



Outermost Region Fiche **CANARY ISLANDS**

Study on the impact of
the COVID-19 pandemic
on the Outermost Regions

Region Canary Islands

Country Spain

Size (2016) 7 447 Km²

Number of inhabitants (2020) 2 236 992

Population density (2019) 299.4 per Km²



Santa Cruz
de Tenerife

Las Palmas
de Gran
Canaria

Prepared by



EUROPEAN COMMISSION

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Study on the impact of the COVID-19 pandemic on the outermost regions (OR)

Outermost Region Fiche Canary Islands

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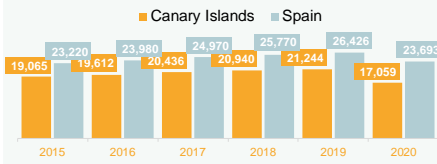
INTRODUCTION

This fiche was prepared as part of a broader study assessing the impact of COVID-19 on the nine EU outermost regions (ORs). It provides an in-depth analysis of the economic and social impacts of COVID-19 in the Canary islands, highlights the measures taken to mitigate the spread of the virus, and puts forward proposals for recovery and resilience-building measures addressing the major issues identified in this outermost region.

This fiche first presents an overview of the health-related impacts of the pandemic in the Canary Islands, as well as the timeline of measures put in place to keep infection rates in check. It then examines the economic repercussions, beginning at the macroeconomic level, followed by an analysis of the main sectoral impacts. The third section presents the social impacts and is followed by an identification of the most relevant policy measures implemented in the region to mitigate the negative consequences of the crisis. The last two sections examine future prospects and suggest measures to support the recovery, and to build resilience to similar challenges in the future.

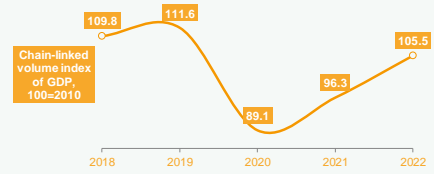
Overview and impact of COVID on the economy of the Canary Islands

GDP/capita

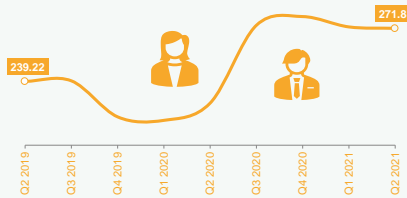


-20%
GDP growth in 2020

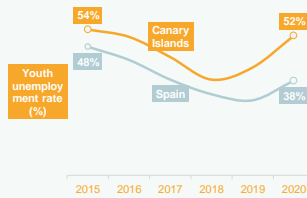
GDP forecast



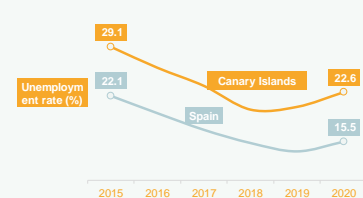
Number of unemployed people - thousands



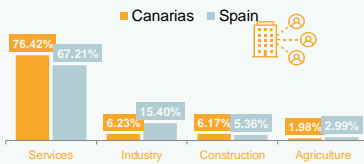
Youth unemployment rate



Unemployment rate



Share of key sectors within the economy - Share of GDP (2019)



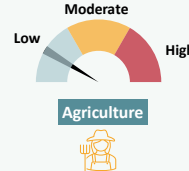
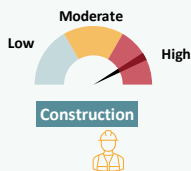
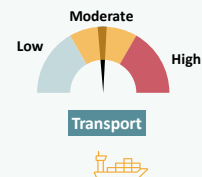
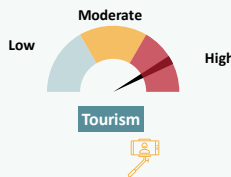
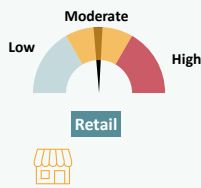
Household with broadband access - 2020

96%
compared to the Spanish average of 95%

Young people neither in employment nor in education and training - 2020

19.7%
compared to the Spanish average of 13.9%

Impact of the COVID-19 crisis on specific sectors of the economy



Recommendations



Creating more added value in the tourism sector through improved knowledge sharing, sustainability and digitalisation

Tools for the sustainable development of the blue economy



Generate knowledge and good practices on improving social protection furlough schemes

Contributing to the reduction in energy poverty by promoting micro-generation and community generation schemes



