

## Negotiations on EU funds

Not all regions and countries that are members of the European Union enjoy the same economic and social conditions. For this reason, the EU has developed a regional policy to help iron out these differences. Negotiations on this area were closed on Monday, July, 29, 2002.

*By Edward Demicoli, MIC Deputy Head*

The EU regional policy is synonymous with EU funding. Everyone has heard about EU Funds or the Structural Funds. However, it must be said at the outset that the issue of how much funds Malta and other candidate countries will get has not yet been settled. Instead, it has been left to be dealt with at the very end of negotiations. As a result, negotiations on this subject focused on technical issues, in particular on how each country is preparing to be in a position to spend its allocation of funds effectively when it joins the EU.

### EU regional policy

EU regional policy is designed to provide EU assistance to help the most disadvantaged EU regions overcome their economic and social difficulties and catch up with the others. There have been visible results that can be quantified. For instance, the average income earned by each person in the three least prosperous countries which are also the main beneficiaries of EU funds - Greece, Ireland, Portugal and Spain - increased from 68% of the EU average in 1988 to 79% in 1999.

But substantial differences remain and the level of wealth of the ten best performing regions, calculated as the Gross Domestic Product or "GDP", is still almost three times higher than that of the ten least developed regions. There is therefore still much to be done.

Between 2000 and 2006, one third of the EU budget (which is made up of contributions from the Member States) will be spent on regional policy. The total allocation for funds is EUR213 billion or LM89 billion.

It is important to appreciate that what is happening here is that money is being redistributed from the richer to the poorer regions which need it most. Clearly then, above all, the EU regional policy is about solidarity, which is another word for cohesion.



### The results

The results of the EU regional policy can be seen by European citizens who benefit from assistance in the form of help to find work and adapt to the changing job market, through training. It improves the lives of all who live in the regions by adding to the funding available to the public authorities for building new infrastructure. Roads and airports have been built with part-financing from EU Funds. Similarly, small businesses are helped to set up and stay in business in remote regions. The information society is infiltrating the most isolated rural areas. New education, health and leisure facilities are being built in rehabilitated suburbs. All these are tangible examples that EU citizens can see for themselves.

### How Malta compares

Compared to EU countries and regions, Malta still lags behind. Its GDP level is just over half of the average in EU countries. Latest statistics put Malta at 55% of the EU average. Compared with the richest ones, we find that the average Luxembourger is more than three times as rich as the average Maltese. It is for this reason that, during negotiations, Malta sought to ensure that it should benefit from the highest level of EU funding once it joins the EU. The regions and countries that have a GDP level which is less than 75% of the EU average are listed in a category that attracts the highest level of funding. These are known as "Objective One" regions or countries.

### GDP per capita in Euros

Luxembourg	Ireland	Greece	<b>MALTA</b>	Latvia
39,500	23,749	14,500	<b>11,127</b>	5,726

Source: Eurostat

Since Malta falls below the 75% threshold, it expects to be classified under this Objective. However, a final decision on this point will only be taken at the end of negotiations when the decision on the actual amount of funding will also be taken. In deciding on whether a country falls below the 75% threshold, its GDP will be compared to the existing fifteen EU countries and not to the enlarged Union.

The decision will apply for the purposes of EU funding until the end of 2006. It will then need to be re-assessed for the purposes of deciding on EU funding for the period running from 2007 to around 2013. According to new rules introduced in the Nice Treaty, this will be the last time that a decision on EU funds will be taken unanimously. This decision will be taken by countries that are members of the EU in 2006.

### Territorial organisation

Since the eligibility for funding depends on the level of economic development, it is clear that statistics are an important factor in determining whether a country or region qualifies for funding and in that case, in which category of funding it should fall. It is here that the issue of regionality comes in. For the purposes of the collection of statistics a difference is made between one country or region and another depending on its size. Regions are classified according to their territorial size and given a "Nomenclature of Territorial Statistical Units" or "NUTS" classification. For instance, territories such as Malta, with a population of under 400,000, would normally be classified under the third level of NUTS whereas larger territories are classified under the second level (NUTS 2) and even larger ones under the first level (NUTS 1).

NUTS 1 refers to whole countries or very large regions such as Scotland in the UK or the state of Bavaria in Germany. These regions should contain a minimum of 3 million people.



NUTS 2 refers to regions usually under autonomous control and with a population of at least 800,000, such as Lancashire in the UK and the region of Liguria in Italy. On the other hand, NUTS 3 are smaller regions with a minimum population of 150,000 inhabitants. Examples include Rome, Paris or Dublin.

Of course, a region at NUTS 3 level is necessarily part of a larger unit at NUTS 2 level which in turn, is part of a larger unit at NUTS 1 level. One NUTS level is a sub-unit of a higher NUTS level.

