



## BRIEFING PAPER

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# UK Funding from the EU

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## Summary

The UK voted to leave the European Union on 23 June 2016. It will remain a member of the EU until the terms of 'Brexit' have been negotiated and until then it will continue to make contributions to the EU budget and receive EU funding through various channels. The majority of EU funding is administered in partnership with national and regional authorities in Member States, though a share of it is directly administered by the European Commission.

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

The ESI Funds are the EU's instrument for reducing disparities in the level of development of its various regions and for helping less developed regions to catch up. The bulk of UK funding via this channel comes through the European Regional Development Fund (ERDF), which has been allocated €5.8 billion of EU funds and the European Social Fund (ESF) with an allocation of €4.9 billion. Different regions within the UK have been allocated varying levels of funding, with less developed areas (particularly in West Wales and the South West of England) receiving more per person than other areas.

The European Agricultural Guarantee Fund (EAGF) is the primary financial mechanism used for the implementation of the EU's Common Agricultural Policy (CAP). The EAGF consists of direct payments and market measures to support the agricultural sector and the UK has been allocated €22.5 billion for the period 2014-20.

Organisations in the UK can also apply directly to the European Commission for funding from various other streams, often on a competitive basis following calls for applications. The UK is one of the leading Member States in securing funding for research and innovation and various other projects, with a typical aggregate value of £1-1.5 billion per year.

In addition, projects in the UK can be supported by EU institutions with funding that falls outside the EU Budget. Most notably, the European Investment Bank (EIB) – which borrows money on capital markets and lends it on favourable terms to projects that support EU objectives – committed over €29 billion to UK projects between 2011 and 2015.

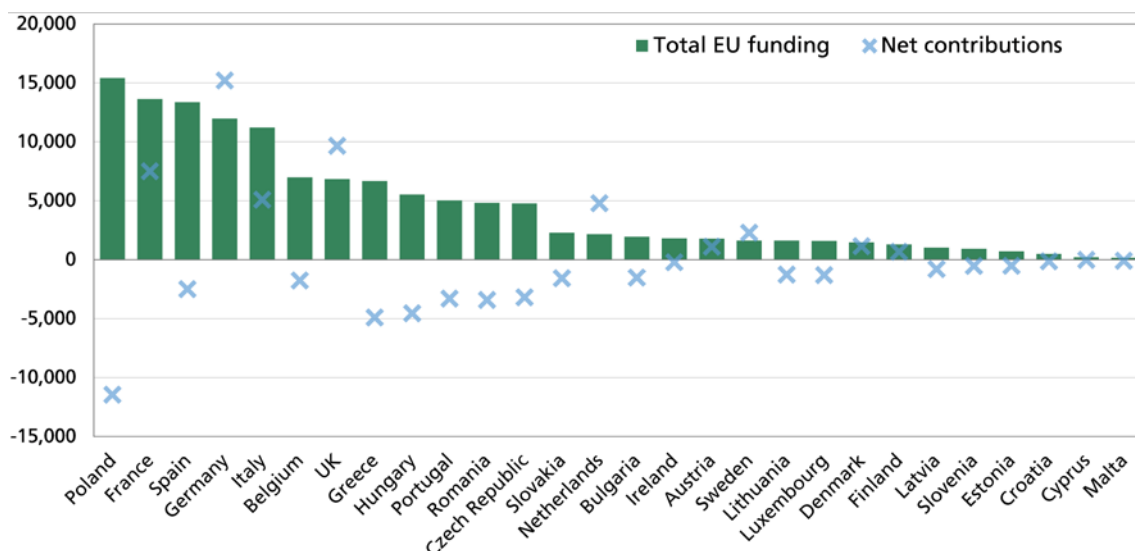
Non-Member States also have access to certain streams of EU funding, though this is typically dependent on payments into the EU Budget – over the 2014-21 period, Norway is contributing around €2.7 billion in EU grants. While the UK Government has made guarantees about the continuation of funding under EU programmes after the UK's departure from the EU, continued access to any EU funding is likely to be a significant feature of Brexit negotiations.

# 1. Introduction to EU Funding

On 23 June 2016, the UK voted to leave the EU. However, until the UK's departure has been formally negotiated and the process of leaving the EU completed, the UK will continue to make contributions to the EU budget and receive funding through various channels. All EU Member States make contributions to and receive funding from the EU budget in this way.

While certain countries (including the UK) are net contributors, others are net recipients. The chart below shows the average annual funding received and net contributions by Member States between 2011 and 2015. The UK was one of nine net contributors to the EU Budget over this period.

**Fig 1. Average annual funding received and net contributions by member states, 2011-2015 (€ million)**



Source: European Commission, EU Financial Report 2015

## 1.1 EU Budget Allocation and Expenditure

### Multi-annual Financial Frameworks

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

### Box 1: Who administers funding?

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

Broadly speaking, EU funding takes two different forms:

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

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

The 2014-2020 MFF is divided into five main categories of spending, corresponding to different areas of EU activities (or 'headings').<sup>1</sup> These include:

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

### Box 2: The EU Institutions

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

**European Council** - Defines the general political direction and priorities of the EU.

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

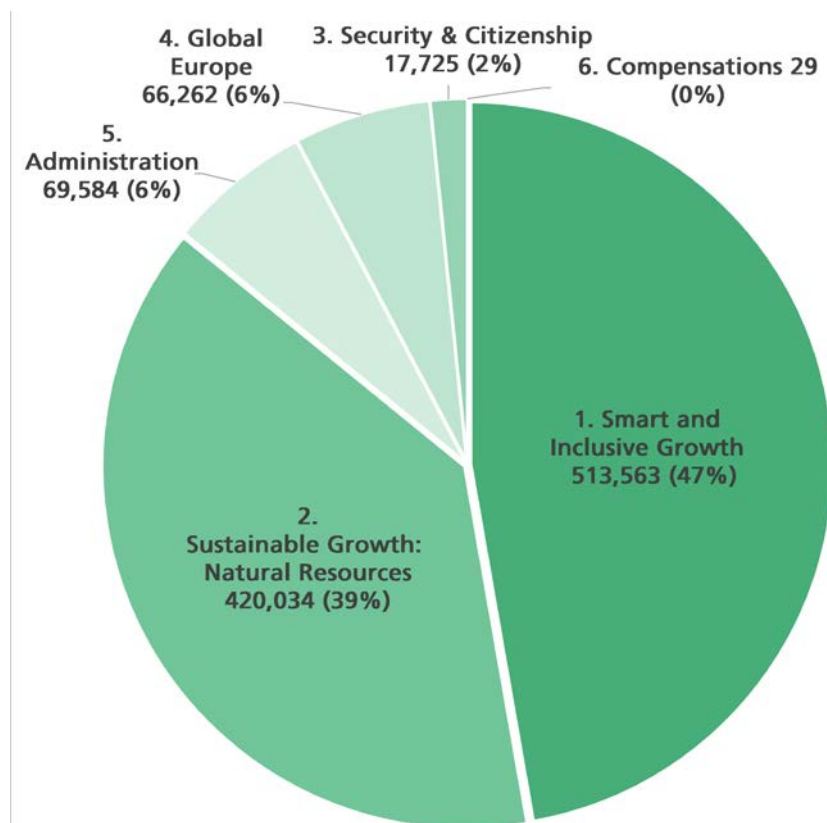
**European Commission** - Promotes the general interests of the EU by proposing and enforcing legislation as well as by implementing policies and the EU budget.

<sup>1</sup> There is a very small sixth category ('compensations') with provisions for Croatia, who joined the EU in July 2013, to ensure it does not contribute more to the EU budget than it benefits from it in the first year following its accession.

<sup>2</sup> The European Development Fund also provides financial resources for the 'EU as a global actor'. However, it is not part of the EU budget and therefore does not fall under the MFF.