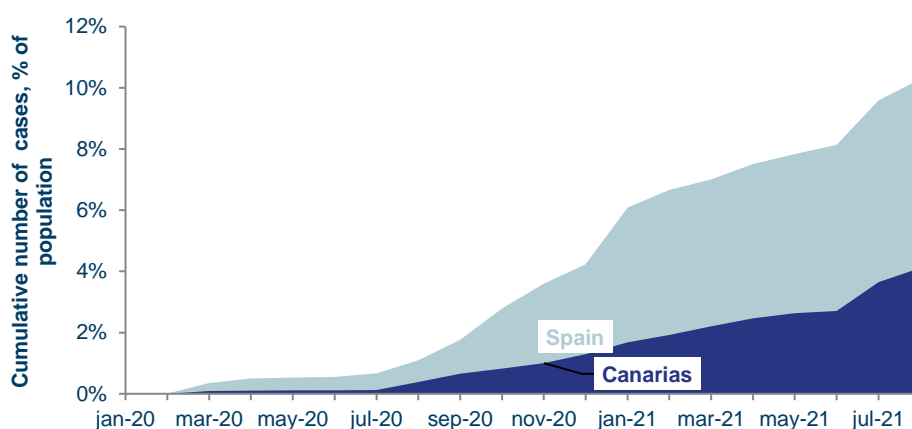
Promoting energy neutrality in the region through various initiatives, including the implementation of a pilot project in one of the islands which form the archipelago

Enhancing the administrative capacity of the regional government

1. COVID-19 PANDEMIC IN THE REGION – HEALTHCARE STATISTICS AND TIMELINE

Overall, in terms of health-related statistics, the Canary Islands have recorded lower COVID-19 infection rates than mainland Spain. The pattern of infections and deaths has been more or less similar across all the Spanish regions (including the Canary Islands), with five distinct waves to date. The first wave took place around March and April 2020. Following the relaxation of measures during the summer, rising case numbers led to a second wave during October 2020, with a third following after the Christmas holidays in January and February 2021. The fourth wave began in March and ended in May 2021, albeit without an increase in the number of deaths due to the vaccination campaign. The last wave occurred in summer 2021. The Canary Islands have also followed this national pattern, although with relatively lower infection rates and deaths than other Spanish regions, and with the second wave happening earlier in the Canary Islands than in the rest of Spain.

Figure 1: Cumulative number of cases over total population, in percentages (Feb 2020 – August 2021)



Source: Ecorys based on Ministerio de Sanidad data

As of September 2021, **93,635 infections and 935 COVID-related deaths** have been registered in the region since the first case was reported in January 2020. Although the first case of COVID-19 in Spain was reported in the Canary Islands, the increase in cases over time as a proportion of the population has been below the national average.

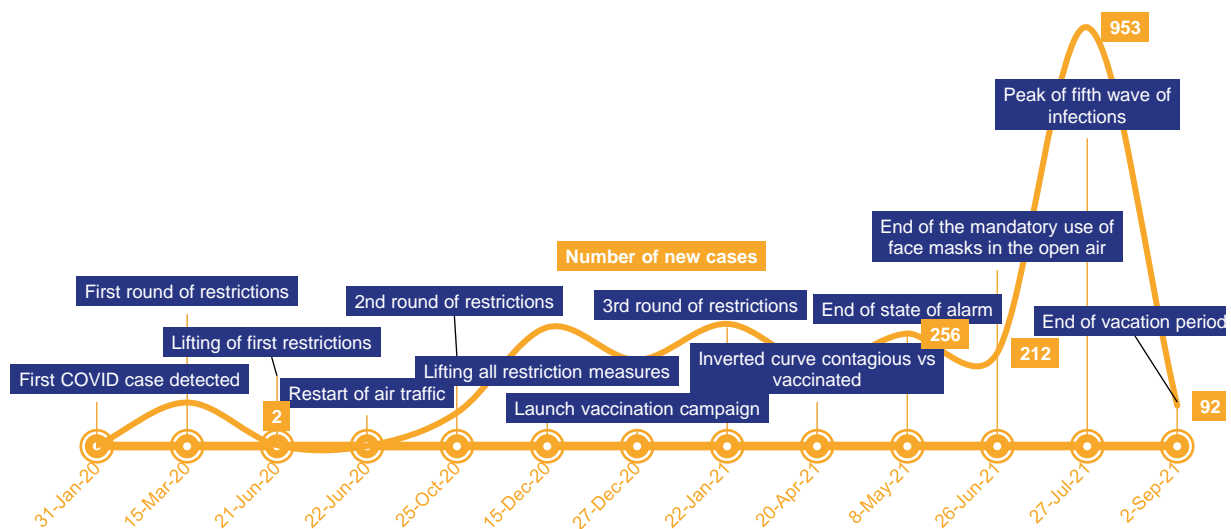
During December 2020 and January 2021 the Canary Islands experienced the most lethal waves; there were 14,832 infections and 126 deaths in the second wave, and 18,238 infections and 240 deaths in the third wave. During the fourth wave, the region saw more than 12,000 infections and 137 deaths, while in the most recent fifth wave, there were more than 35,000 recorded infections and 160 deaths. Additionally, each of the eight islands making up the region has followed a different trajectory, with Tenerife being hit harder and earlier, followed by Gran Canaria.