### Will Malta be divided into regions?

Malta had originally submitted that for the purposes of collection of statistics, it should be considered as one single region at NUTS 1 level and three separate regions under NUTS 2 and 3, namely, Malta Majjistral, Malta Klokka and Gozo (including the island of Comino).

This request was subsequently changed and instead, Malta and Gozo as an entire country will be classified as one unit at the levels of NUTS 1 and 2. On the other hand, Malta and Gozo will be considered as separate regions at NUTS 3 level. This was accepted by the EU even though, as such, Gozo has a much smaller population than a typical NUTS 3 region. On the other hand, this was accepted by Malta on the understanding that, in addition to this classification, a specific Protocol for the island of Gozo will be negotiated, as discussed below.

This means that both Malta and Gozo will be considered as separate regions for statistical purposes. Smaller territorial units, such as local councils are to be classified under NUTS level 5. Comino is included with Gozo.

This classification does not effect Malta or Gozo's eligibility for EU funding because the entire country is expected, in any case, to be under Objective One irrespective of whether it is considered as one or more regions. Both Malta and Gozo will therefore be fully eligible for the highest level of funding from the Structural and Cohesion Funds. However, the classification does make a difference when it comes to managing funds, as shall be explained below.



### Gozo

The EU Treaty acknowledges that island regions, such as Gozo, suffer from permanent disadvantages which need to be addressed. Malta claims that Gozo suffers from permanent disadvantages as a result of its status as a small island within an archipelago of islands (double insularity), its small population size coupled with high population density, its limited resources and its environmental fragility. Gozo also has an over-dependence on the primary sector (agriculture) and on the secondary sector (industry) of employment. All these factors have an impact on the economic and social development of Gozo. In fact, in 2000, Gozo's regional GDP stood at just 71.7% of Malta's national average, which in turn, is just over half of the EU average. This means that Gozo lags far behind when compared to EU countries.

In order to address Gozo's disadvantages, Malta wants to negotiate a special arrangement or a protocol for Gozo that takes into account both its funding requirements as well as its other needs. Negotiations are still under way and one has to await their outcome to get the full picture on Gozo.

### Which EU funds will Malta and Gozo be eligible to?

Malta and Gozo will be eligible for funding from all EU funds. These are known as the Structural and Cohesion Funds and consist of five main funds divided into four Structural Funds and the Cohesion Fund. Between 2000 and 2006, a budget of €195 billion (Lm81 billion) was allocated to the Structural Funds whereas a further €18 billion (Lm8 billion) were allocated to the Cohesion Fund. If enlargement takes place as scheduled in 2004, the new countries, including Malta, will immediately be eligible for funding from these funds.

#### THE COHESION FUND

Finances specific infrastructural projects relating to transport and the environment in countries with a level of wealth below 90% of the EU average. All new EU countries, including Malta, will qualify for Cohesion funding.

##### Examples of Cohesion Fund projects

**GREECE:** Port of Piraeus. Construction of second terminal and ring road.

Total cost: €97.5 million.

EU contribution: €45 million.

**IRELAND:** Building of a road linking Dublin to Belfast (Drogheda Bypass)

Total cost: €61 million

EU contribution: €51.8 million

**SPAIN:** Desalination plant in Majorca

Total cost: €38 million.

EU contribution: €32.5 million.

#### EUROPEAN REGIONAL DEVELOPMENT FUND (ERDF)

Promotes regional development such as:

- productive investment to create and safeguard sustainable jobs;
- investment in infrastructure (such as transport, industry, environment);
- measures which support small businesses;
- investment in education and health.

##### Examples of ERDF Projects

**GREECE:** General hospital in Rhodes

Total cost: €29 million

EU contribution: €22.2 million.

#### THE EUROPEAN SOCIAL FUND (ESF)

Promotes the return of the unemployed and disadvantaged groups to the work force, mainly by financing training measures.

##### Examples of ESF Projects

**UNITED KINGDOM:** Plan to increase employment in Liverpool

Total cost: €272 million

EU contribution: €125 million

#### THE EUROPEAN AGRICULTURAL GUIDANCE AND GUARANTEE FUND (EAGGF)

The guidance section of the EAGGF finances rural development measures and aid to farmers. The Guarantee section of this fund supports the Common Agricultural Policy.

##### Examples of EAGGF Projects

**IRELAND:** Creation of an equestrian event, promoting tourism in the area.

Total cost: €6.25 million

EU contribution: €2.5 million

#### THE FINANCIAL INSTRUMENT FOR FISHERIES GUIDANCE (FIFG)

Helps the fishing industry through projects such as the modernisation of fishing vessels and fishing port facilities, processing and marketing of fishery products and aquaculture.

##### Examples of FIFG Projects

**PORTUGAL:** Modernising Peniche Fishing Port.

Total Cost : €513,762

EU contribution : €256,881

## What other EU funding initiatives will Malta and Gozo be eligible to?

Malta and Gozo will also be eligible for funding under what are known as "Community Initiatives" which attract 5.35% of total funding. These are:

### **EQUAL**

Supports measures that combat inequalities and discrimination in access to work.

