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COMMUNICATION FROM THE COMMISSION

Report on *ex ante* verification of additionality in the regions eligible under the Convergence objective for the period 2007–2013

{SEC(2009) 273 final/2}

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1. INTRODUCTION

Additionality is one of the main principles underpinning the economic role and driving the functioning of cohesion policy. It requires that contributions from the Structural Funds do not replace public expenditure by Member States, in order to ensure that they have a genuine economic impact.

This report summarises the main findings of the verification of this principle at the *ex ante* stage for the period 2007-2013 along with an analysis from an economic perspective.

Sections 2 and 3 present the results after negotiations with Member States. An agreement on the target level of expenditure to be kept throughout the period was reached with each Member State concerned.

As a result, more than EUR 650 billion (in 2006 prices) will be invested from different domestic financial sources over the period 2007-2013. This amount is additional to the EUR 174 billion (in 2006 prices) of Structural Funds which are planned to be paid in the Convergence objective regions over the period 2007-2013.

Section 4 analyses additionality from a wider perspective focussing on the synergies between national investment policies and European cohesion policy and in relation to the macroeconomic conjuncture. While they are not part of the additionality verification, the amounts of the Cohesion Fund are taken into account in this section so that the role of the European cohesion policy in total public investment is fully captured and understood.

This Section shows that Member States will invest, on average, EUR 3 for every EUR 1 invested by the European cohesion policy. The total public investment planned in the eligible areas will account for some 5,6% of the aggregate projected GDP of these regions. In some cases, notably in some of the new Member States, this proportion is considerably higher.

The new programming period 2007-2013 features two major innovations:

- additionality is only verified with reference to the Convergence objective;
- if a Member State fails to prove by 30 June 2016 that it has complied with the principle of additionality, the Commission may make a financial correction.[1]

[1] See Article 99(5) of Council Regulation (EC) No 1083/2006 of 11 July 2006, (OJ L 210, 31.7.2006).

2. THE ASSESSMENT PROCESS

2.1. Verification method

Article 15 of Regulation (EC) No 1083/2006 governing cohesion policy requires that, for the regions covered by the Convergence objective, the Commission and the Member State determine the level of public or equivalent structural expenditure (hereinafter 'structural expenditure') which the Member State must maintain in these regions during the programming period.

Compliance with additionality is verified at national level. The national funds are considered to be additional if the annual average of structural expenditure maintained in the period 2007-2013 is at least equal to the annual average of structural expenditure incurred in the period 2000-2005 (for Member States that joined the EU in 2004 the reference period is 2004-2005).

The analysis considered the sources of expenditure, methods and assumptions used by Member States, including applied deflators and, for Members States outside the euro-zone, also the exchange rates[2]. Additionality was verified in close cooperation with Member States through written consultations and bilateral meetings on technical and methodological issues.

This was done in parallel with the drafting of the National Strategic Reference Framework (NSRF) for the period 2007-2013. Member States submitted their respective NSRFs, including the standard table for verifying additionality and complementary information on the methodology used. Further information was given to Commission staff during the negotiations.

2.2. Eligible sources of finance

Eligible structural expenditure falls into three main categories (basic infrastructure, human resources and productive environment) plus a residual category 'others'. Verification covers total national structural expenditure[3] in eligible fields in both budget and off-budget expenditure. Depending on the structure of public finances of each Member State, the data may therefore cover not only the state, regions and municipalities, but public enterprises, public bodies and off-budget funds at national, regional and local level. Spending by public service bodies that have their own independent budget is also included.

The additionality tables submitted under the relevant NSRF contain information on the breakdown of structural expenditure by category and the source of financing (EU, national co-financing, public companies and national funds outside the NSRF). This information is provided for both the periods 2000-2005 or 2004-2005 (actual annual expenditure) and the period 2007-2013 (actual annual expenditure forecasts) in order to be able to verify compliance.

2 For further information on deflators and exchange rates see the Methodological Annex and Table 1 and 2 in the accompanying Commission Staff Working Document.