The first COVID-19 restriction measures were introduced at the local level in the island of La Gomera, where the first coronavirus case was detected. These measures consisted mainly of contact tracing and isolating potential contacts. Stringent restrictions came into place in March 2020, when the central government declared a state of emergency, under which it was forbidden for citizens to leave their homes unless they had justification. From 29 March until 4 May 2020, all non-essential activities ceased, and citizens were forbidden to travel to work in an effort to suppress the spread of the virus.

The relaxation of the first set of restrictions took place in accordance with a plan designed by the central government, which included four 'phases'. Thanks to the fact that COVID-19 infection and hospitalisation recovery trends were more positive in the Canary Islands than in the rest of Spain, it was the first region in the country to

gradually begin to ease restrictions, during May 2020. The state of emergency declared by the central government expired on 21 June 2021, and since then, restrictions have been implemented at the regional level in Spain, decided on the basis of health indicators at any given time. The Canary Islands have a ‘traffic light’ system, under which each island has a different status depending on recorded rates of infection. These are revised periodically and, if rates are decreasing, an island may be moved to a lower phase level (which means fewer restrictions). If, by contrast, the number of recorded cases increases, an island can be moved up to a higher phase level, equating to increased restrictions and limitations on mobility.¹

Figure 2: Timeline of the health/social distancing measure and healthcare milestones and new COVID-19 cases reported in the Canary Islands

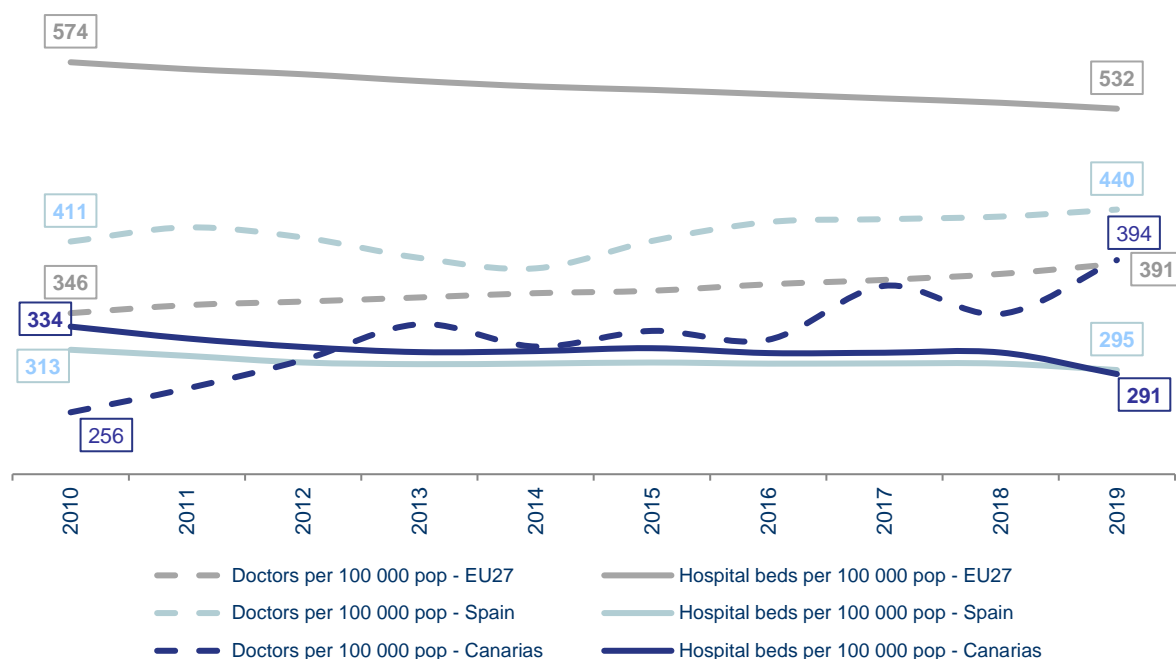


Source: Ecorys based on Ministerio de Sanidad, Instituto Carlos III, Gobierno de la Moncloa, España

In general, the Canary Islands are well equipped in terms of healthcare infrastructure and overall access to healthcare. However, they are below the Spanish national average in terms of key healthcare indicators. The Canary Islands have fewer doctors and hospital beds per capita than Spain as a whole, and although the pandemic has put pressure on healthcare infrastructure and healthcare workers in the region, case numbers have not reached the levels of saturation observed in some other Spanish regions. Spain is above the EU level in terms of the number of doctors per capita, but ranks lower in terms of the number of hospital beds. This fact led to a critical saturation of the healthcare system in some regions in Spain during the height of the first wave (March and April 2020), with a very high percentage of hospital beds being filled with COVID-19 patients, especially in intensive care units.