*Example of an EQUAL project*

**FINLAND:** Promoting entrepreneurship amongst woman  
Total cost: €362,907  
EU contribution: €272,180

### **INTERREG**

Supports measures that promote cross-border, transnational and interregional cooperation.

*Example of an INTERREG project*

**IRELAND:** Infrastructure development at the port of Rosslare Europort.  
Total cost: €40 million  
EU contribution: €18 million

## How are funds allocated?

Funds are allocated according to the needs of each country and region. Clearly, the poorest regions get the highest level of funding, whereas the richest regions may get nothing at all. This is why countries and regions are put in different categories according to their needs. There are three categories; Objectives One, Two and Three.

**Objective One:** These are the poorest regions in the EU which have a GDP level that is less than 75% of the EU average. Countries and regions under this objective get the large chunk - 70% - of all EU funding in order to help them catch up. 22% of the EU population live in Objective One areas.

**Objective Two:** These are industrial, rural, urban or fisheries-dependent areas that face structural difficulties. They get 11.5% of total funding and represent 18% of the EU population of the Union lives in such areas.

**Objective Three:** Supports the modernisation of training and the promotion of employment. This objective gets 12.3% of total funding.

Each country is required to draw up a document listing its priorities for spending EU funds. This means that EU funds are spent according to the priorities of each country and not priorities set by the EU. However, of course, the funding programme would have to be closely negotiated with the EU. It is also important to note that irrespective of the type of assistance, EU funds add to, but do not replace, national efforts. Furthermore, EU funding does not cover total costs of a particular project and the amount provided by the EU may vary from project to project. The highest level of EU contribution is usually paid under the Cohesion Fund where the EU contribution may reach the level of 85% of total costs. Under other funds, the contribution is normally lower. Funding must also be spent according to strict EU conditions of transparency, accountability and efficiency.

## Who will administer EU funds in Malta?

A well-functioning structure must be put in place in each country to ensure that it can absorb EU funds effectively and manage them properly. In Malta, the main player will be the Regional Policy Directorate within the Office of the Prime Minister which will be responsible for programming and management of the funds allocated to Malta. However, there are other structures being set up and there is also the involvement of Ministries and other public entities. An active participation of the Malta Council for Economic and Social Development (MCESD) and of non-governmental organisations is also envisaged. In Malta's case the document that will identify Malta's priorities will be known as the "Single Programming Document" (SPD). Out of these priorities, specific concrete projects can be formulated that would qualify for EU funding. A first draft of Malta's Single Programming Document (SPD) will be presented to the EU in the first half of 2003. Unless this programme is finalised, candidate countries may run the risk of not being able to submit project proposals in time immediately after membership. Specific projects will also need to be identified for the purposes of funding from the Cohesion fund. These are likely to include projects relating to the treatment of sewage, the Maghtab and Tal Qortin landfills and the improvement of Malta's roads and transport network.

It is important to note that for funding purposes, in particular for Objective One funding, the EU normally considers regions at NUTS 2 level and not lower levels. This has a lot to do with the need to ensure that the region is sufficiently large to be able to set up the necessary structures to administer and absorb funds effectively. This means that in the case of our country, EU funding allocation will go to Malta and Gozo as a single country and will be administered by the national structures and not by separate administrations in Malta and Gozo as this would not be cost-effective. In other words, although Malta and Gozo will be separate regions at NUTS 3 level, they will benefit from one single funding allocation given to the country as a whole because it is the entire country that has been classified at NUTS 2 level. Of course, as a region at NUTS 3, Gozo would still benefit from the funding allocated to the wider region at NUTS 2 level (Malta and Gozo) because it forms part of it.

In order to ensure that a high priority is given to Gozo's needs when it comes to spending EU funds, a separate priority of Malta's Single Programming Document will be dedicated to the "Regional Development of Gozo". This priority will be based on Gozo's special needs that were identified in a specific study on Gozo and will include the financial indications for Gozo's priorities, projects and measures. Furthermore, the Ministry of Gozo will set up a Regional Project Committee which will provide an input into the programming phase concerning Gozo's development and also to select and implement projects and measures for Gozo. This will ensure that Gozitans will be directly involved in how funds are spent in Gozo.

## How much money will Malta get?

With the closure of negotiations on regional policy, this question still remains unanswered because, being an issue that carries significant financial implications for the EU, it will only be decided towards the end of negotiations, along with other issues carrying a financial implications such as agriculture and budget. What is known so far is that after membership, Malta will be a net beneficiary of EU funds and not a net contributor. In other words, Malta will get more from the EU than it will pay.

**Malta's official negotiating position paper on this area is also available from MIC or from:**

**[www.mic.org.mt](http://www.mic.org.mt)**

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