3 It is important to stress that the concept of structural expenditure used to check the additionality principle is broader than that which, traditionally, is assimilated to gross fixed capital formation.

Seven out of the 27 Member States do not have any region covered by the Convergence objective in the period 2007-2013: Cyprus, Denmark, Finland, Ireland, Luxemburg, the Netherlands and Sweden. These countries are therefore not covered by this report.

3. RESULTS OF THE VERIFICATION

Table 1 shows the level of average annual structural expenditure to be maintained by each Member State throughout the period 2007-2013. These amounts were agreed by the Commission and the Member State concerned in negotiations on the NSRF.

Table 1: Amounts resulting from the verification of the principle of additionality by MS (in million EUR, 2006 prices)

	2000-2005	2007-2013	Difference
Austria	139	139	0,0%
Belgium	1.120	1.128	0,6%
Bulgaria	782	919	17,6%
Czech Republic	2.549	2.549	0,0%
Estonia	1.213	1.316	8,4%
France	1.749	1.815	3,8%
Germany	22.601	16.504	-27,0%
Greece	8.339	8.661	3,9%
Hungary	3.330	3.330	0,0%
Italy	17.871	20.613	15,3%
Latvia	595	971	63,2%
Lithuania	755	755	0,0%
Malta	103	107	3,4%
Poland	6.502	7.940	22,1%
Portugal	3.898	3.946	1,2%
Romania	3.475	4.773	37,3%
Slovakia	875	876	0,1%
Slovenia	844	957	13,3%
Spain	12.251	13.973	14,1%
United Kingdom	3.126	3.465	10,8%
Total	**92.118**	**94.735**	**2,8%**

Source: DG REGIO calculations

The general rule is that average annual structural expenditure in real terms must be at least equal to the level attained in the previous programming period. However, the Regulation states that account must be taken of certain specific circumstances such as general macroeconomic conditions, ongoing or planned privatisations or an exceptional level of public or equivalent structural spending in the previous programming period.[4]

So, for example, the Commission agreed to decrease the level of structural expenditure in Germany taking into account its exceptional past spending on the reunification of the country. In three other Member States some past structural expenditure was regarded as exceptional due to certain extraordinary items of expenditure (the Olympic Games in Greece, a major hospital in Malta, and some transport infrastructure expenditure in Hungary that was funded with revenues from the privatisation of public enterprises). This expenditure was not taken into account in setting the level of structural expenditure to be maintained across the period 2007-2013. These special circumstances resulted in an

4 Article 15(3) of Regulation (EC) No 1083/2006

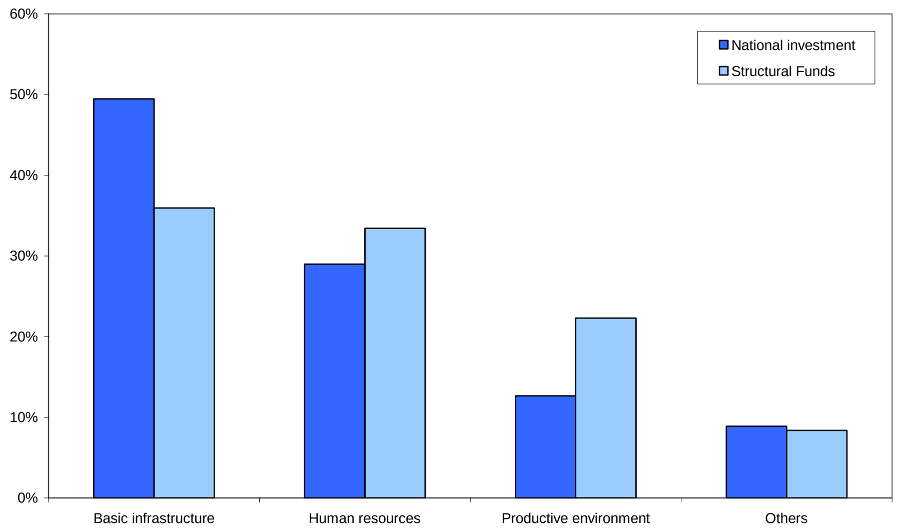
overall reduction of structural expenditure to be maintained throughout the period of around EUR 7 billion per year.