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

**Fig 2. EU spending by activity area as allocated by the 2014-2020 Multi-annual Financial Framework, (€ million)**



Source: [European Commission](#)

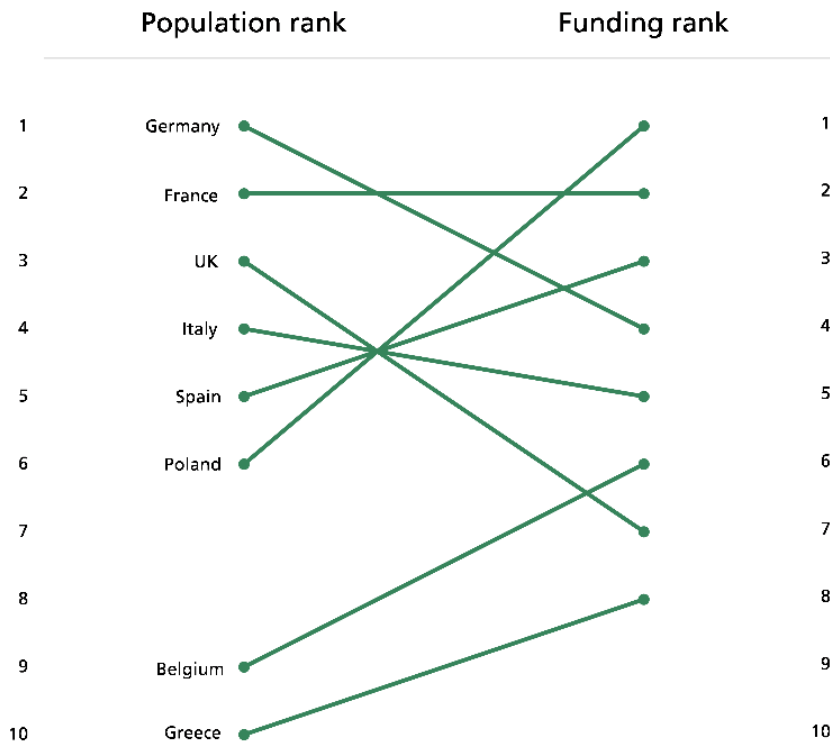
As can be seen from the chart, the vast majority (86%) of EU funding in the 2014-2020 MFF is allocated to 'Smart and Inclusive Growth' and 'Sustainable Growth: Natural Resources'. The major funding channels for 'Smart and Inclusive Growth' are the European Structural and Investment (ESI) funds (see [section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

## 1.2 Member State comparisons

EU spending is not divided evenly among all Member States but is allocated to different members in varying amounts. Typically, the Member States with the largest populations receive the most spending in absolute terms. This is reflected in figure 3 below which shows that the 8 countries that received the largest amounts in average funding between 2011 and 2015 are also in the top ten in terms of population.

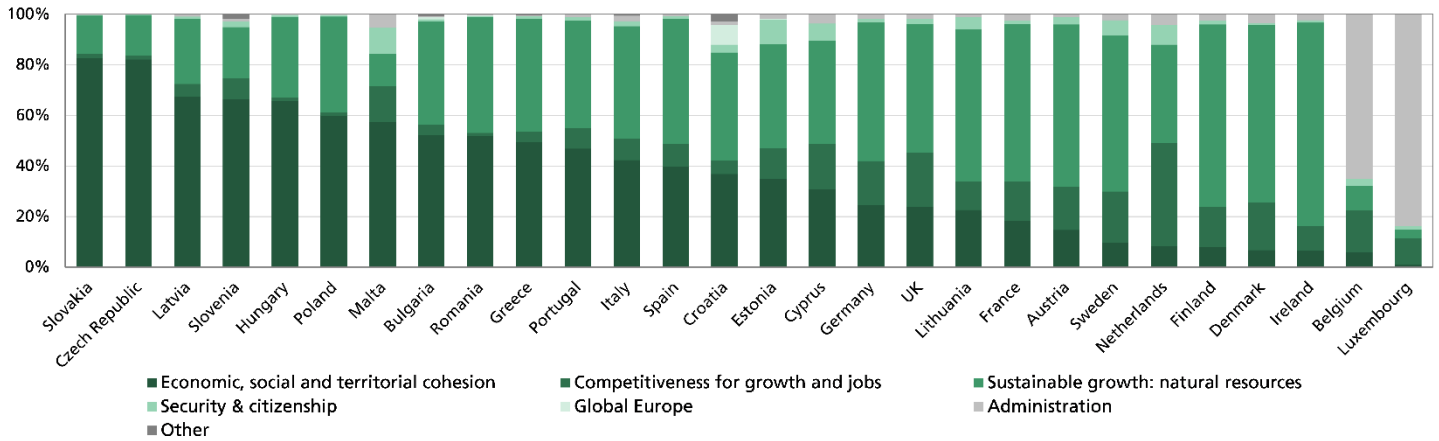
However, other objectives of the 2014-2020 MFF mean that certain countries receive disproportionate levels of EU spending relative to the size of their population. This is shown in the spending per person figures shown in the map on page 8.

**Fig 3. Population rank and funding rank for Member States that are in the top ten for both population and EU funding**



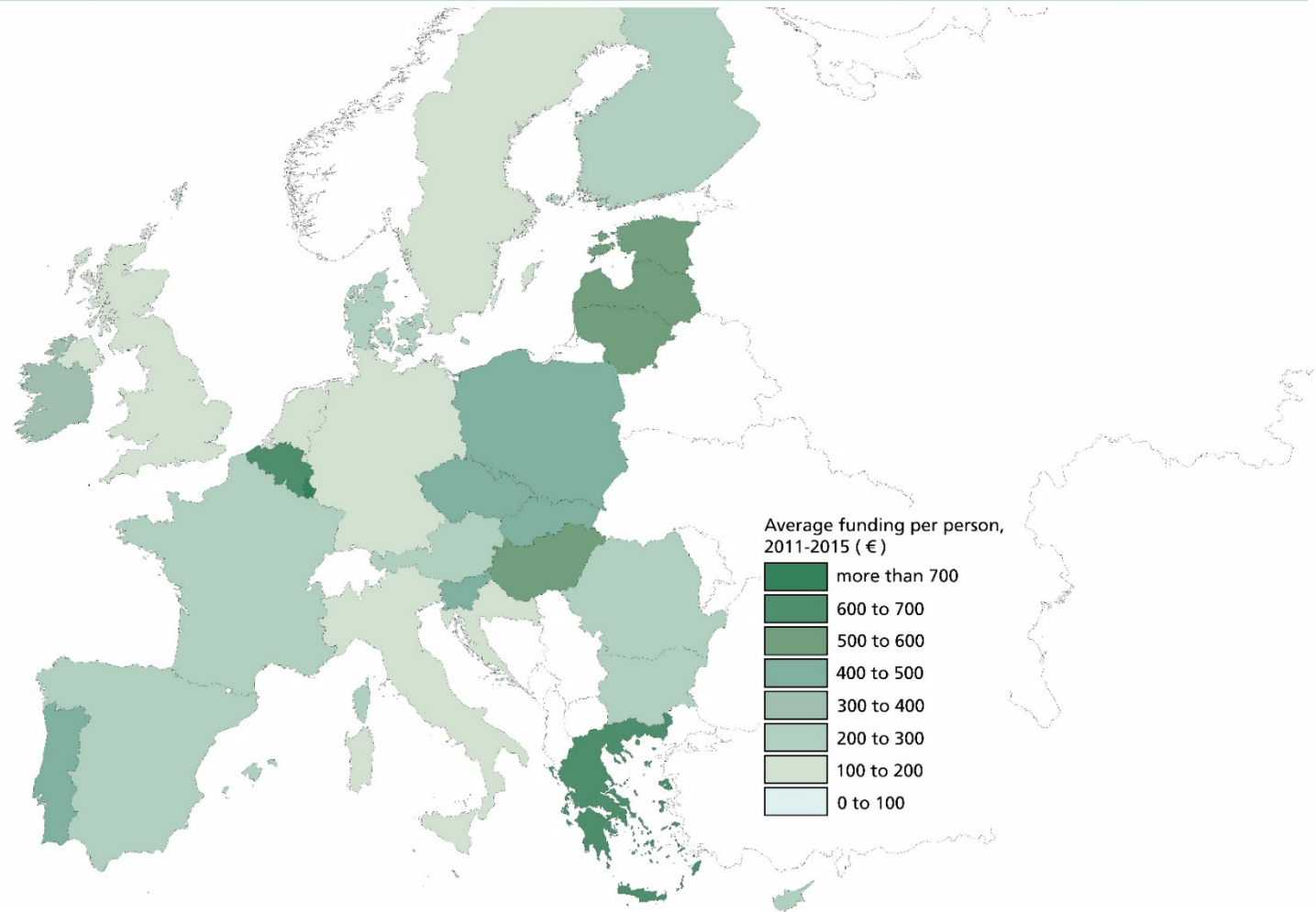
Source: European Commission and Eurostat

**Fig 4. Share of EU spending by activity area in each member state, 2015**



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

## Average funding per person in EU Member States, 2011-2015 (€)



Source: European Commission and Eurostat



Luxembourg received the greatest spending per person, per year (€2,993), though this is largely due to it being the seat of various EU institutions including the European Court of Justice, the European Investment Bank and the General Secretariat of the European Parliament. The same is true for Brussels which received €628 per person. The share of total EU expenditure in Luxembourg and Brussels spent on administration between 2011 and 2015 was 84% and 66% respectively.

Other countries receiving relatively high levels of funding per person included Greece, Hungary, Lithuania, Estonia and Latvia, each receiving over €500 per person, per year on average between 2011 and 2015.

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

### 1.3 UK expenditure

As with the EU as a whole, the majority of expenditure received by the UK is allocated to 'economic, social and territorial cohesion' (45%) and 'sustainable growth: natural resources' (51%). Much of this is done through two major funding channels – the European Structural and Investment (ESI) Funds (discussed in [section 2](#)) and the European Agricultural Guarantee Fund (discussed in [section 3](#)).

Table 1 below shows the EU funding allocations for 2014-20 broken down into these two major funds (and in the case of the ESI funds, its component parts).