¹ Government of Canarias. Available at: <https://www.gobiernodecanarias.org/principal/coronavirus/semaforo/> [20.09.2021]

Figure 3: Numbers of medical doctors and hospital beds (per hundred thousand inhabitants)



Source: Ecorys, based on Eurostat data (2019)

As of the beginning of September 2021, the Canary Islands had administered 86.6% of COVID-19 vaccination doses available. More than 84% of the population had received at least one dose of the vaccine, and 75.7% were fully vaccinated (received two doses) at this time.² This is in line with the Spanish national average, which stands at 88.4% of the population with at least one dose and 78.4% fully vaccinated. Spain (including the Canary Islands) ranks slightly above the EU average in terms of vaccine coverage of the population.^{3 4}

2. ECONOMIC IMPACT OF THE COVID-19 PANDEMIC

MACROECONOMIC OVERVIEW

Although the suppression of COVID-19 was relatively successful in the Canary Islands, its economy suffered a heavy blow following the introduction of the first round of restriction measures in March 2020. As the Bank of Spain stated in its report on regional forecasts, there is no correlation between the severity of the health impact and the depth of the economic impact, as can be seen in the case of the Canary Islands.⁵

The latest figures point towards a GDP **reduction of approximately -20%** in the Canary Islands in 2020, compared to the Spanish national average of -10%.⁶ The Canary Islands experienced the largest decline in GDP at regional level (together with the Balearic Islands). This significant fall is due to the sharp decrease in all its aggregate demand components, except for public administration consumption, which is the only activity item to have increased during the pandemic.⁷

² Spanish Ministry of Health (2021) 13th of September report. Available at: https://www.mscbs.gob.es/profesionales/saludPublica/ccayes/alertasActual/nCov/documentos/Informe_GIV_comunicacion_2021_0913.pdf [20.09.2021]

³ Bloomberg. Available at: <https://www.bloomberg.com/graphics/covid-vaccine-tracker-global-distribution> [20.09.2021]

⁴ European vaccine tracker. Available at: <https://vaccinetracker.ecdc.europa.eu/public/extensions/COVID-19/vaccine-tracker.html#uptake-tab> [20.09.2021]

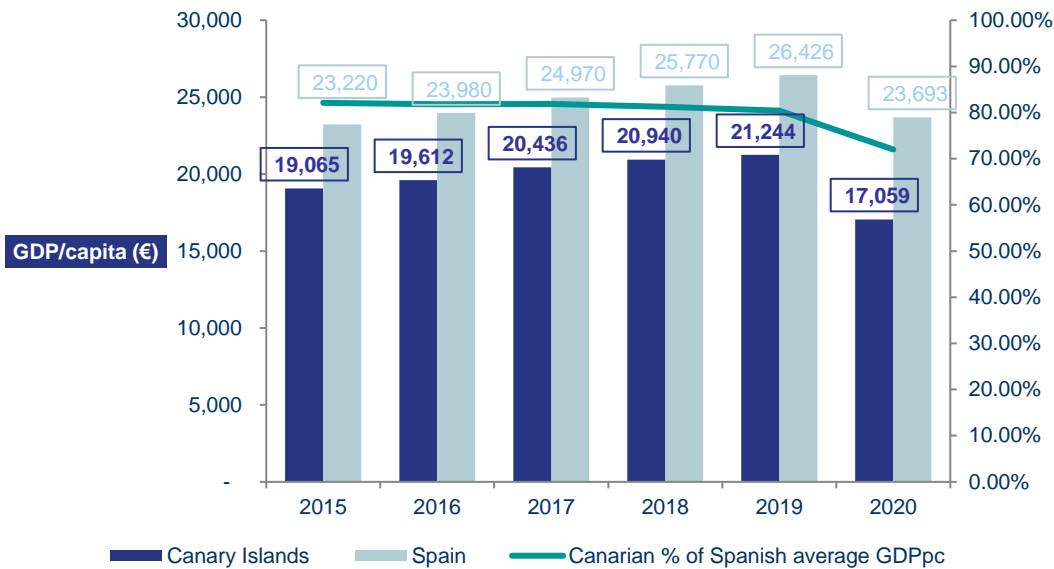
⁵ Spanish Ministry of Health. Available at: <https://flo.uri.sh/visualisation/4552475/embed?auto=1> [20.09.2021]

⁶ Instituto Canario de Estadística

⁷ *Ibid.*

Overall, the Canary Islands as a region performs less favourably than the Spanish national average in many social and economic development indicators: in terms of GDP per capita, employment rates, level of education of the population, and other key variables, the Canary Islands lag behind the national average. In terms of GDP per capita (Figure 4), there was a sustained difference between the Canary Islands and the national average until 2020 (latest figures), with the Canary Islands having approximately 80% of the Spanish GDP per capita (falling to 72% in 2020).

