where funding almost doubled during the time period while the GVA dropped by some 4 percent.



Sources: ONS 2005; DTI/BERR allocation of the Structural Funds, 89-93, 94-99, 2000-2006.

- Also more meaningful measures show that economic opportunities remain unevenly spread across the UK, and are unaffected by the SCF. The one-fifth of the UK's population that live in the poorest local areas still only account for about 13 percent of national income – with few signs of any significant upward mobility taking place in the last decade.<sup>114</sup>
- A report by Policy Exchange sampled a number of towns in the UK which suffer from high levels of relative deprivation and which also have been recipients of large sums of generation grants. It concluded that the gap between the urban regeneration sample and the national average had doubled since 1997, from 7 to 14 percent despite the intervention. In addition, the chance of being unemployed is about 40 percent higher in these areas than in the rest of the country - the same situation which existed in 1997.<sup>115</sup>

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<sup>114</sup> *Financial Times*, 15 December 2007.

<sup>115</sup> Leunig & Swaffield, "Cities limited", *Policy Exchange*, 2007.