CRPM CPMR

Analysis from the CPMR secretariat

Structural funds eligibility comparison (2007/2008/2009 vs 2009/2010/2011)

Purpose of this note

- to assess **which regions would change eligibility in Cohesion Policy** if the reference period using the average of regional GDP statistics for 2009/2010/2011 was used instead of the 2007/2008/2009 average, which was the reference period used to calculate eligibility for the 2014 – 2020 programming period.

- to understand **the evolution of Growth Domestic Product** (GDP pps data), at regional and national level.

- to get a first **estimate of the forthcoming review clause** for structural funds allocations which will take place in 2016.

1. Introduction and background

The CPMR General Secretariat undertook a short analysis to visualise the effect of using the most recent regional GDP statistics on Cohesion Policy eligibility. As a reminder:

- Eligibility for Cohesion Policy is calculated using **regional GDP (at NUTS II level) data** in purchasing power standard (PPS) as a percentage of the EU average.
- **An average of three years** is taken to determine in which category (more developed, transition, less developed) a region will be.
- The political agreement on the Cohesion Policy package for 2014 / 2020 reached in November 2013 confirmed that the reference period for Cohesion Policy eligibility would be the **2007/2008/2009 regional GDP average**.
- In 2016, the Commission will **review structural funds allocations** at Member State level to take into account the latest economic data (see more details below)

2. CPMR position

The CPMR has long criticised (see CPMR position on future Cohesion Policy approved in February 2012) the process for determining Cohesion policy eligibility, for the following reasons:

- Delay. There is a significant delay to obtain regional GDP statistics (about 2.5 to 3 years) which can be used by EUROSTAT to compare figures at European level. As a recent example, regional GDP statistics for 2011 were only published on 27 February 2014.

The delay is particularly problematic for the calculation of Cohesion Policy structural funds funding allocations. Despite the financial crisis and its impact on the economy which started to be felt in the second half of 2008, the reference period retained to calculate structural funds allocation is the average of 2007/2008/2009. The social impact of the crisis (soaring unemployment rates particularly across young people, rising poverty levels, decreasing purchasing power) started to become significant between 2009 and 2011, depending on Member States. The impact of using 'old' statistical data is significant in countries particularly affected by the effects of the crisis, and in particular Greece and Spain, which suffered reductions of 25% and 20% respectively to their structural funds allocations from 2007 – 2013 to 2014 – 2020). **Using pre-crisis data to calculate allocations for seven year programmes starting in 2014 is unacceptable.**

- **Structural Funds review clause.** The Commission will automatically review structural funds allocations in 2016 and will base its review on the most recent statistics available at the time. Although not as ambitious as the 'crisis contingency fund' which the CPMR had proposed early in the negotiations phase, the review clause is a step in the right direction.

It is important to note that the positive impact of the review clause will be considerably mitigated by two factors: a maximum of 4 billion euros will be redistributed, and this exercise will result in significant discrepancies as out of date - and therefore unsuitable - statistics will be used (see above point).

- **Availability of data.** It is also regrettable that 2010 regional data was published by EUROSTAT a mere 19 days after an agreement was reached in the Council on the Multiannual Financial Framework for 2014 – 2020 on 8 February 2013. Using a more recent reference period (2008/2009/2010 vs 2007/2008/2009) would have had an insignificant impact on the EU budget, but would have resulted in six regions changing eligibility (including four CPMR Members) with notable financial increases in these regions. This issue is explained in more details in a Technical Note presented in June 2013.

- **Growth Domestic Product.** The prevalence of Growth Domestic Product (GDP) as an indicator to calculate eligibility under Cohesion policy but also as criteria to determine the size of theoretical allocations (particular in the less developed category and transition regions category) is questionable.