**Table 1. EU funding allocations to the UK, 2014-20**

	€ billion
<b>European Structural and Investment Funds</b>	<b>17.2</b>
European Regional Development Fund <sup>1</sup>	5.8
European Social Fund	4.9
Youth Employment Initiative	0.2
European Maritime and Fisheries Fund	0.2
European Agricultural Fund for Rural Development	5.2
<b>European Agricultural Guarantee Fund</b>	<b>22.5</b>

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

sources:

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

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

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

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

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

### 2.1 What are the ESI Funds?

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

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

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

Member States also receive funding from the [Youth Employment Initiative](#) and funding for [European Territorial Co-operation](#), which is strictly from the ERDF. ESI funds operate in multi-year periods that align with the current MFF, thus the current funds cover 2014 to 2020. Total funding allocated to the UK for this period is €17.2 billion, with a breakdown by fund shown in table 1.

### 2.2 Management of the funds

At the start of the current MFF, the UK – like all member states – drew up a high level business plan setting the direction of EU funding programmes. The UK submitted this [partnership agreement](#) to the European Commission who [agreed it](#) following some adjustments (see box 2).

The responsibility for managing the delivery of funding rests with Managing Authorities. Based on the Partnership Agreement each Managing Authority has produced an operational programme that contains further detail on what the fund will support, and how it will provide, manage and assess funding.<sup>3</sup>

The Department for Business, Innovation and Skills (BIS) leads for the UK government on policy for the European Structural Funds (ERDF and ESF)

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<sup>3</sup> See for example, ERDF operational programmes for [England](#), [Scotland](#), [Wales](#) and [Northern Ireland](#)

and on the UK Partnership Agreement. The Department for the Environment, Food and Rural Affairs (Defra) has the policy lead for EAFRD and EMFF.<sup>4</sup> The European Commission publishes a [list of UK managing authorities](#) with contact details.

The Scottish and Welsh governments and the Northern Ireland Executive are responsible for delivery of the ESI funds in their own nations. The devolved governments contributed chapters to the partnership agreement. In England, ERDF, ESF and an element of EAFRD have been grouped together under one jobs and growth focused programme – the ESIF Growth Programme.

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

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

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

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

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

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

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

## 2.3 Who benefits from ESI funds?

The EU budget determines the amount of structural funding for each Member State. The Commission’s calculations refer to the regions of each Member State at the second level of the Nomenclature of Territorial Units for Statistics (NUTS). NUTS 2 regions are second tier

<sup>4</sup> UK Government, [2010 to 2015 government policy: European funds](#) (May 2015)

regions which break down the EU into sub-national areas that broadly correspond to large counties in the UK. The UK has 37 NUTS 2 regions. Of these, four are in Scotland, two in Wales, and Northern Ireland is a single NUTS 2 region.

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

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

Specifically, there are:

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

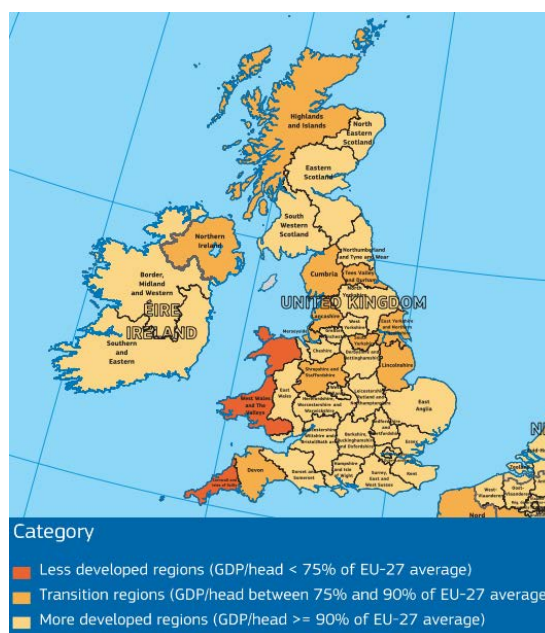
The adjacent map shows how the different regions of the UK fit into these categories. Of the 34 regions across the UK, 22 are classified as 'more developed', 10 as 'transition' and only two as 'less developed' (Cornwall and the Isles of Scilly and West Wales and the Valleys).

As a result, funding is not distributed evenly across the UK. The charts below show that while England receives the most funding with an annual average of €1.5 billion, it is Wales that receives the most per person (€142 per person, per year, more than five times that in England). This reflects the fact that ESI funding is heavily weighted towards 'less developed' regions.

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

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

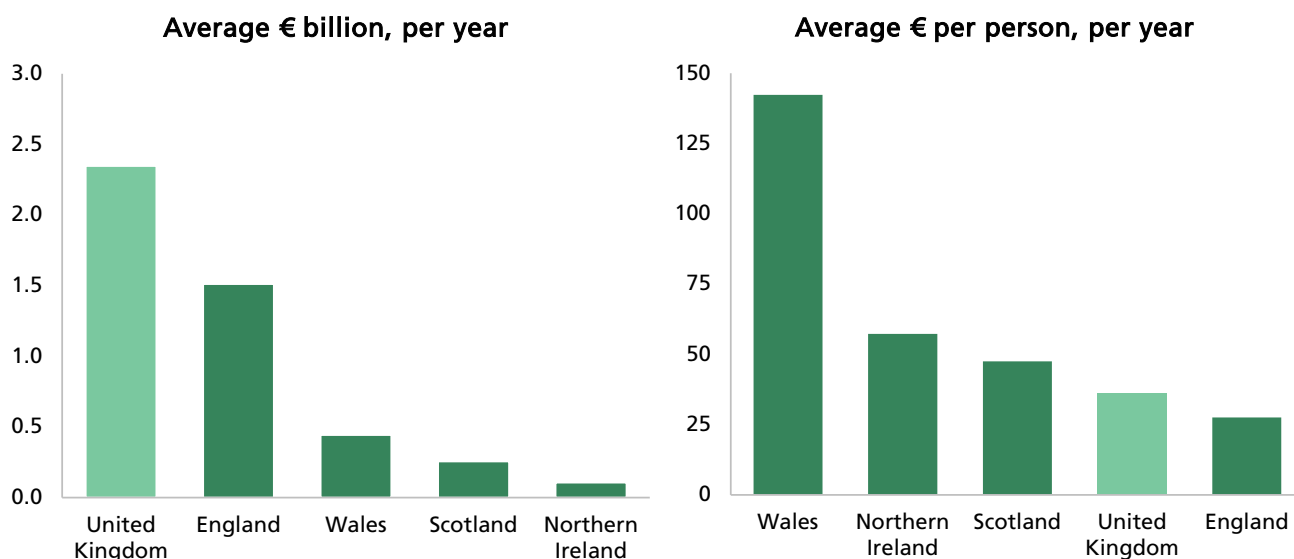
Fig 5. EU funding regions in the UK



## Allocations across the UK

Figure 6 below shows the average amount of EU funding across the seven-year funding period broken down into the constituent parts of the UK, both in terms of average total amounts and per person amounts. It shows that, while England receives the highest amount in absolute terms with an average of €1.5 billion per year, it receives the lowest in per person terms (€28 per person, per year). The per person amount for Wales is more than five times this at €142 per person, per year. The reason for this is reflected in the differences in region classification. 63% of the population of Wales lives in a 'less developed region' (West Wales and the Valleys), compared with only 1% of the population in England (Cornwall and Isles of Scilly). Scotland and Northern Ireland receive less than Wales (€47 and €57 per person, per year respectively), though still more than the UK average of €36.

**Fig 6. Distribution of ESI funding across the UK, 2014-2020**



Source: [European Union Open Data Portal](#) (accessed 21 December 2016)