The level of structural expenditure remains the same in real terms in comparison with the previous period in four Member States (Austria, Hungary, the Czech Republic and Lithuania) and increases between 0.1% (the Slovak Republic) and 63% (Latvia) in the remaining Member States.

The data used to construct the additionality tables for each Member State derive from the national (or federal), regional and local budgets.[5] The spending of independent institutions funded by public funds was also included for the eligible categories. The same applies to most of the public enterprises, even though they were excluded in some cases due to ongoing or planned privatisation processes (e.g. Poland and the Slovak Republic). In other cases, it was not always possible to calculate directly the actual eligible structural expenditure incurred at regional level (e.g. Portugal) or by public enterprises (e.g. Latvia). In these cases, Member States used different estimation methods.

In those Member States where not all the national territory is eligible under the Convergence objective, geographical corrections were made in order to exclude structural expenditure in non-eligible regions. In some cases this was done using assumptions or estimation methods (e.g. the Czech Republic and the Slovak Republic). A similar exercise was undertaken in some Member States because of changes in the map of eligible regions between the two programming periods (e.g. Greece, Portugal, and Spain), since structural expenditure in regions no longer eligible under the Convergence objective had to be excluded from the calculations.

Graph 1: Breakdown of total spending in Convergence regions by policy area



Source: DG REGIO calculations

5 More detailed information concerning the *ex ante* verification of additionality for each Member State is given in the Commission Staff Working Document accompanying this Communication.

Graph 1 presents the results of the verification of additionality by expenditure category. Almost 50% of the national structural expenditure are devoted to basic infrastructure, such as transport, telecommunications, energy, environment, water management, and health.

National structural expenditure planned under the category "Human Resources" account for around 29% of the total. This category includes chiefly investments in education, training, and research and development. The remaining amount is devoted to the category "productive environment" (slightly under 13% - it includes the promotion of activities in productive sectors, for example through subsidies to firms, and development of business services) and the category "Others" (close to 9% - it consists mainly of technical assistance and other small expenditures).

Yet, national structural expenditure in the area of "Human Resources" in Convergence objective regions is higher than in the category "Basic Infrastructure" in seven Member States: Belgium, Germany, Estonia, France, Latvia, the Slovak Republic, and the United Kingdom.

Results are different when looking at the relative weight of each category under the Structural Funds. In this case, structural expenditure in the category "Basic Infrastructure" accounts for less than 37% of the total, or 12 points less compared to national expenditure. This difference is allocated in particular to the category "Productive Environment" which represents 22%, compared to barely 13% of the total national investment. Likewise, the area "Human Resources" accounts for a slightly higher proportion under the Structural Funds.

In sum, investment funded by the Structural Funds, which is additional to the national investment according to the requirements of the principle of additionality, helps to balance the composition of public investment to the benefit of expenditure in support of the productive environment (innovation, support to entrepreneurship, tourism services, etc.).

These conclusions need to be taken with a degree of caution as national nomenclatures underlying the additionality tables are not fully aligned. Moreover, these tables do not take account of payments of the Cohesion Fund.

4. ADDITIONALITY FROM A WIDER ECONOMIC PERSPECTIVE

To understand the principle of additionality from a wider economic perspective it is necessary to look at the overall relation between the national and Community investment. Therefore, while payments of the Cohesion Fund[6] are not part of the additionality exercise, they have been taken into account in this Section to fully reflect the weight of the European cohesion policy in the total public investment.

[6] For the Cohesion Fund, the proxy 'population' was chosen to estimate the payments corresponding to the Convergence regions in the Member States that are eligible to this Fund (see also Methodological Annex).

Average national structural expenditure to be maintained in the eligible areas over the period 2007-2013 following the additionality principle is over EUR 94 billion (in 2006 prices) per year (see Table 1). This amount includes the national co-financing of the Structural Funds and of the Cohesion Fund[7].