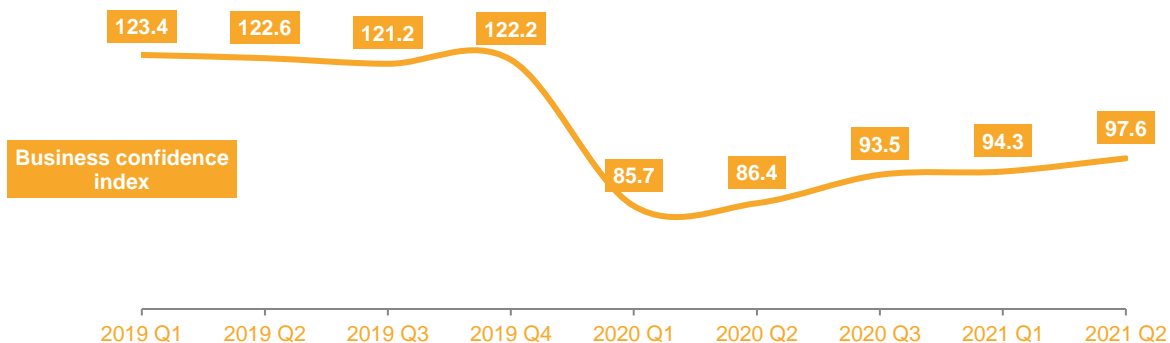
Figure 4: GDP per capita (€), 2015-2020



Source: Ecorys based on Instituto Nacional de Estadística

The decline in economic activity in the Canary Islands was accompanied by a sharp fall in the business confidence index (Figure 5).⁸ Until Q1 2020, the index showed values circa 120 (numbers above 100 suggest increased confidence in near future business performance). However, following the outbreak of the pandemic, there was a sharp decrease in the value of the indicator, to 85.7. Even though it has been steadily increasing since, it still remains below 100, indicating a general sense of pessimism towards the future climate for business performance.

Figure 5: Business confidence index, Canary Islands



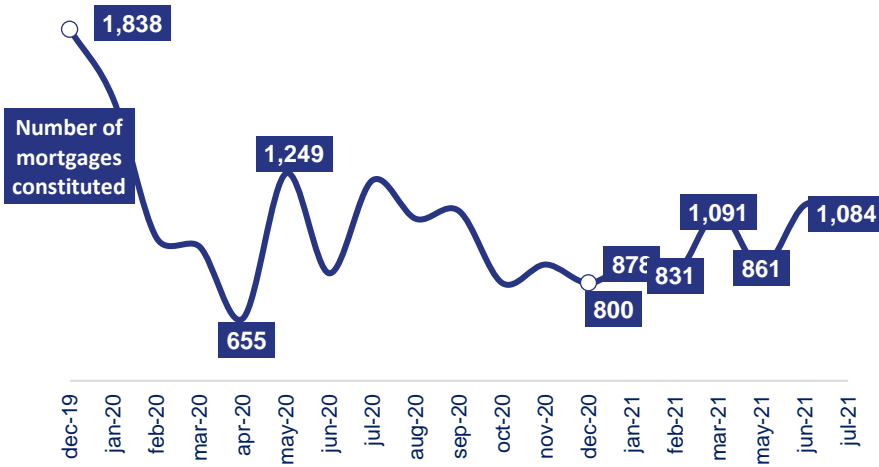
Source: Ecorys, based on Insituto Canario de Estadística data

The impact of the pandemic has been evident in some investment measures, such as the number of mortgages constituted. Given the uncertainty in the economic climate, the reduced confidence index, and the loss in

⁸ The business confidence indicator provides information on future developments, based upon opinion surveys on developments in production, orders and stocks of finished goods in the industry sector. It can be used to monitor output growth and to anticipate turning points in economic activity. See more information at: <https://data.oecd.org/leadind/business-confidence-index-bci.htm>

employment paired with salary reductions, the number of mortgages constituted in the Canary Islands fell by 56% during 2020, with fluctuations in its recovery during the first half of 2021 (Figure 6).

