**The “questionable strategies and woolly outcomes” of EU funds in Wales: lessons and implications for post-Brexit regional economic development policy.**

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On 23rd June 2016 in an in/out referendum on EU membership, the UK electorate voted to leave the European Union. Of particular surprise was the result of the vote in Wales in which 17 out of the 22 local authority areas voted to leave the EU.[[1]](#footnote-1) Wales enjoys far higher levels of funding than other UK regions and is, as a result, a net beneficiary of EU membership. Some of the areas that, since 2000, had received the most significant amounts of funding from the EU under its cohesion policy, or regional policy, voted with the largest margins in favour of leave. The new Welsh Secretary of State, Alun Cairns, was quick to suggest that the results showed that those purported to benefit the most from European aid ‘did not want what was being offered to them’ and that to simply replace one source of funding with another i.e. using domestic funds to substitute EU funds, missed the point. The policy had not been wholly successful in Wales, he argued, having funded projects with ‘questionable strategies and woolly outcomes’.[[2]](#footnote-2) Why did EU funding receipts under cohesion policy prove so irrelevant to voters in certain Welsh local authority areas on 23rd June 2016 and what does this mean for regional economic development policy in Wales moving forwards?

With Brexit, UK regions will cease to be eligible for EU Cohesion Policy and no longer receive regional funds. Despite established financial allocations up until 2020 under the EU’s Multi-Annual Financial Framework, it can be assumed that receipts of EU funds will cease at the same time as membership payments by the departing Member State. At UK level, the end of EU regional policy is likely to have minimal effect financially: the UK is a net contributor to the EU budget and the amount received under Cohesion Policy is small in relation to GDP.[[3]](#footnote-3) Nevertheless recent academic research has generally concluded that, whilst evidence on the contribution of the policy is inconclusive, spatial policy and beneficiaries of the policy had more to lose than to gain from a vote to leave the EU.[[4]](#footnote-4) Regional disparities in economic performance in the UK are now greater than those found in any other European country[[5]](#footnote-5) and the UK has very little constitutional or policy commitment to the reduction of regional economic disparities or policy levers to respond to regional economic shocks. EU Cohesion Policy has seemingly provided the most coherent territorial approach in the 90 years of spatial policy within the UK and provides an important role in framing economic development.[[6]](#footnote-6)

However, EU receipts vary considerably across the UK and so the end of EU cohesion policy could be expected to have very diverse territorial impacts. Of the 37 regions in Britain (as classified by the EU), 35 are *net* contributors to the structural funds, with only West Wales and the Valleys and Cornwall being net beneficiaries.[[7]](#footnote-7) The Welsh Government receives (and manages as a devolved function) more than €300 million per year from the EU under Cohesion Policy and has been allocated 2.4 billion euros under the 2014-2020 programming period (more than 20% of all funding available to the UK). Recently published figures from the Wales Governance Centre show that (mainly as a result of Cohesion Policy and agricultural funding) Wales benefits to the tune of £79 per person per year from EU membership.[[8]](#footnote-8) Whilst overall this contribution seems minimal, and represents only 0.4% of Welsh GDP, the majority of funding is concentrated in the ‘less-developed region’[[9]](#footnote-9) of West Wales and the Valleys, suggesting significant impact could have been expected to be felt locally in eligible areas.

There are a number of characteristics around the current operation of Cohesion Policy in Wales that are relevant in considering future economic development policy. Firstly, whilst at EU level the policy has moved increasingly away from old-style infrastructure interventions and been re-orientated towards the knowledge economy, in Wales the predilection for significant infrastructure spending has continued. More than 29% of funding under the West Wales and the Valleys ERDF Convergence programme for 2007-2013 was allocated to transport and telephone infrastructure. The equivalent percentage in the Highlands and Islands Convergence programme was 5.7%. Nevertheless, consistent figures for actual expenditure at the end of the programming period are not available and could disguise considerable spend on small scale infrastructure that would put other regions on a par with West Wales and the Valleys. This is relevant in that academic research has consistently concluded that the choice of intervention is strongly correlated with the impact of the funding, with people-focused interventions having a greater impact than place-based infrastructure investment.[[10]](#footnote-10)