## Funding by region

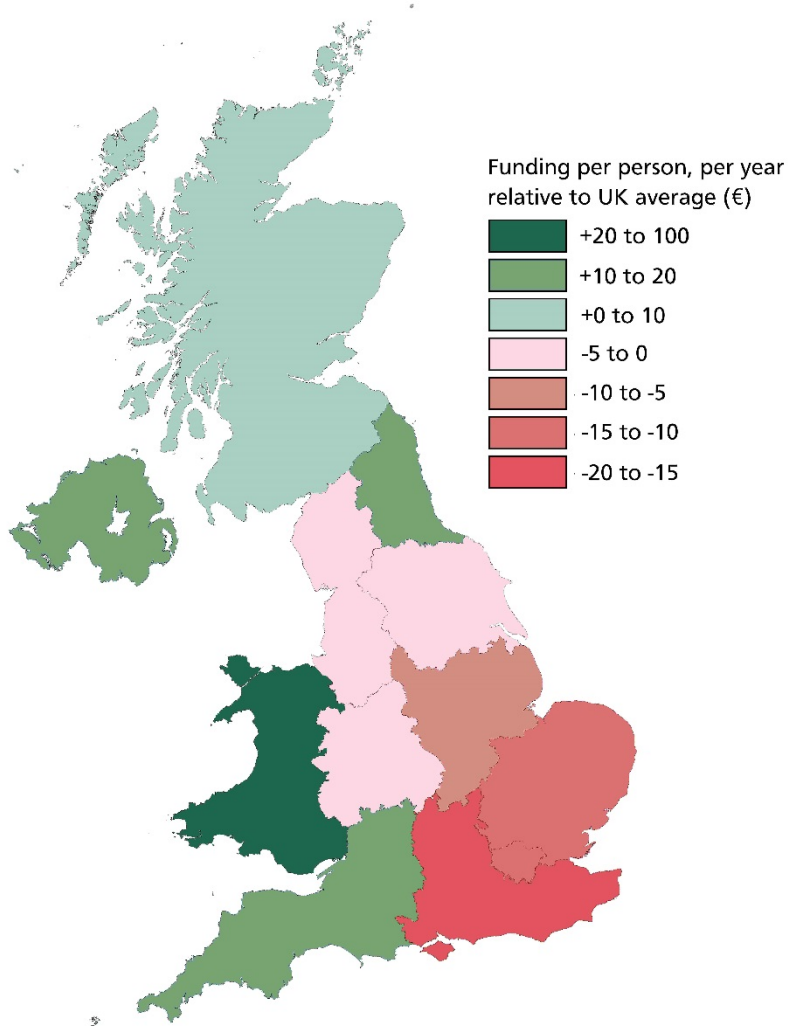
These disparities in EU funding are also reflected at the regional level. In response to a Parliamentary Question, the Government published 2014-2020 combined funding figures **for the ESF and EDRF only**.<sup>5</sup>

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

<sup>5</sup> [PQ 33071](#) [on EU grants and loans], 8 April 2016

relative to the UK average, with the regions above average represented in green and those below represented in red. The South East receives over €19 less than the UK average per person, per year (€4.56), compared with Wales which receives over €87 more (€111.18).

### ESF/ERDF funding per person, per year by region relative to the UK average (€)



Source: PQ 33071 and ONS

### England – funding by Local Enterprise Partnership (LEP)

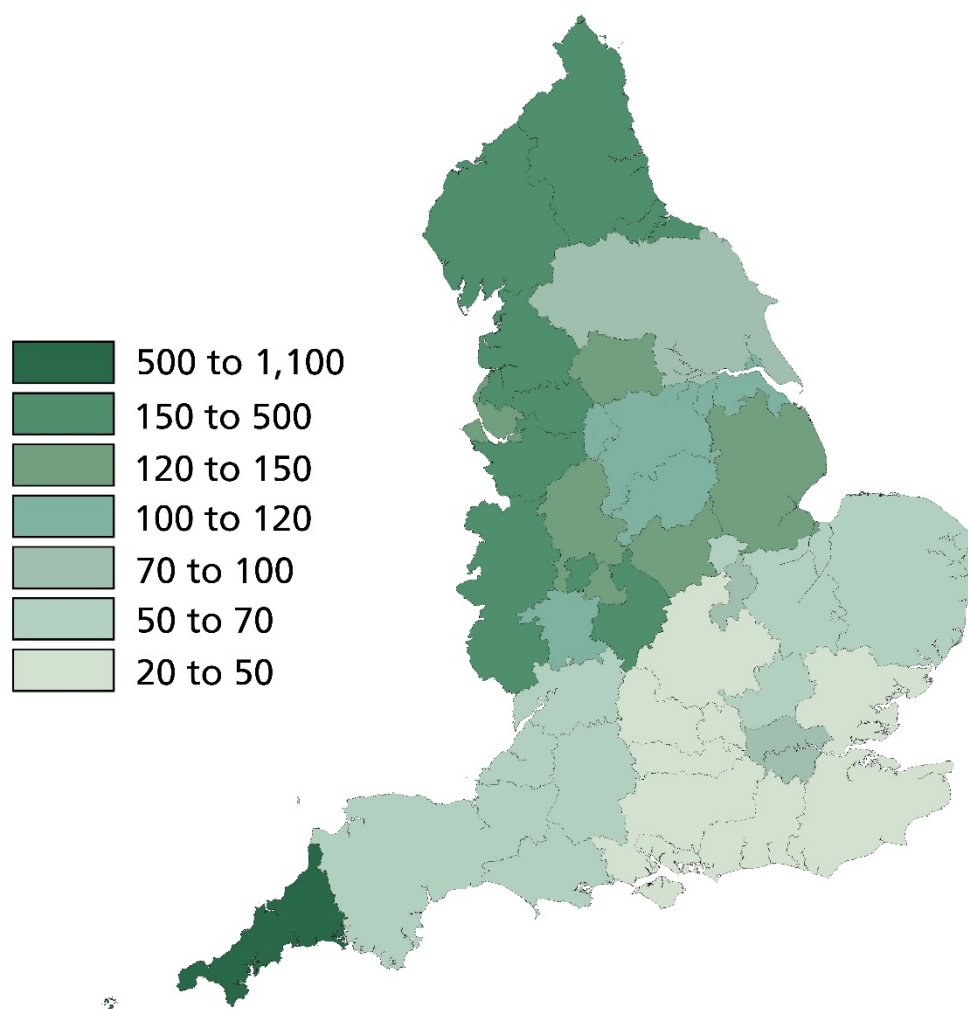
Within England, the Government allocated the ERDF and ESF to the 39 Local Enterprise Partnerships (LEPs). Allocations were [set out in a letter](#) from Vince Cable, then Secretary of State for Business innovation and Skills, on 17 April 2014.

LEPs and their partners were each asked to produce a strategy showing how they intended to use these funds within their area. The strategy comprises a narrative document and spreadsheet populated with information on their proposals for spending, outputs and results which

had to be agreed with the Government by the end of February 2014. More information on these is available from the individual LEP websites.

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

## Average ESF/ERDF funding per person by Local Enterprise Partnership (LEP) (€), 2014-20



Source: Department for Business, Innovation and Skills and ONS

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

The Common Agricultural Policy (CAP) is the European Union's agricultural policy. Its objectives were set forth in [Article 39 of the Treaty of Rome](#)<sup>6</sup> (1957) and the policy was established in 1962.

<sup>6</sup> The founding treaty of the European Economic Community which preceded the European Union.

Europe had suffered food shortages during and after the Second World War, and the initial objective of the CAP was to increase food production. The CAP sought to do this by offering farmers guaranteed prices for their produce by managing supply. Surplus grain, milk, wine, olive oil and meat was removed from the market and held in intervention storage to keep prices above a target level. Tariffs were set to restrict competition and exports of surplus produce were subsidised.

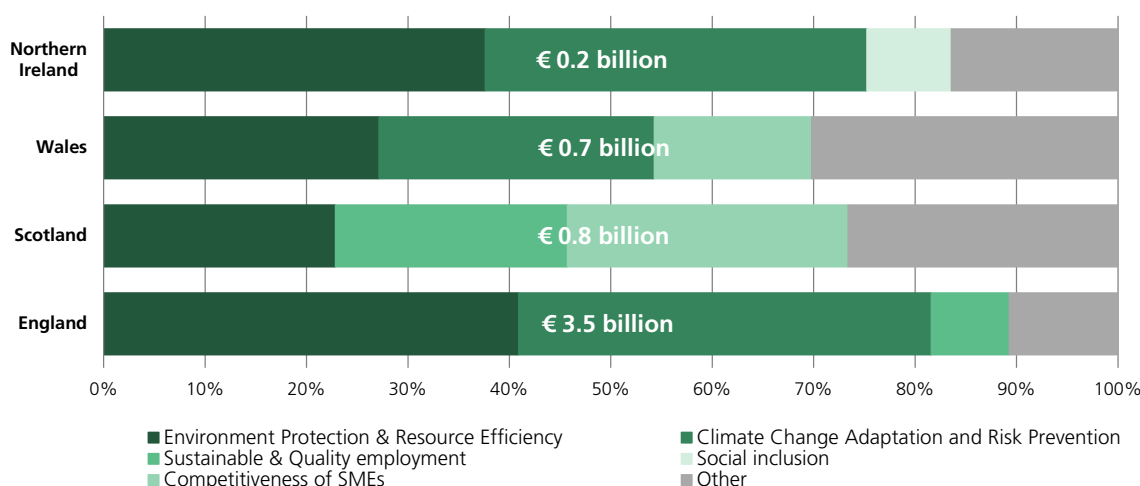
CAP has evolved over the years and now has multiple aims including protecting the viable production of food, the sustainable management of natural resources and a living countryside.<sup>7</sup>

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

The EAFRD’s objective is to achieve balanced territorial development of rural economies and sustain a farming sector that is competitive and innovative whilst also adhering to the EU’s environmental objectives. The 2014-2020 Multiannual Financial Framework allocates €408.31 billion to the CAP, of which €99.3 billion has been earmarked for the EAFRD. Of this, €5.2 billion has been allocated to the UK for 2014-20 – the seventh largest allocation across the EU with France receiving the largest (€11.4 billion).<sup>8</sup>

England will receive 67% of EAFRD funding allocated to the UK in 2014-20, compared with 16% for Scotland, 13% for Wales and 4% for Northern Ireland.<sup>9</sup> Figure 7 below shows the EAFRD allocation for the current funding period broken down by country and the three largest recipient sectors for each country.