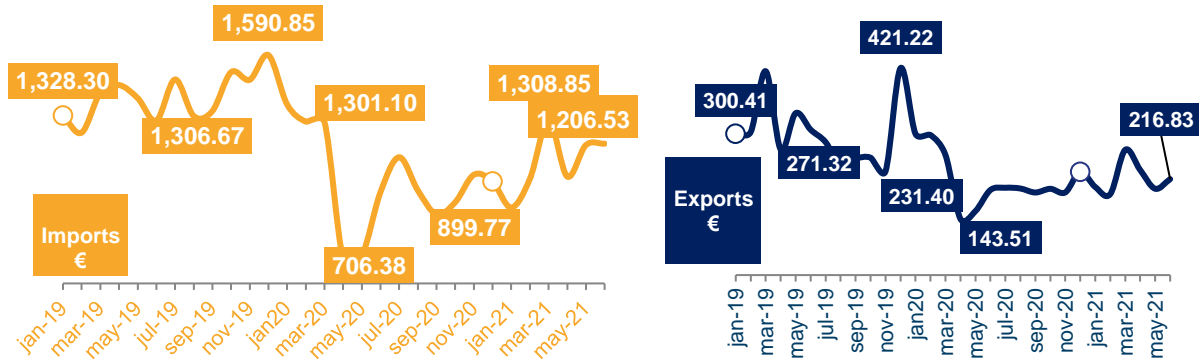
Figure 6: Number of mortgages constituted. Canary Islands (2019-2021)



Source: Ecorys based on Instituto Nacional de Estadística (INE)

The pattern of decreased economic activity is also translated into a sharp decrease in the value of imports and exports to and from the region (Figure 7 and Figure 8), which are highly dependent on national and international trade to guarantee the necessary supplies for the population. Additionally, transport costs are expected to increase due to the significant increase in freight rates, which is already occurring in container traffic at the international level and, in particular, for goods coming directly from - or transiting through - the Spanish mainland.

Figure 7: Imports, € thousand (January 2019 – May 2021) Figure 8: Exports, € thousand (January 2019 – May 2021)



Source: Ecorys based on Instituto Canario de Estadística data

Source: Ecorys based on Instituto Canario de Estadística

The Canary Islands also experienced the largest regional fall in the number of companies registered within the Spanish Social Security system. In December 2020, there was a recorded reduction of -7% per annum.⁹ This has meant the loss of more than 4,000 companies in the region. The biggest annual percentage change was recorded in the tourism sector (-12%), followed by the services sector (-6%). Additionally, the market in the Canary Islands

⁹ Instituto Canario de Estadística. Available at: http://www.gobiernodecanarias.org/istac/temas_estadisticos/economiageneral/empresas/empresas/E58028A.html

is heavily fragmented in terms of the size of enterprises. This is due to the fact that over 99% of enterprises in the region have under 250 employees (SMEs), which leaves the enterprise landscape somewhat fragmented.¹⁰

Table 1: Number of dissolved/created enterprises and annual variation

	Agriculture	Industry	Services	Construction	Tourism	Total
2019						
Difference between start and end of 2019	9	15	-176	146	14	8
Annual percentage change	0%	1%	-1%	3%	0%	0%
2020						
Difference between start and end of 2020	-64	-133	-2.065	-207	-1,759	-4,228
Annual percentage change	-3%	-5%	-6%	-4%	-12%	-7%

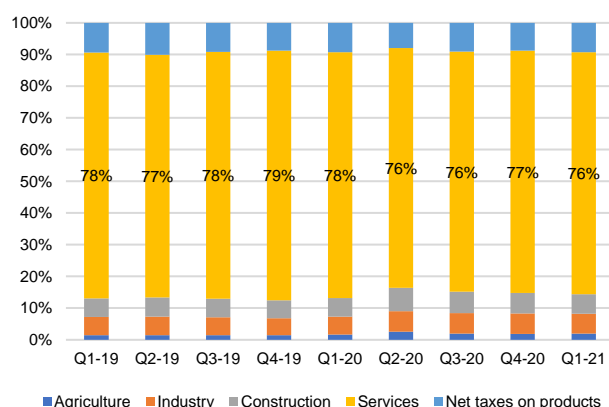
Source: Ecorys based on Instituto Canario de Estadística data

SECTORAL ANALYSIS

The COVID-19 pandemic has had an overall negative impact on the economy and the labour market of the Canary Islands. However, some sectors have been directly and more severely affected than others. The tourism sector has been the worst-hit sector in the economy by far, as a direct result of the restriction measures imposed. Hotels and restaurants, small-scale retail, and transport, which are heavily linked to tourism, have seen the biggest negative impacts.

The economy of the Canary Islands is heavily based on the tertiary sector (76%) - mainly tourism - which has contributed towards the development of the construction sector in parallel. The islands are one of the most visited tourist destinations in the world on a resident per capita basis. Tenerife and Gran Canaria stand out above the rest of the islands. These islands are the driving forces in the regional economy.