By adding the payments planned under the European cohesion policy (Structural Funds and Cohesion Fund), the total structural expenditure will attain over EUR 125 billion per year (in 2006 prices) in these regions.

Table 2: Average annual national public investment per EUR of Community funding (2006 prices) and eligible population

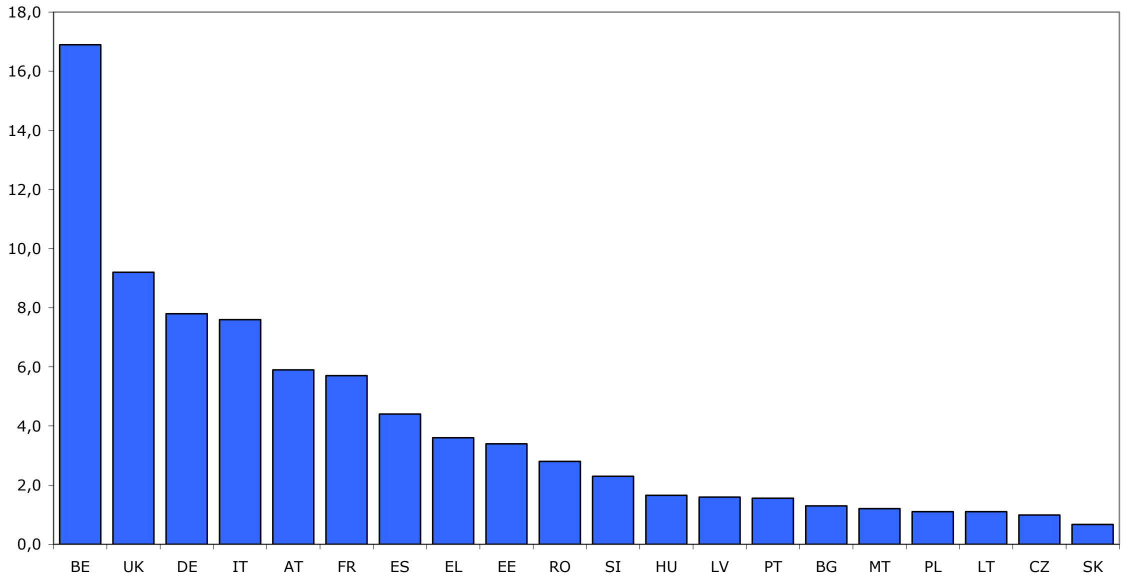
	EUR of national expenditure per EUR of Community co-financing (with Cohesion Fund)	EUR of national expenditure per EUR of Community co-financing (without Cohesion Fund)	Population of Convergence regions	
			'000	% of national population
Austria	5,9	5,9	277	3,4%
Belgium	16,9	16,9	1.284	12,3%
Bulgaria	1,3	2,0	7.781	100,0%
Czech Republic	1,0	1,4	9.040	88,6%
Estonia	3,4	4,9	1.356	100,0%
France	5,7	5,7	1.798	2,9%
Germany	7,8	7,8	15.176	18,4%
Greece	3,6	4,3	10.202	92,2%
Hungary	1,7	2,4	7.272	72,0%
Italy	7,6	7,6	17.445	30,0%
Latvia	1,6	2,1	2.313	100,0%
Lithuania	1,1	1,7	3.436	100,0%
Malta	1,2	1,9	401	100,0%
Poland	1,1	1,6	38.130	100,0%
Portugal	1,6	1,7	7.507	71,5%
Romania	2,8	4,7	21.673	100,0%
Slovakia	0,7	0,9	4.782	88,9%
Slovenia	2,3	3,5	1.997	100,0%
Spain	4,4	4,6	15.709	36,8%
United Kingdom	9,2	9,2	2.762	4,6%
Average	**3,0**	**3,8**	**170.341**	**34,8%**

Source: DG REGIO calculations

Table 2 shows significant differences between Member States (see also graph 2). For example, national structural expenditure in the only Belgian region eligible under the Convergence objective (Hainaut) reaches almost EUR 17 per every EUR invested under the European cohesion policy. These amounts are also high in other Member States of the old EU-15. On the contrary, the proportion is close to EUR 1 or even less in other Member States. Once again, these conclusions must be interpreted with caution as in some cases the proportion of population who lives in the Convergence objective regions is small (e.g. in France just 2,9% of the total population lives in these regions, 3,4% in Austria and 4,6% in the United Kingdom).