Additionally, and maybe linked to the above, the higher funding levels in Wales has not led to greater performance or results against key economic indicators such as jobs created and new businesses.[[11]](#footnote-11) In Wales, projects funded under the ERDF are estimated to have created 36,640 new jobs and 11,900 new businesses in the 2007-13 period. The equivalent figures for Scotland, where the remain vote triumphed in every local authority area, are 44,311 and 17,474 respectively despite a funding package of only 36% of the Welsh one.[[12]](#footnote-12) It raises the question as to whether interventions that result in job and business creation are more relevant and visible to targeted communities.[[13]](#footnote-13) However, in the absence of any detailed evaluation it cannot be forgotten that the programmes operate in a broader socio-economic context. External developments, such as the financial crisis and subsequent austerity measures, can have significant impact on the delivery of EU-funded programmes. Economic figures for Welsh NUTS 3 regions show that many of the local authority areas voting to ‘leave’ have never recovered from the effects of the economic crisis and have lower GDP levels than in 2000.[[14]](#footnote-14)

Academic research additionally highlights the impact of quality of government on delivery of the EU regional funds. This concerns not only administrative capacity and aspects such as corruption, rule of law, government effectiveness and accountability but wider territorial governance. Cohesion policy is characterized by shared management and the partnership principle whilst the most recent policy reform allowed for the use of territorial instruments such as Community-Led Local Development (CLLD). The approach borrows the area-based local development approach first pioneered *in rural areas* under LEADER[[15]](#footnote-15) which enables local ownership of economic development. New territorial models for delivery were not incorporated into the 2014-2020 Welsh programmes despite their coverage of areas with some of the sparsest population densities in the UK and Europe. The Welsh programmes have arguably become increasingly centralised at the regional level since devolution and contrast markedly with developments in Scotland, where CLLD looks to boost the impact of EU funding at the local level through cooperation, engagement and cross-fund integration.[[16]](#footnote-16) There is little evaluation to date around the extent to which territorial governance patterns impact upon the choice of interventions, local impact and perception of EU funds. However, these approaches should be considered in designing a more effective and popular regional policy for Wales post-Brexit.

There are other idiosyncrasies of the policy that are relevant: Welsh regions designated under Cohesion policy are economically incoherent and utilised solely for the purpose of the policy. Moves to recognize or incorporate more functionally relevant areas such as the Cardiff city-region in the 2014-2020 period may lead to more territorially appropriate responses and interventions under the programmes and should inform any future policy development.

Following Brexit, a number of scenarios are possible.[[17]](#footnote-17) Whilst the Welsh Assembly and Ministers have a range of devolved powers to promote economic development[[18]](#footnote-18) and could develop a Welsh regional policy, it seems unlikely based on financial resources and geographical scale. The UK Parliament retains the right to legislate in this area and could develop a UK-level territorial policy. In fact, the UK Government’s position for a number of years has been to ‘re-nationalise’ the policy with richer Member States funding their own policy to reduce regional disparities. Whilst previous UK governments have guaranteed that domestic funding would match expected EU receipts, David Cameron, when Prime Minister, announced that there would be no such guarantee in the event of Brexit.[[19]](#footnote-19) In his statement following the referendum, First Minister Carwyn Jones sought a funding assurance from Westminster to guarantee that equivalent money would continue to come to Wales.[[20]](#footnote-20) Responses from Westminster, including from the Secretary of State for Wales, have been lukewarm and suggest that serious policy overhaul is likely. This could mean that regions are designated differently and that the focus of the policy, eligible activities and favoured regions could be significantly different. From a Welsh perspective, there is everything to play for.

So what about the possibility of a continued alternative relationship with Europe following Brexit? The equivalent to Cohesion Policy under the Norwegian model involves significant financial contribution[[21]](#footnote-21) with no possibility of receipts which are destined for *Member States* with a GNI of less than 90% of the EU average. The UK could be expected to contribute towards this externally-focused form of Cohesion Policy as well as establish and fund an alternative regional policy internal to the UK. Continued Welsh participation in EU Cohesion Policy could be envisaged under the European Territorial Cooperation programmes where bordering non-Member States (and their regional/local governments) are able to participate. However, Wales would have to fund such activity from its own budget as participation by non-members is reliant upon their contribution of equivalent funding.[[22]](#footnote-22) Other EU funding mechanisms for non-Member States bordering the Union would be unlikely to be relevant as they advocate or promote political, social and economic integration with the European project or pre-accession funding, unlikely to be offered to a withdrawing Member State.

This article attempts to draw some early conclusions around the relationship between EU Cohesion Policy in Wales and the ‘leave’ vote on 23rd June 2016. An early analysis of regional policy trends and developments highlights areas for further investigation and consideration as a UK or Wales spatial policy is developed. The ‘policy vacuum’ that exists in this area[[23]](#footnote-23) can only be informed through the clear identification of the most successful targeting of localities, delivery models, funding priorities and types of initiatives to date – in the context of wider socio-economic policy and political developments. UK and Welsh economic development strategy and funding, highly aligned with the broader EU policy framework, is at a junction: future direction as yet unknown.