Figure 9: Percentage contribution from each sector to GDP, 2019-2021



Linked to this is the cultural sector, which accounts for 26,500 direct and indirect jobs in the economy of the Canary Islands. This is 4.3% of total employment, thanks to the activity generated by 5,544 cultural sector companies.¹¹ It should also be noted that the region's cultural business fabric is mainly made up of micro-enterprises and self-employed professionals. Public services account for 18.2% of GDP.¹²

Source: Ecorys based on Instituto Canario de Estadística data

¹⁰ Instituto Canario de Estadística, available at: https://www3.gobiernodecanarias.org/istac/statistical-visualizer/visualizer/collection.html?resourceType=collection&agencyId=ISTAC&resourceId=E58028A_000001

¹¹ <https://www.culturaydeporte.gob.es/dam/jcr:52801035-cc20-496c-8f36-72d09ec6d533/anuario-de-estadisticas-culturales-2020.pdf>

¹² Instituto Nacional de Estadística

The Canary Islands have a significant trade imbalance. Almost all goods are imported, while a small volume, largely made up of agricultural products with comparatively little value, are exported. For example, a small quantity of bananas is exported, while thousands of cars are imported, without any industrial activity on the islands linked to the automotive industry. Industrial activity accounts for around 6-7% of regional GDP, mostly in agri-food processing sectors.

As far as the primary sector is concerned, only 10% of the surface area is cultivated, the majority being rain-fed (bananas, vine and potatoes) and a minority irrigated (mainly bananas and tomatoes). Export agriculture is geared towards trade with the Spanish and EU markets. The export of other tropical fruits (avocados, pineapples, mangoes, and other greenhouse crops) and flowers has picked up in recent years. Livestock - mainly goats and cattle - are scarce, having suffered a significant decline in recent decades. With an important fishing tradition, especially in the Canary Islands-Saharan fishing grounds, the sector has experienced a continuous decline. This has also affected the fish canning and salting industries, which have largely disappeared.

All sectors have experienced a decline as a result of the pandemic except the agricultural sector, which experienced modest growth as people's eating patterns have evolved towards more home-based and local consumption.¹³ The impact of the COVID-19 crisis has been mainly felt on the tertiary (services) sector. The second most affected sector after the services sector (which includes tourism and its related activities) during lockdown was the industry sector, as some activities were forced to cease completely to prevent the spread of COVID-19, followed by the construction sector. The general reduction in consumption arising from the restrictions imposed has also had a negative effect on the revenue from net taxes on products, decreasing by almost -31% during Q2 2020 (Table 2).

Table 2: Economic loss by sector

Sector	Economic loss (%)				
	During lockdown (Q2 2020)	Q3 2020	Q4 2020	Q1 2021	Q2 2021
Agriculture and agri-food	1.4	2.5	3.8	2.55	4.66
Industry	-29.5	-7.9	-7.6	-8.89	18.5
Construction	-28	-11.3	-12.6	-12.62	17.75
Services	-38.2	-23.5	-23.8	-17.55	27.97
Net taxes on products	-30.9	-19.3	-21.7	-16.25	26.95
Total	-34.3	-19.7	-20.2	-14.15	26.52

Source: Ecorys, based on Instituto Canario de Estadística data

Tourism

Tourism has been the most affected sector, by far. Even though the health impact of the COVID-19 crisis has been less severe in the Canary Islands than in the rest of Spain, from an economic perspective it has been the hardest hit region in Spain, together with the Balearic Islands, due to the disproportionate weight of tourism and its many related activities in the economy. The most recent estimates by IMPACTUR (2018)¹⁴ indicate that tourism represented 35% of the region's GDP, slightly over 40% of its employment, 9.2% of total public expenditure in the region, and 35% of tax revenue.¹⁵

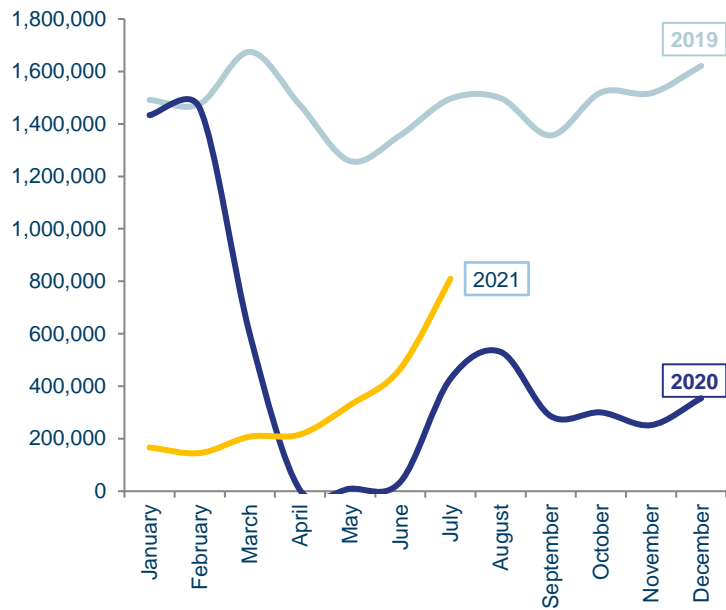
¹³ Caixabank research study. Available at: <https://www.caixabankresearch.com/es/analisis-sectorial/agroalimentario/cambio-patrones-consumo-durante-confinamiento-del-restaurante-al>

