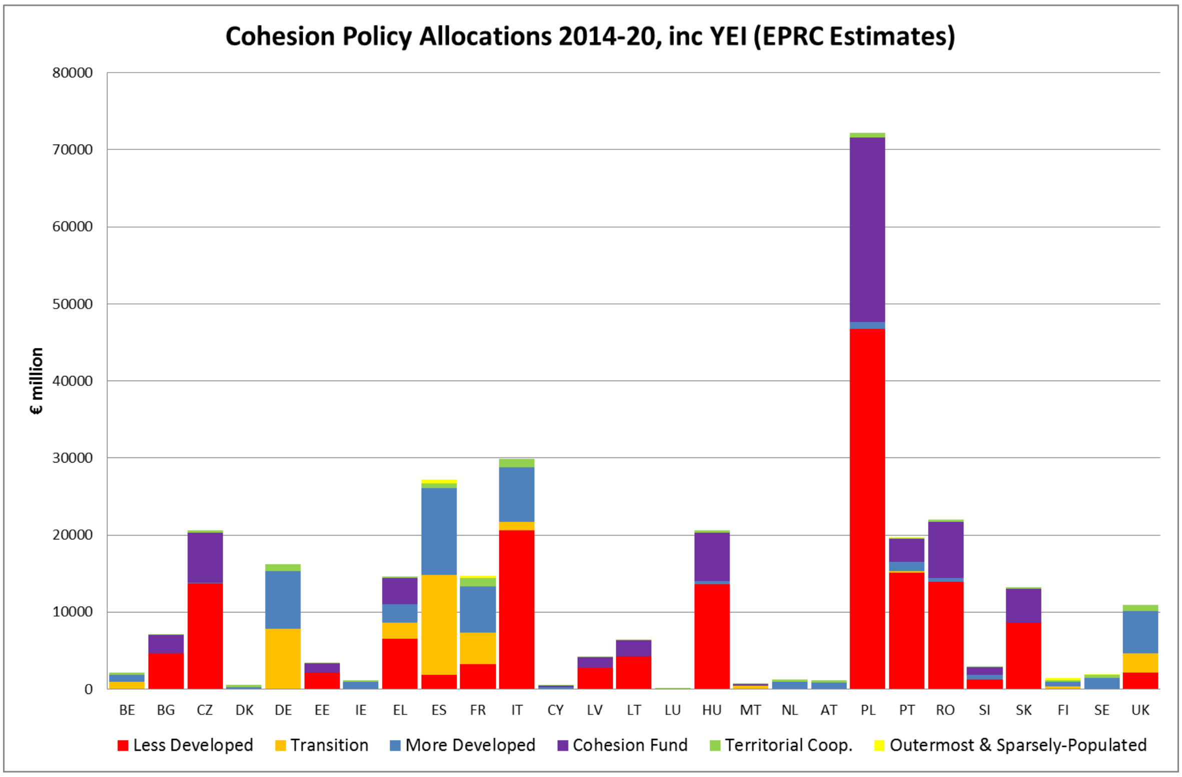
25 February 2013

EPRC POLICY BRIEFING

COHESION POLICY 2014-20: NATIONAL ALLOCATIONS

WHO ARE THE WINNERS AND LOSERS FROM THE 7-8 FEBRUARY EUROPEAN COUNCIL?

The European Council on 7-8 February 2013 agreed a Multiannual Financial Framework (MFF) containing a new methodology for allocating Cohesion policy funding. Although the MFF may be revised by the European Parliament, a key question is what the Council conclusions might mean for the allocation of Structural and Cohesion Funds to the Member States. Based on EPRC calculations, this EPRC Policy Briefing[1] provides a preliminary assessment of how Cohesion policy might be allocated.