1. The vote was split in Wales, 52.5% leave: 47.5% remain. [↑](#footnote-ref-1)
2. https://hansard.parliament.uk/commons/2016-07-13/debates/16071330000005/OralAnswersToQuestions [↑](#footnote-ref-2)
3. For the 2014-2020 programming period under the ERDF and ESF the UK has been allocated an amount equivalent to less than 0.1% of GDP (in real terms it amounts to c. €10 billion). [↑](#footnote-ref-3)
4. <https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/355455/BIS_14_981__Review_of_the_Balance_of_Competences_between_the_United_Kingdom_and_the_European_Union.pdf>; http://ukandeu.ac.uk/wp-content/uploads/2016/06/Iain-Begg-and-John-Bachtler-Workshop-Policy-Brief.pdf [↑](#footnote-ref-4)
5. http://www.regionalstudies.org/uploads/documents/SRTUKE\_v16\_PRINT.pdf [↑](#footnote-ref-5)
6. http://www.eprc.strath.ac.uk/news/20160620\_Brexit\_blog\_post.pdf [↑](#footnote-ref-6)
7. Open Europe (2012) Off Target, The Case for Bringing Regional Policy Back Home,

<http://archive.openeurope.org.uk/Content/Documents/Pdfs/2012EUstructuralfunds.pdf> [↑](#footnote-ref-7)
8. http://sites.cardiff.ac.uk/wgc/files/2016/05/Estimating-Wales%E2%80%99-Net-Contribution-to-the-European-Union.pdf [↑](#footnote-ref-8)
9. Less-developed regions are those with a GDP below 75% of the EU average. [↑](#footnote-ref-9)
10. https://www.chathamhouse.org/sites/files/chathamhouse/public/Research/International%20Economics/1212bp\_becker.pdf [↑](#footnote-ref-10)
11. <http://speri.dept.shef.ac.uk/wp-content/uploads/2016/05/Brief24-UK-regions-and-European-structural-and-investment-funds.pdf> [↑](#footnote-ref-11)
12. The combined ERDF and ESF allocation to Scotland for 2007-2013 was 820 million euros compared to 2218 million euros for Wales .<http://speri.dept.shef.ac.uk/wp-content/uploads/2016/05/Brief24-UK-regions-and-European-structural-and-investment-funds.pdf>; <http://www.gov.scot/Topics/Education/skills-strategy/progress/sg/economicimprovement/EuropeanStructuralFunds> [↑](#footnote-ref-12)
13. <http://www.bbc.co.uk/programmes/b07lqhg0> [↑](#footnote-ref-13)
14. <https://statswales.gov.wales/Catalogue/Business-Economy-and-Labour-Market/Regional-Accounts/Gross-Value-Added-GDP/gva-by-welshnuts3areas-year> [↑](#footnote-ref-14)
15. https://enrd.ec.europa.eu/en/leader [↑](#footnote-ref-15)
16. <https://webgate.ec.europa.eu/fpfis/cms/farnet/et/implementing-clld-across-esi-funds-edinburgh-uk-8-10-december-2015> [↑](#footnote-ref-16)
17. http://sites.cardiff.ac.uk/wgc/files/2016/07/COHESION.pdf [↑](#footnote-ref-17)
18. See variously Governance of Wales Act 2006, Schedule 7; Welsh Development Agency Act 1975. [↑](#footnote-ref-18)
19. <http://www.bbc.co.uk/news/uk-wales-politics-35666731>; <http://ukandeu.ac.uk/what-a-difference-a-decade-can-make-cohesion-policy-and-brexit/> [↑](#footnote-ref-19)
20. http://gov.wales/newsroom/firstminister/2016/160627cabinetstatement/?lang=en [↑](#footnote-ref-20)
21. Over 2009-2014 the EEA financial mechanism contributed EUR 988,5 million, and the Norwegian Financial Mechanism EUR 800 million to the reduction of regional disparities in the eligible Member States; Norway provides approximately 97% of all funding under these mechanisms. For the period 2014-2021 the Norwegian contribution will be over 390 million euros per year. <https://www.regjeringen.no/en/aktuelt/eos-midlene-sammen-for-et-gront-konkurransedyktig-og-inkluderende-europa/id2499146/> [↑](#footnote-ref-21)
22. For example, the North Sea Region Programme and Northern Periphery and Arctic Programme include Norway and Iceland; the North West Europe programme includes Switzerland. Non-Member States participate under programmes such as INTERREG, INTERACT, and URBACT. [↑](#footnote-ref-22)
23. http://ukandeu.ac.uk/what-a-difference-a-decade-can-make-cohesion-policy-and-brexit/ [↑](#footnote-ref-23)