There are numerous examples within CPMR regions demonstrating the unsuitability of using GDP. GDP statistics for the Shetlands islands in Scotland, for instance, within the NUTS II region of Highlands and Islands, are abnormally high. The main reason for such seemingly positive statistics is the neighbouring Sullom Voe oil terminal, a large commercial operation owned outside the area, which artificially boosts the level of GDP of the region without taking into account the relative poor living standards, extreme accessibility issues and building costs which are estimated to be 40% higher than mainland UK prices, resulting in poor purchasing power standards. GDP, as this example illustrates very clearly, is territorially blind to indigenous challenges at regional level and cannot capture sub national endogenous potential either.

In Ireland, the Border, Midland and Western region saw its unemployment rate more than triple (from 4.8% in 2007 to 15,9% in 2011) due to the crisis. As far as Cohesion Policy eligibility is concerned for that region, however, the region was 'promoted' from the status of 'phasing out' region in the 2007 - 2013 period to the status of 'more developed' region in the 2014-2020 period. The region missed out on additional support which would have been provided from the 'transition' regions category.

- Inadequate methodology for the Transition regions category. The CPMR was a very early supporter of the transition regions category, having suggested as early as 2008 that an 'intermediary' category of regions should be created to address the funding gap between convergence regions and competitiveness and employment regions. The funding methodology for transition regions in the 2014 - 2020 has resulted, however, in some transition regions receiving less funding than in the 2007 - 2013 period (Basse Normandie is one of many examples) or less than if the same regions had been eligible under the more developed regions category (this was later corrected during the negotiations). This is partly due internal negotiations between regions and Member States on regional allocations for ESI funds.

- **Methodology**. There are questions to be raised with regards to both the methodology of calculating GDP data across countries and its reliability as an economic indicator. Even The Economist has recently joined the critics of GDP by stating that GDP is an 'imperfect measure: Money spent on activities that generate pollution, or on medical treatments that don't work, adds to GDP but does not reflect any improvement in national welfare'.

3. Outcomes for CPMR Member Regions

If the regional GDP average of 2009/2010/2011 was used instead of the 2007/2008/2009 average:

- **18 regions** would change eligibility in total, 8 of which are CPMR Members

- **Two Greek regions** would go from the Transition Regions category to the Less developed Regions category

- **Three Spanish regions** would go from the More Developed Regions category to the Transition Regions category

- The Irish region of **Border Midland and Western** would be eligible for Transition Regions status

- **Eight British regions would change eligibility**. Six British regions would go from the More Developed Regions category to the Transition Regions category, and two from Transition to the Less Developed Regions category.

- **Brittany** would be eligible for Transition Regions status and the regions of **Corsica and Martinique** would go up a category (transition to more developed and from more developed to transition status respectively).

4. Quick analysis of trends

4.1 Most notable decrease

Ireland (-6.7%), the UK (-6.3%), Greece (-5.0%) and Spain (-4.7%) are the countries which suffered the most notable reduction, when comparing Growth Domestic Product figures per capita as a percentage of the EU average for the periods 2007/2008/2009 to 2009/2010/2011. It is worth noting that the NUTS II region which experienced the highest reduction is Inner London (-13%)

4.2 Most notable increase

Poland (+5.7%), Malta (+4%), Germany (+3.7%) and Belgium (+3.0%) record the highest increases. The Polish region of Mazowieckie experienced the highest increase at NUTS II level (+11.3%)

5. CPMR comparison table – important notes

- The table is composed of two parts: the first part presents regions which would change eligibility if the 2009/2010/2011 was used instead of 2007/2008/2009; the second lists presents data from all regions

- All GDP data present in the table was extracted in March 2014. The eligibility of regions under Cohesion Policy (for the 2007/2008/2009) presented in the table, therefore, may not correspond to reality, as the European Commission used data extracted in 2012 to determine Cohesion Policy eligibility. The reason for the evolution of data overtime is due to the fact that the data is updated every 6 months by Eurostat.

- Regions highlighted in purple are those which would change eligibility. Regions highlighted in grey are those which have experienced a change in terms of the NUTS classification