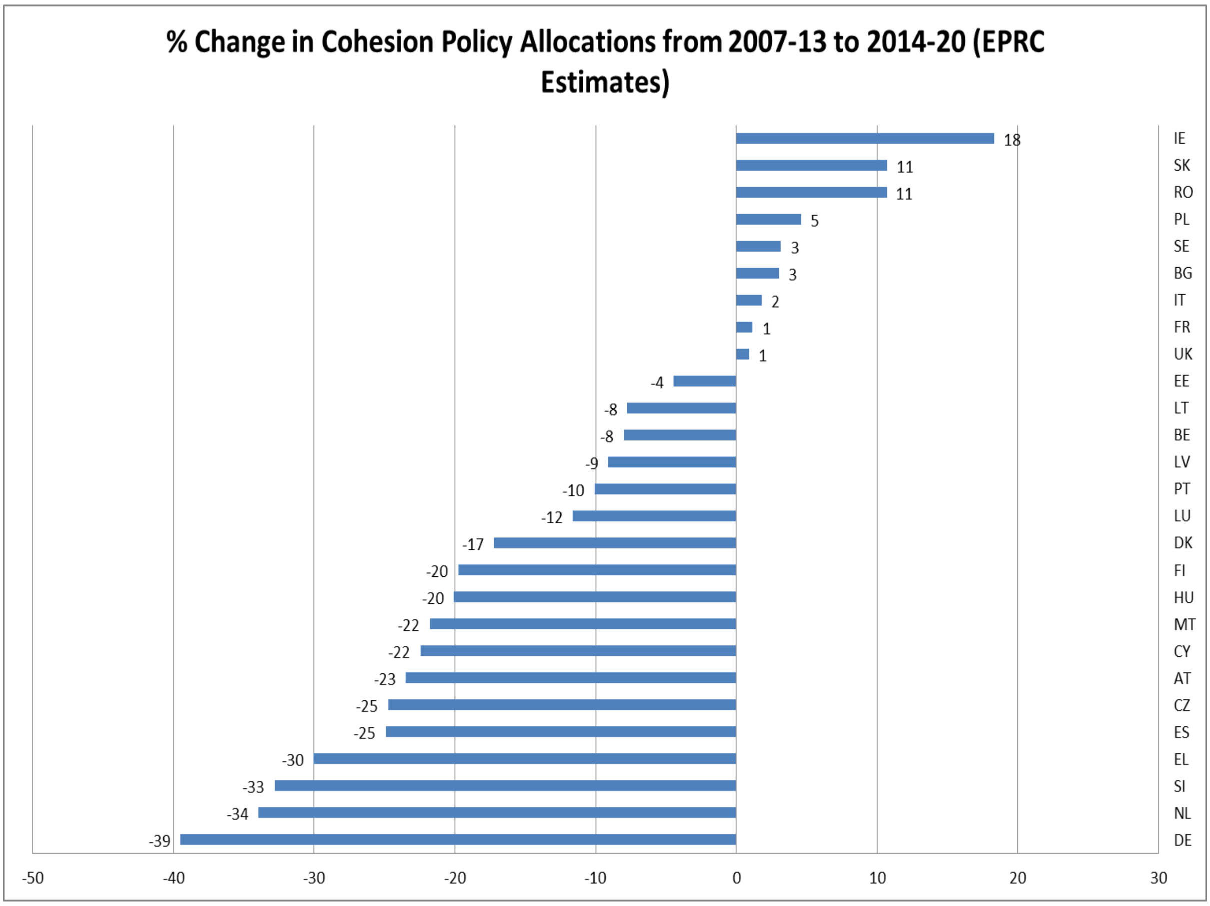
Who gets what?

Since the Council summit on the EU budget for 2014-20[2] there have been no formal indications of what these conclusions might mean for the financing of Cohesion policy across the Member States. The above chart estimates the distribution by Member State and strand, including the Youth Employment Initiative, a new budget line added late in the negotiations, as well as the "other special allocation provisions" totalling almost €10 billion.

Overall, there are elements of continuity in the allocations – Poland remains the single largest beneficiary of the funds – but also elements of change: fewer countries have LDR status in their entirety (only the three Baltic states and Bulgaria); some countries see significant reductions in LDR coverage and associated allocations, notably Germany, Spain and Greece; and some benefit from the new transitional category, even where the regions concerned did not previously have Convergence status, notably Belgium, France and the United Kingdom.