**Fig 7. EAFRD funding by country and largest sectors, 2014-20**



Source: [European Union Open Data Portal](#) (accessed 21 December 2016)

<sup>7</sup> For a more detailed discussion of the background, history and evolution of CAP, see the Commons Library Briefing Paper [CAP Reform 2014–20: EU Agreement and Implementation in the UK and in Ireland](#).  
<sup>8</sup> European Parliamentary Research Service, [Common Agricultural Policy – Pillar II](#) (July 2016)  
<sup>9</sup> [European Union Open Data Portal](#) (accessed 21 December 2016)



The current CAP, which was reformed in 2013, allows for transfers between Pillar I and Pillar II of up to 15% of the original amounts.<sup>10</sup> 18 Member States have decided to use this option to strengthen support for rural development. The UK transferred around €2.6 billion from the EADF to the EAFRD.<sup>11</sup>

## 2.5 Other ESI funds

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

### Youth Employment Initiative (YEI)

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

Eligible regions for YEI are those NUTS level 2 regions that had youth unemployment rates higher than 25% in 2012 and, for Member States where the youth unemployment rate had increased by more than 30 % in 2012, regions that have youth unemployment rates of more than 20 % in 2012.<sup>12</sup> The eligible areas in the UK are Inner London, Merseyside, Southwest Scotland, Tees Valley & Durham and West Midlands.

The UK has been allocated €206 million in YEI funding for 2014-20, comprised of €160 million for England and €46 million for Scotland.<sup>13</sup>

### European Maritime and Fisheries Fund (EMFF)

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

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

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

### Territorial cooperation

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

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<sup>10</sup> [Article 14 of Regulation \(EU\) No 1307/2013](#)

<sup>11</sup> European Parliamentary Research Service, [Common Agricultural Policy – Pillar II](#) (July 2016)

<sup>12</sup> European Parliamentary Research Service Blog, [Youth Employment Initiative](#) (17 June 2014)

<sup>13</sup> A further breakdown of YEI funds can be found in the Government press release [£170 million to help young people find jobs](#)

Across Europe, the total budget for these programmes is €9.2 billion, covering 107 programmes. The UK does not participate in all of these programmes, but there are 16 programmes that cover all or parts of the UK.<sup>14</sup> Any funding the UK received from these programmes is in addition to the €5.8 billion identified from the ERDF in table 1.

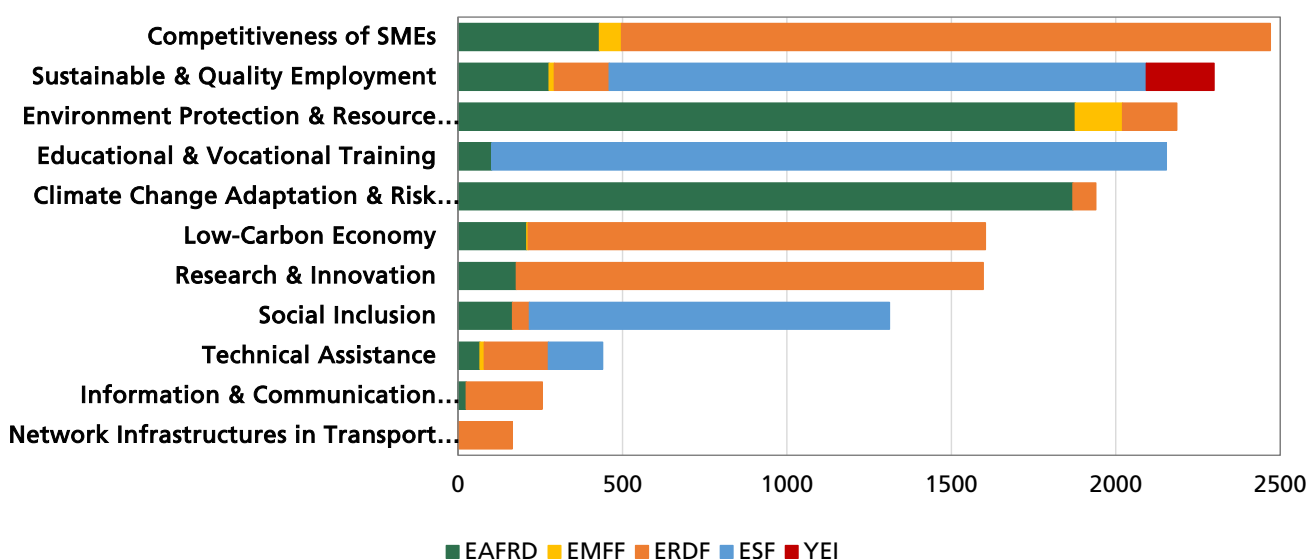
INTERREG programmes involving the UK include the €257 million [Two Seas Programme](#), covering England, France, the Netherlands and Belgium (Flanders) and the €396 million [North West Europe Programme](#) covering six other Member States and Switzerland.

While it is not possible to determine the total amount of funding from these programmes for the UK over the 2014-20 period, [EU expenditure and revenue data](#) reveals that €78 million was spent on ‘European territorial cooperation’ in the UK in 2015.

## 2.6 Funding by sector

ESI funding activities can be broken down into the sectors they target which fit within the broad priorities of the MFF (see [section 1.1](#)). Figure 8 reveals the total funding for each sector and how this breaks down among the individual funds. Over the 2014-2020 period, the largest share of ESI funding (€2.5 billion, 15% of total funding) was allocated to enhancing the competitiveness of small and medium enterprises (SMEs). Around €2 billion of this was allocated from the EDRF with the remainder from the EAFRD and EMFF. The second largest allocation was for sustainable and quality employment (€2.3 billion, 14%), with €1.6 billion coming from the ESF.

**Fig 8. ESI funding to the UK by sector, 2014-2020 (€ millions)**



Source: [European Union Open Data Portal](#) (accessed 21 December 2016)

<sup>14</sup> Department for Communities and Local Government, [European territorial cooperation programmes](#) (accessed 29 December 2016)

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

**Box 4: Major ESI funding projects**

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

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

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

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

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

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

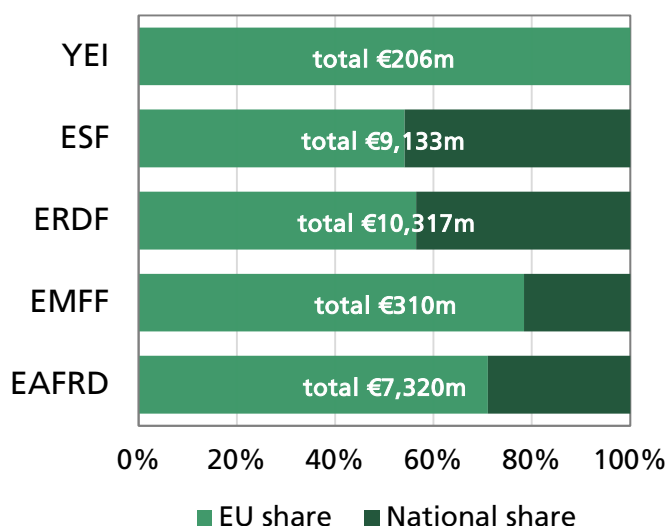
Source: UK Government, [European Regional Development Fund and European Social Fund list of beneficiaries](#)

## 2.7 National co-financing

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

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

**Fig 9. UK ESI funds co-financing rates and total combined value by fund, 2014-2020**



Source: [European Commission data](#)

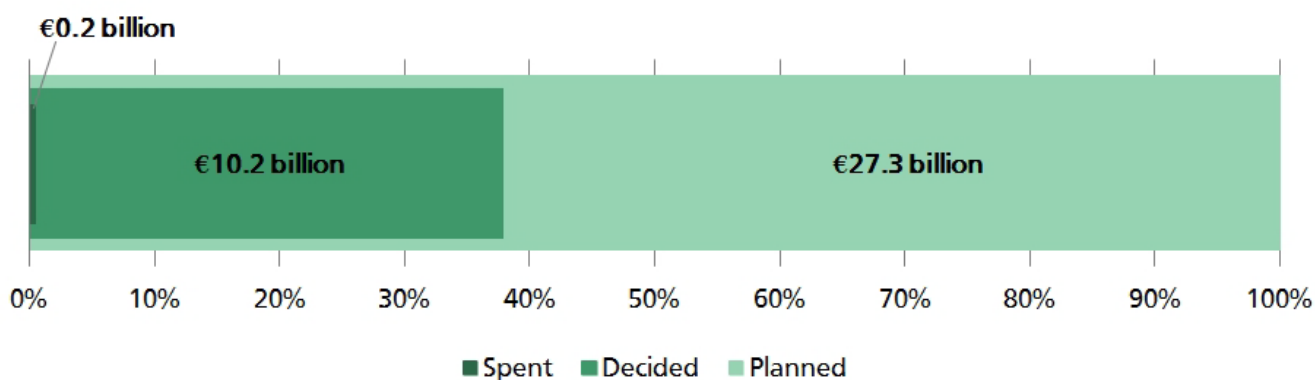
### Public and private co-financing

Data from the European Commission suggests that the majority of national co-financing in the UK comes from public sources.<sup>15</sup> Of the €4.5 billion of national funding to ERDF projects over the 2014-2020 period, **private sources account for €1.2 billion**. Three quarters of private sector support is dedicated to the competitiveness of SMEs and the remainder to research and innovation.