[7] See Working Document n°3 of Commission services on the principle of additionality. (http://ec.europa.eu/regional_policy/sources/docoffic/2007/working/wd3_additionality_en.pdf).

Graph 2 - EUR of national public investment for each EUR of Community financing* (2006 prices)



Source: DG REGIO calculations
** Structural Funds and the Cohesion*

The differences observed are less significant when comparing national structural expenditure against the average expected GDP over the period 2007-2013 (Table 3). It is worth underlining that these figures are calculated using 2006 constant prices, which do not reflect the effects of possible fluctuations in the exchange rates of non-Eurozone national currencies (see Methodological Annex).

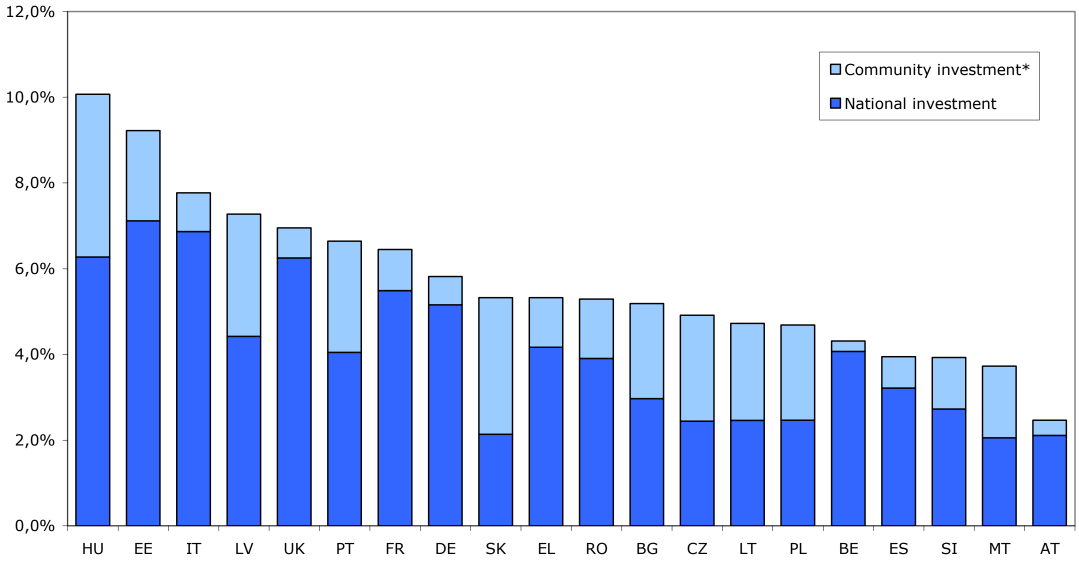
Table 3: Average annual public investment 2007-2013 (% of GDP of Convergence regions)

	National investment	Community investment*	Total investment
Austria	2,11%	0,36%	2,47%
Belgium	4,07%	0,24%	4,31%
Bulgaria	2,97%	2,21%	5,18%
Czech Republic	2,44%	2,47%	4,91%
Estonia	7,12%	2,10%	9,22%
France	5,49%	0,96%	6,45%
Germany	5,15%	0,66%	5,81%
Greece	4,17%	1,16%	5,32%
Hungary	6,28%	3,79%	10,07%
Italy	6,87%	0,90%	7,77%
Latvia	4,42%	2,85%	7,27%
Lithuania	2,46%	2,26%	4,72%
Malta	2,05%	1,67%	3,73%
Poland	2,47%	2,22%	4,68%
Portugal	4,05%	2,59%	6,64%
Romania	3,91%	1,38%	5,29%
Slovakia	2,13%	3,19%	5,33%
Slovenia	2,73%	1,20%	3,93%
Spain	3,21%	0,74%	3,95%
United Kingdom	6,21%	0,68%	6,89%
Average	**4,18%**	**1,38%**	**5,56%**