How do the allocations compare with 2007-13?

Looking forward to policy implementation, an important issue is what changes these outcomes imply in the levels of funding available. This varies widely between countries, with some seeing increases in relation to current allocations, but others substantial reductions.



The above chart compares current allocations and EPRC estimates of future allocations (on the same price basis, for a 'real' comparison). Reflecting the overall reduction in the Cohesion policy budget, most countries would see a reduction in their allocations – 11 countries look set to lose more than a fifth of current allocations. On the other hand, nine countries appear likely to gain, although some of these gains are modest and likely within the margins for error in the calculations.

What explains the allocations?

The diverse outcomes shown in the above charts are due to the interplay of a number of different factors in the underlying methodologies, together with the impact of the "other special allocation provisions".

Germany, Slovenia, Greece, Spain and Malta are all affected by substantial reductions in - or complete loss of - Less-Developed Region (LDR) coverage which accounted for much of their previous allocations. Most of the regions concerned become Transition Regions and all are anyway subject to a 'safety net' of 60 percent of their previous allocations, but this still represents a substantial reduction. In the Czech Republic there are no changes in LDR coverage, but because per capita aid intensities for LDRs are cut (by between 20 and 38 percent, depending on national prosperity) so too are LDR allocations. This applies to all countries not affected by capping, so also affects Italy, France, Portugal, Greece, Spain, Slovenia and the United Kingdom.

For eight countries, capping continues to determine allocations. The Council conclusions set capping at 2.35 percent of GDP in general, and 2.59 percent for countries where the economy shrank by more than 1 percent in 2008-10. This level of capping is much lower than the previous sliding scale (which went up to almost 3.8 percent of GDP). However, for countries which have grown fast, even the lower capping rate does not prevent allocations rising – this is true for Slovakia, Bulgaria, Romania and Poland. For countries which have not grown significantly, capping bites at lower levels than before (a smaller percentage of a stagnant GDP), even allowing for the higher cap rate for 'low growth' countries. This accounts for the reduced outcomes in Hungary and the three Baltic states – perhaps a somewhat perverse outcome since it could be argued that countries that had failed to prosper were more in need of support.

Belgium, France and the United Kingdom are the main beneficiaries of the Transition Region strand insofar as it concerns regions which did *not* previously have Convergence status. Without this, these countries would have seen a (greater) reduction in coverage. Interestingly, however, the modest overall increase for the United Kingdom conceals a significant reduction in allocations for the LDR regions.

For some countries the "other special allocation provisions" and the Youth Employment Initiative (YEI) are decisive. In Ireland, for example, the increase on previous coverage is due to these additional allocations, without which Ireland would have seen a reduction in allocations compared to 2007-13; the same applies to Italy, which also gained under special allocations and YEI. Elsewhere, although there were substantial special allocations, these were not sufficient to mitigate overall losses; as in the cases of Portugal, Greece and Spain (which also seems set to claim over a third of the YEI).

A cautionary note on data

It is important to emphasise that these figures need to be treated with great caution: they are not official figures. For several reasons, undertaking these calculations is a challenging exercise: not all the data required are in the public domain (so estimates are required); and many aspects of the methodology are capable of multiple interpretations.[3] These calculations therefore remain tentative owing to the data and methodological limitations. Above all, however, it remains to be seen what impact the European Parliament's deliberations will have on final outcomes. Further analysis will be produced as more data become available.

Further information

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[2] European Council 7/8 February 2013, Conclusions (Multiannual Financial Framework) EUCO 37/13, available at: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/135344.pdf
[3] For our interpretations of the main elements of the methodology, see Mendez C, Wishlade F and Bachtler J (2012) *Negotiation boxes and blocks: Crafting a deal on the EU Budget and Cohesion policy,* European Policy Research Paper 82, available at: http://www.eprc.strath.ac.uk/eprc/documents/PDF_files/EPRP_82.pdf