## 2.8 Progress of the funds

The chart below shows the progress of the funds in the UK for the current period, including both EU funding and national co-financing (data as available in November 2016). It reveals the total amount planned to be spent on ESI-related projects (€27.3 billion), the amount for projects that have been decided (€10.2 billion) and the amount spent so far (€0.2 billion).

**Fig 10. Progress of the 2014-20 ESI funds so far (November 2016)**



Source: [European Union Open Data Portal](#) (accessed 21 December 2016)

<sup>15</sup> European Commission, [ESIF 2014-2020 Achievement Details](#)

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

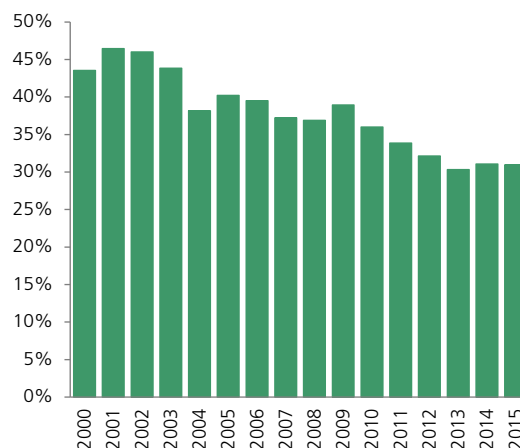
The European Agricultural Guarantee Fund (EAGF) is a second financial mechanism (besides the EAFRD) used for the implementation of the EU's Common Agricultural Policy (CAP).<sup>16</sup> They both replaced the European Agricultural Guidance and Guarantee Fund (EAGGF).

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

The EAGF is the largest single component of EU funding, amounting to €309 billion in 2014-20 or roughly 28% of the total EU Budget. In recent years the EAGF (and the equivalent funds in previous MFFs) have reached up to 46% of total EU expenditure). The overall CAP budget has fallen slightly this year along with the overall EU budget.

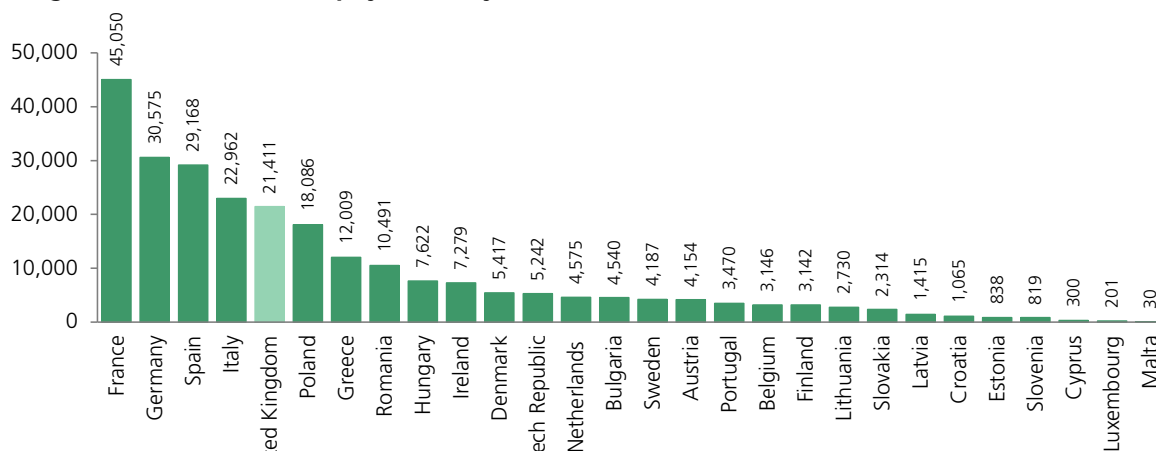
Figure 12 below shows the ceilings for **direct payments** (which form around 94% of the EAGF in 2016)<sup>17</sup> by Member State between 2015 and 2020. It reveals that the UK received the fifth largest allocation across the EU-28 with over €21 billion in direct payments. France receives the largest share of direct payments by over €14 billion.<sup>18</sup>

**Fig 11. EAGF (and predecessors) as a share of total annual EU expenditure, 2000 to 2015**



Source: [European Commission, EU Budget and Expenditure](#)

**Fig 12. EAGF total direct payments by Member State, 2015-20**



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

<sup>16</sup> Along with the EAFRD, it was established on 1 January 2007 following [Council Regulation \(EC\) No 1290/2005](#) of 21 June 2005 on the financing of the CAP.

<sup>17</sup> House of Commons Library calculations based on figures from the [European Parliamentary Research Service](#) and the [European Commission](#).

<sup>18</sup> This amount takes into account the transfer of money from the direct payments towards rural development (as decided by the national authorities).

## 22 UK Funding from the EU

The €22.5 billion allocated to the UK reflects a slight decrease in the value of direct payments, falling by 1.6% in cash terms (or 12.6% reduction in inflation-adjusted terms) between 2013/14 and 2019/20.<sup>19</sup> Northern Ireland will receive a direct payment allocation of around €2.3 billion, Scotland around €4.1 billion, Wales around €2.2 billion and England around €16.4 billion.<sup>20</sup>

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<sup>19</sup> UK Government, [UK CAP allocations announced](#) (8 November 2013)

<sup>20</sup> Note that the total of these country breakdowns exceeds the €22.5 assigned to the EAGF in table 1. This is because of a reallocation of direct payments towards rural development (the EAFRD) as decided by national authorities. See also page 17.

## 4. Direct funding from the Commission

While the majority of EU funding is allocated to Member States to manage, there are also funds that connect programme participants directly to the source of funding. In general, organisations apply to the European Commission for funding from these streams, often on a competitive basis following calls for applications. The main Programmes of the 2014-2020 period are Horizon 2020 (H2020) with a budget of €77 billion, the Connecting Europe Facility with €22 billion and Erasmus+ with €15 billion.

Due to the rolling nature of these funds and their competitive basis, there are no designated country allocations as such. However, the Institute for Fiscal Studies (IFS) has estimated that receipts from the EU by non-government bodies in the UK are typically £1-£1.5 billion a year.<sup>21</sup>

### Horizon 2020

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

Figure 13 shows the aggregate maximum contributions of H2020 funding by the country of the coordinating institution (for countries receiving €100 million or more). It reveals that the second highest value of projects are with UK-based coordinating institution at just under €3 billion. Note that this does not correspond to the actual amount spent in the UK, as many projects are collaborative with institutions across the EU and elsewhere.

As a world leader in the areas of research and development, the UK has a strong track record in securing funds from H2020 and its predecessors. Around 15% of funds allocated from H2020 have gone to the UK, with British universities in the top four higher education recipients to date (University of Cambridge, University College London, Imperial College

**Fig 13. Maximum Horizon 2020 contributions by country of the coordinating institution**



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

<sup>21</sup> IFS, [The budget of the European Union: a guide](#) (April 2016)

London and University of Oxford).<sup>22</sup> As of 23 February 2016, these four universities alone had been assigned over £363 million in H2020 funding, while the remaining UK universities in the top 100 across Europe had been assigned around £514 million combined.<sup>23</sup>

Funding to the UK has been spread across a number of H2020's thematic pillars, most notably 'Excellent Science' (£820 million), 'Societal Challenges' (£650 million) and 'Industrial Leadership' (£338 million). There have been a total of 3,937 participations in the programme from UK organisations, including 1,052 private, for-profit entities, 341 research organisations, 150 public bodies, 2,253 higher or secondary education establishments and 141 others.<sup>24</sup>

## Erasmus+

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

Table 2 below shows Erasmus+ funding to the UK 2014-15, broken down by country and type.