Source: DG REGIO calculations
** Structural Funds and the Cohesion Fund*

Indeed, differences between the old EU-15 and new Member States are not so pronounced (graph 3). Hungary and Estonia stand out with a total planned expected investment of more than 10% and 9% of their respective GDP. On average, total investment represents a bit less than 5,6% of the aggregated GDP of Convergence regions.

Graph 3 - Investment of cohesion policy in Convergence regions (% of GDP)



Source: DG REGIO calculations
** Structural Funds and the Cohesion Fund*

In some countries of the old EU-15 (Italy, United Kingdom, France and Portugal), total planned structural expenditure (including payments of the European cohesion policy) is over 6% of the average annual GDP. Nevertheless, it must be recalled that only some regions of these countries are eligible under the Convergence objective. As noted above, in some cases these regions account for a modest proportion of the total population and national GDP.

In any event, the relative weight of the European cohesion policy in the total planned investment appears to be considerably higher in the new Member States (graph 3). Community payments are close to 50% of the total investment in most of these countries and they are even higher than the national payments in the Czech Republic and the Slovak Republic.

The above tables and graphs are based on the Commission projections which were available at the time when the expenditure targets were set (Autumn 2006).

Lastly, it is worth noting that GDP projections for the forthcoming years have just been revised downward as a result of the expected impact of the financial crisis on the real economy. Thus, the last Commission projections (autumn 2008) predict weak economic growth in the Union, and even a context of recession in some Member States. These projections have further worsened on the basis of the interim updated forecasts unveiled at the beginning of 2009.

5. CONCLUSIONS

The notion of additionality is relatively simple but its actual implementation involves a number of methodological complexities.

The verification of additionality at this '*ex ante*' stage for the period 2007-2013 was based on Article 15 of the Regulation (EC) No 1083/2006 and on the Guidelines set out in Working Document No 3 (December 2006). The latter was intended to set common principles for negotiations between the Commission and the different Member States. Some of the purposes of the document are to improve transparency, ensure equality of treatment between countries, and make the results obtained for each Member State comparable. For example, the inclusion of expenditure by state-owned companies was made compulsory, in contrast to the voluntary approach taken for the previous programming period 2000-2006.

Despite these efforts, several shortcomings remain, including:

- **Difficulties to compare results across Member States.** Member States do not follow a single, standard methodology for national public accounting. As a result, the methodological approaches to collect data required to verify additionality differ across countries. In most cases, data are taken from budgetary sources which are classified in different ways from one Member State to another. This makes the cross-country comparison difficult. This problem is even more compelling when comparing structural expenditure funded by national and Community sources since they are not classified in a coherent and streamlined way. As an example, additionality figures are provided on a cash basis, while publicly available Member State budgetary figures are presented on an accrual basis (ESA95).

- **Shortcomings in data comparability over programming periods.** The methods used may also vary over time even within a single Member State. For instance, some significant discrepancies were found in some Member States between the actual expenditure claimed for the *ex post* verification of the period 2004-2006 and the actual expenditure for the same period used for the *ex ante* verification of the period 2007-2013.

- **Problems to capture all relevant eligible expenditure.** Determining relevant expenditure based on the different accounting sources that exist in Member States is difficult. In most cases, data are taken from budgetary sources which are not always broken down to all the sub-national levels. This makes it very difficult to identify the relevant expenditure, particularly at local level and, therefore, most often it is necessary to use of estimations and case-by-case analyses, which affect the reliability of the final result.