**Table 2. Erasmus+ funding to the UK, 2014 and 2015**

	England	Wales	Scotland	Northern Ireland	Total
Higher education	85,770,329	6,474,734	18,084,967	4,533,521	<b>114,863,551</b>
Vocational education & training (VET)	44,299,455	2,775,138	4,763,727	3,637,414	<b>55,475,734</b>
Schools	24,735,059	1,360,410	2,240,308	1,726,742	<b>30,062,519</b>
Adult education	7,190,750	61,795	991,115	628,221	<b>8,871,881</b>
Youth	20,044,976	1,286,465	1,535,702	2,086,357	<b>24,953,501</b>
<b>Total</b>	<b>182,040,569</b>	<b>11,958,542</b>	<b>27,615,819</b>	<b>12,612,256</b>	<b>234,227,186</b>

Source: [Erasmus+ statistics](#)

## Other funds

The remainder of direct funding from the Commission is made up of a number of other smaller funds. Several of the most relevant funds (as well as their total allocations for the whole EU) are presented below.<sup>25</sup>

- **[Competitiveness of Enterprises and Small and Medium-sized Enterprises \(COSME\) \[€2.3 billion\]](#)** – Aims to improve

<sup>22</sup> HM Treasury, *HM Treasury analysis: the long-term economic impact of EU membership and the alternatives* (April 2016)

<sup>23</sup> Department for Business, Innovation & Skills, *UK participation in Horizon 2020 and Framework Programme 7* (April 2016)

<sup>24</sup> Ibid.

<sup>25</sup> Funding figures taken from the European Free Trade Association (EFTA) page [EU Programmes with EEA EFTA Participation](#)



SMEs access to finance, access to markets, create better conditions for competitiveness and encourage entrepreneurship.

- **[Creative Europe](#) [€1.5 billion]** – Supports the cultural and creative sectors, enabling them to reach new audiences, develop skills for the digital age and safeguard cultural and linguistic diversity.
- **[Connecting Europe Facility](#) [€1.3 billion]** – Investing in trans-European networks and infrastructures in the sectors of transport, telecommunications and energy.
- **[Employment and Social Innovation](#) [€0.9 billion]** – Aims to promote a high level of quality and sustainable employment, guaranteeing adequate and decent social protection, combating social exclusion and poverty and improving working conditions.

## 5. Funding from other EU institutions

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

### 5.1 European Investment Bank (EIB)

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

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

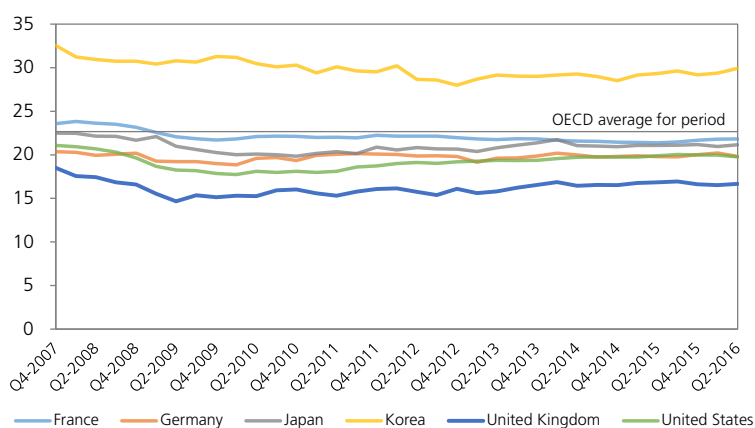
The Bank borrows money on capital markets and lends it on favourable terms to projects that support EU objectives.

#### The EIB and the UK

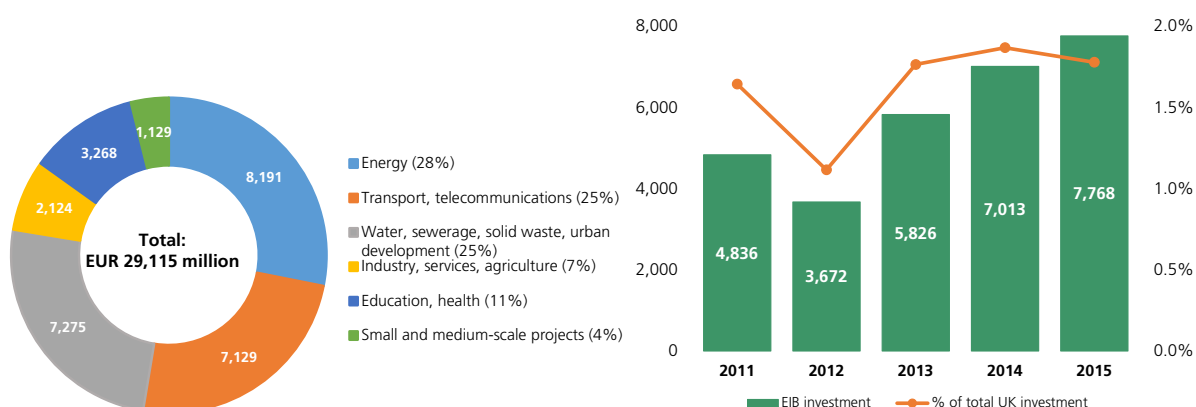
Investment in public infrastructure in recent years – including roads, railways and energy projects – has been consistently low relative to other advanced economies (see figure 14). In his [speech at the Conservative Party Conference](#), the Chancellor stressed that “We need to close that gap with careful, targeted public investment in high value infrastructure”.

However, the UK’s vote to leave the EU has generated some uncertainty about sources of future infrastructure investment, particularly with respect the European Investment Bank (EIB). Founded under the Treaty of Rome of 1957, the European Investment Bank (EIB) is directed and managed by EU member states and it is tasked with contributing to the “[balanced and steady development of the internal market in the interest of the Union](#)”. It is the world’s largest multilateral lending institution, borrowing and lending [twice as much as the World Bank](#). The charts below highlight the key sectors for EIB lending in the UK as well as the increase in lending commitments over recent years (more than doubling between 2012 and 2015).

**Fig 14. Gross fixed capital formation (investment), Q4 2007 to Q2 2016**



Source: [World Bank Databank](#)

**Fig 15. EIB lending in the UK, 2011 to 2015 (€ millions)**

EIB, [The EIB in the United Kingdom](#) (accessed on 14 November 2016)

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

The EIB also supports non-infrastructure projects that make a significant contribution to growth and employment. The joint European resources for micro to medium enterprises (JEREMIE), funded by the EIB and the European Regional Development Fund (ERDF), provides a funding channel that has been described as “[a lifeline for growing small and medium-sized enterprises](#)”. This funding is particularly important in the north of England where a combined £415m has been spent since 2010. New funds include the £142 million [Finance for Business North East programme](#) which, by the end of the programme, is expected to have supported 972 businesses, safeguarded 3,100 jobs and created over 5,700 more.

## 5.2 European Investment Fund (EIF)

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

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

In February 2010, the EIF and the UK Government launched the [UK Future Technologies Fund \(UK FTF\)](#), a £200 million technology focused fund which invests into venture capital funds in the ICT, life sciences and advanced manufacturing sectors.

## 6. Arrangements for non Member States

Non-Member States also have access to certain streams of EU funding, though this is typically dependent on payments into the EU Budget.

The European Free Trade Association (EFTA) is an intergovernmental organisation set up for the promotion of free trade and economic integration to the benefit of its four Member States (Norway, Iceland Liechtenstein and Switzerland). While Norway, Iceland and Liechtenstein are also members of the European Economic Area (EEA), Switzerland is not.<sup>26</sup>

### 6.1 Arrangements for EEA countries

#### Contributions to regional funding

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

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

Since the 2004 enlargement, funds have been provided under two schemes: 'EEA Grants', which Norway, Iceland and Liechtenstein all contribute to, and which are targeted at the 13 Member States that joined since 2004,<sup>27</sup> plus Greece and Portugal; and 'Norway Grants', which Norway alone contributes to, and are targeted at the 13 new Member States only.

The financial contribution is established over the life of the current MFF, and commits EEA States to make annual payments towards the programmes in which they participate. Payments are based on a proportion of the EU's annual budget towards the specific EEA programme, with proportions varying from year to year depending on the relative size of the gross domestic product (GDP) of the non-EU EEA Members compared to the total GDP of the EEA.<sup>28</sup>

Over the period 2014 to 2021, EEA Grants amount to €1.55 billion and Norway Grants to €1.25 billion, with Norway contributing the vast majority of the combined total (96%) compared to Iceland (3%) and Liechtenstein (1%).<sup>29</sup>

In addition to the Grants, EFTA countries can also contribute to other EU programmes such as [Horizon 2020](#) (the EU research and innovation programme) and [Erasmus+](#) (a skills and training programme). The EFTA

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<sup>26</sup> For more information on the distinctions between EFTA and EEA membership, see chapter 4 of Commons Library Briefing Paper CBP-7214 '[Brexit: some legal and constitutional issues and alternatives to EU membership](#)'

<sup>27</sup> These Member States are Malta, Cyprus, Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Slovenia, Hungary, Bulgaria and Romania

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

<sup>29</sup> A breakdown of the funds by recipient country can be found in the [EEA and Norway Grants 2014-2021 factsheet](#)

commitment to such funds over the 2014-2020 period is approximately €3.22 billion.<sup>30,31</sup>

### Receipts from regional funding

#### EEA/Norway Grants

Non-EU EEA countries are not eligible for funds from the EEA and Norway Grants as these are only directed towards the 15 countries in Central and Southern Europe and the Baltics.

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

However, as part of the EU's cohesion policy, there are funds available to "support cross-border, transnational and interregional cooperation".<sup>32</sup> INTERREG is a €10.1 billion fund over the current funding period (2014-20). There are three INTERREG project groupings that affect Norway – Sweden-Denmark-Norway, Sweden-Finland-Norway and Sweden-Norway. Norway cannot directly apply for these funds – in each case it is up to the Managing Authority (a Member State or sub-division of a Member State) to decide that all or part of an operation is implemented outside the Union part of the programme area, and when this is the case it is subject to certain conditions. For example, [funding for the portion outside the EU cannot exceed 20 % of the support from the ERDF at programme level](#).

One small part of the territorial cooperation that Norway can apply for is [Interreg Europe](#). It provides a framework for exchanging experience between regional and local bodies in different countries and it covers the whole territory of the EU as well as Norway and Switzerland. Current projects in Norway include management of heritage in coastal landscapes and access to microfinance for small and medium-sized enterprises. Norway receives about **€8.2 million** from Interreg Europe over the life of the current fund (2014-2020), while it has paid in €25 million.<sup>33</sup>

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

#### Direct funding

EEA countries contribute to the costs of the EU programmes in which they participate under the EEA Agreement, in proportion to their percentage of EU GDP. The EEA states have also committed to second

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<sup>30</sup> EFTA, [EU Programmes with EEA EFTA Participation](#) (accessed 6 December 2016)

<sup>31</sup> Further information can be found from the [EEA and Norway Grants 2014-2021 factsheet](#)

<sup>32</sup> [EU Regulation No 1299/2013](#)

<sup>33</sup> Norway Mission to the EU, [Norway's Financial Contribution](#)

national experts to the Commission as an 'in kind' contribution to these programmes.<sup>34</sup>

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

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

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

Under Horizon 2020, the European Commission has allocated around **€30 million to projects in Iceland** and **€275 million to projects in Norway** for the period 2014-2020.<sup>35</sup>

Due to the variations in the reporting of data between different programmes, it is difficult to determine the total amount of direct funding that organisations in non-Member States receive through EU programmes.

## 6.2 Arrangements for Switzerland

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

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

Switzerland does not receive funding through the ESI funds or European Agricultural Guarantee Fund. It can benefit from INTERREG funding through countries it shares a border with, specifically through the France-Switzerland, Germany-Austria-Switzerland-Liechtenstein, Italy-Switzerland and France-Germany-Switzerland territorial cooperation programmes. However, as with Norway, Switzerland cannot directly apply for these funds and the amount that can be dedicated to funding

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<sup>34</sup> EFTA publishes a list of programmes that its Members participate in [here](#).

<sup>35</sup> European Union Open Data Portal, [EU research projects under Horizon 2020](#) (accessed 6 December 2016)

activities on Swiss territory is capped at 20%.<sup>36</sup> It is not possible to determine the value of this funding to Switzerland through the data published by the European Commission.

### Direct funding

#### Horizon 2020

[Article 7 of the EU Regulation establishing H2020](#) stipulates that non-Member States can be classified as “Associate Countries”. This includes acceding countries, candidate countries and potential candidates and EFTA Members. Association to Horizon 2020 takes place through the conclusion of an International Agreement between the EU and the country concerned. Organisations from Associate Countries can participate under the same conditions as organisations from the Member States.

Up to the end of 2016, Swiss participation in H2020 covered only parts of the programme. However, following the ratification of the Protocol on the extension to Croatia of the Free Movement of Persons Agreement between the EU and Switzerland by the Swiss Federal Council on 16 December 2016, Switzerland will be associated to the whole of H2020 as of 1 January 2017.<sup>37</sup> As of December 2016, Switzerland was the home country of organisations that are the lead coordinator on around €500 million worth of H2020-supported projects.<sup>38</sup>

#### Erasmus+

As with H2020, full participation in Erasmus+ is linked to the principal of free movement. The Swiss authorities and the EU suspended negotiations on Switzerland’s full participation in January 2014 as the Protocol on the extension of free movement was not applied to Croatia. Up to now, Swiss participation has only been open to certain activities under Erasmus+. Now that the Protocol has been ratified, negotiations may well resume to reach an agreement on full participation.<sup>39</sup>

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

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

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<sup>36</sup> See Article 20 of the specific provisions for the support from the European Regional Development Fund to the European territorial cooperation goal

<sup>37</sup> European Commission, [Swiss participation in Horizon 2020](#) (December 2016)

<sup>38</sup> EU Open data Portal, [EU research projects under Horizon 2020 \(2014-2020\)](#) (accessed 16 December 2016)

<sup>39</sup> European Commission, [Information note on the participation of Switzerland in Erasmus+](#) (accessed 28 December 2016)



## 7. Current status of post-Brexit funding

The UK will continue to receive funding from the EU as long as it is a member state – this will still be the case after Article 50 has been triggered and negotiations are ongoing. Contract and grant agreements are legally binding documents between project partners and the managing authority, meaning that despite the decision to leave the EU, these agreements would continue to require the European Commission to finance all UK partners should they apply for, and be successful with securing EU funding.<sup>40</sup>

### 7.1 ESI funds

On 13 August 2016, [the Chancellor gave a number of assurances](#) relating to the replacement of any lost EU funding. This included all structural and investment fund projects, including agri-environment schemes, signed before the Autumn Statement 2016 which will be fully funded, even when these projects continue beyond the UK's departure from the EU.

On 3 October 2016, [the Chancellor announced](#) that beyond the Autumn Statement, the Treasury will offer a guarantee to bidders whose projects “meet UK priorities and value for money criteria”. It is unclear as to what these priorities and criteria will entail and to what extent these will cover projects currently funded by the EU. A subsequent parliamentary question asking about the conditions for continuation of funding received the following response:

“The Chancellor announced that the Treasury will provide a guarantee for all new structural and investment fund projects, signed after Autumn Statement, and before we leave the EU, where they provide value for money and support domestic strategic priorities. Each government department will take responsibility for the allocation of money to projects in line with these conditions and the wider rules on public spending. The Treasury will work with departments to embed this approach.”<sup>41</sup>

[Various other PQs](#) have been asked on the subject of the ESI funds, to which the Government has reiterated these commitments.

With respect to longer term arrangements for replacing the ESI funds, the Government has said:

“Officials are beginning the longer-term work of considering how best to support our regions following the UK's departure from the European Union.”<sup>42</sup>

### Access to ESI funds after Brexit

The UK's access to EU funding programmes will be subject to negotiations during the EU withdrawal process. It is possible that the UK

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<sup>40</sup> Essex County Council, [What does Brexit mean for EU Funding in the UK?](#) (accessed 28 December 2016)

<sup>41</sup> [PQ 47657](#) [on EU grants and loans], 10 October 2016

<sup>42</sup> [PQ 50600](#) [on Regional Assistance], 26 October 2016

may still receive funding from certain EU programmes even after it has left the EU.

Some minor ESI programmes already include countries that are not EU member states, such as the INTERREG programme which can support cross-border projects with non-Member States. However, these funds are relatively small – [projects in Norway](#) through Interreg Europe, a sub-division of INTERREG, are currently worth around €8.2 million.

## 7.2 Direct funding

The guarantee made by the Chancellor in August 2016 also stated that:

“where UK organisations bid directly to the European Commission on a competitive basis for EU funding projects while we are still a member of the EU, for example universities participating in Horizon 2020, the Treasury will underwrite the payments of such awards, even when specific projects continue beyond the UK’s departure from the EU.”<sup>43</sup>

As with the ESI funds, conditions will be attached to this funding so that projects will have to demonstrate that they offer value for money and are in line with domestic strategic priorities.

### Access to direct funding after Brexit

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

- a. Acceding countries, candidate countries and potential candidates;
- b. European Free Trade Association (EFTA) members, or countries or territories covered by the [European Neighbourhood Policy](#) (ENP); and
- c. Countries or territories associated to the Seventh Framework Programme (a programme under the 2007-2013 MFF, similar in nature to H2020).<sup>44</sup>

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

However, as discussed in [section 6.2](#), full participation in certain funds may be conditional on a Free Movement of Persons Agreement, like the one established between the EU and Switzerland. Details of any UK/EU agreements on Horizon 2020 and other direct funds will be subject to negotiation.

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<sup>43</sup> HM Treasury, [Chancellor Philip Hammond guarantees EU funding beyond date UK leaves the EU](#) (13 August 2016)

<sup>44</sup> EU, [Regulation No 1291/2013 establishing Horizon 2020, Article 7](#)

## 7.3 European Investment Bank

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

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

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

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

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

### What are the alternatives?

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

For non-infrastructure schemes, many (such as JEREMIE) are co-financed by European Structural and Investment (ESI) funds and the EIB. The Treasury has guaranteed ESI funding for all projects signed before the 2016 Autumn Statement, as well as an additional guarantee for projects signed after the Autumn Statement that “[pass the value-for-money test and are in line with domestic strategic priorities](#)”. However, there has been no indication that the funding share from the EIB falls under this guarantee and thus there is uncertainty over overall funding for many projects.

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