- **Heterogeneity of the information provided**. The information submitted by some Member States in their NSRF, and in the annexed reports and methodological notes could be further streamlined. The data submitted lack homogeneity and vary in quantitative and qualitative terms from one Member State to another. While some Member States provided very detailed information, for example on the methodology used, the sources of information or the estimations made, others provided very few details of how their additionality tables were produced. Moreover, this information was not always presented in the same way (for instance, Member States did not use the same reference year for the deflators).

- **Difficulties in verifying the reliability of data.** The Commission has limited instruments to verify that the information provided is correct. A breakdown of expenditure by region could be developed, in particular for Member States whose territory is partially eligible under the Convergence objective. This could also help to reduce the use of estimates to determine spending at sub-national level. In addition, complementary documents linked to regional or national budgets could provide additional proof of the reliability of this expenditure

- **No monitoring mechanism.** Finally, the additionality rules do not provide for instruments that allow the Commission to monitor on a regular basis the evolution of variables in Member States (e.g. fiscal performance or privatisation processes), which may affect the level of their public spending and thus the additionality results. Possible solutions should be explored, including linking the information necessary to verify additionality to the regular information provided by Member States in their stability programmes.

In sum, there is clearly room to improve the information and the methodology for determining and verifying additionality, which is an important principle of cohesion policy. The Commission intends to engage in a more in-depth and permanent dialogue with Member States on how to overcome the shortcomings and improve the application of the principle.

The next verification of additionality will take place in 2011. At that time, the principle will be considered as having been complied with if the actual annual average of structural expenditure in the period 2007-2010 is at least the same as the level forecast for the period or if this spending fits a predetermined spending profile agreed upon during the *ex ante* assessment. In the latter case, the 2007-2010 annual average may be below the annual average for 2007-2013.

At the mid-term review, Member States will have an opportunity to revise the level of expenditure in the light of significant changes in the economic situation. This may be particularly relevant in the current financial crisis. It is therefore important that future discussion takes place on a more robust basis.

METHODOLOGICAL ANNEX

Table 1 shows actual payments and planned payments under the eligible categories for the periods 2000-2005 and 2007-2013 respectively. The figures are those included in the additionality tables of the relevant National Strategic Reference Frameworks. These figures are expressed in EUR at 2006 prices. A GDP deflator was used to express them in constant prices. Any structural fund spending and national co-financing carried out in the new programming period but committed under previous programmes is included in the 2007-2013 figures. National co-financing for the Cohesion Fund is taken into account to determine the target of national structural expenditure.

For Member States which are not entirely covered by the Convergence objective, the national tables do not include structural expenditure for non-eligible regions. Where regional data were not available, statistical estimation methods were used.

Table 2 and graph 2 compare, for each Member State, national planned payments in EUR which stem from additionality for the period 2007-2013 (2006 prices) with planned payments of the Structural Funds and the Cohesion Fund (first column) and of the Structural Funds (second column) for each Member State (Convergence objective). A 2% standard deflator was used for all Member States to transform 2004 prices into 2006 prices.

Table 3 and graph 3 compare, for each Member State, the relative weight of planned national payments which stem from additionality in the period 2007-2013, and of the total planned payments of the Structural Funds and the Cohesion Fund against the Autumn 2006 GDP projections for Convergence regions for each Member State. These were the projections available at the time of setting the targets of expenditure.

Data on national payments and structural funds payments were obtained from the additionality tables of the NSRFs of Member States. As for the Cohesion Fund, a profile of expected payments was developed on the basis of an average profile of payments observed in Spain, Portugal and Greece over the past programming period 2000-2006. The proxy "Population" was chosen as a proxy to estimate the payments corresponding to the Convergence regions in the Member States that are eligible to this Fund.

Finally, it is important to consider that using constant prices may overestimate in some non-eurozone countries the weight of national and Community planned payments expressed as a percentage of GDP. The reason is the appreciation of some national currencies against the EUR since 2004. Working with constant prices assumes that the exchange rate remains stable throughout the reference period. Moreover, another caution to be taken when interpreting the results concerns the underlying hypotheses in GDP projections regarding the inflation rate (standard 2% per year for all the Member States throughout the programming period) as they may differ from reality depending on the economic conjuncture.