¹⁴ Study by Exceltur in 2018. Main results available at: <https://www.exceltur.org/wp-content/uploads/2018/07/IMPACTUR-Canarias-2017-julio-2018-.pdf>

¹⁵ *Ibid.*

The restriction measures imposed have had a direct impact on tourist arrival numbers. Passengers arriving by air transport virtually disappeared during the months of lockdown, slightly picking up during the summer months of 2020, but still nowhere close to the figures observed in 2019 (Figure 10). During 2021 the recovery was more significant than in 2020, but remained far below 2019 levels. The same pattern is observed when looking at overnight stays. Most tourists visiting the Canary Islands are from outside Spain. Their numbers saw a sharp decrease since the outbreak of the pandemic. During summer 2020, numbers picked up slightly but were still 80%-90% below the usual numbers. Tourist arrivals from the rest of Spain have not decreased as dramatically as those from outside the country, but also remain at much lower numbers than in previous years.

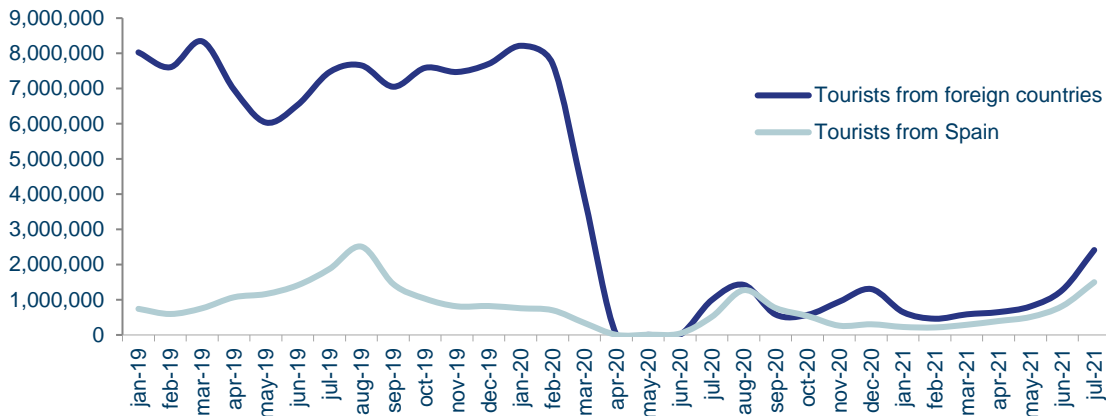
Figure 10: Number of passengers (air transport)



Source: Ecorys based on Instituto de Estadística de Canarias

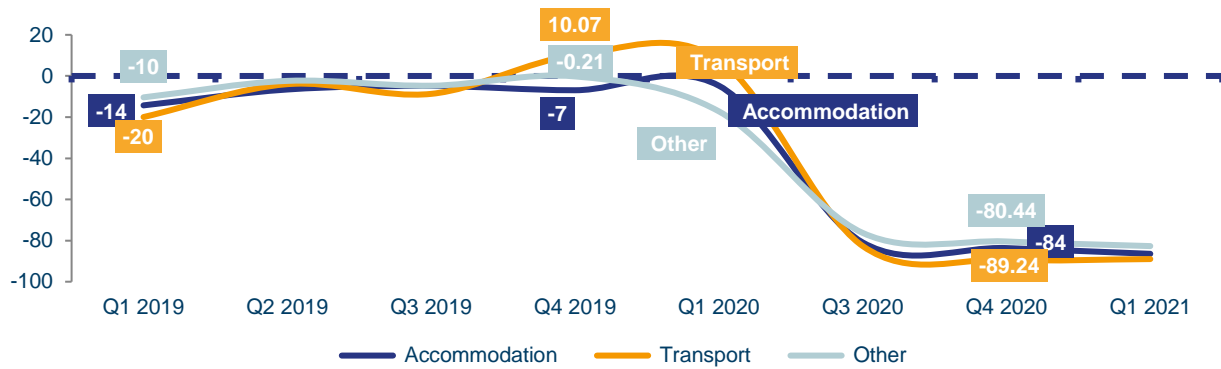
Tourism practically stopped in April-May 2020 and has not recovered so far (Figure 11). For example, a comparison between July 2021 and July 2019 numbers for tourists from foreign countries shows a decrease of almost 70% in 2021. Additionally, tourism expenditure fell by €10.2 million in 2020 (Figure 12). This has had an immensely negative impact on tourist expenditure in the islands, particularly for those islands such as Fuerteventura and Lanzarote, which are even more heavily dependent on tourism.

Figure 11: Overnight stays by tourists by origin (number of nights)



Source: Ecorys, based on Instituto Canario de Estadística data

Figure 12: Total tourist expenditure variation

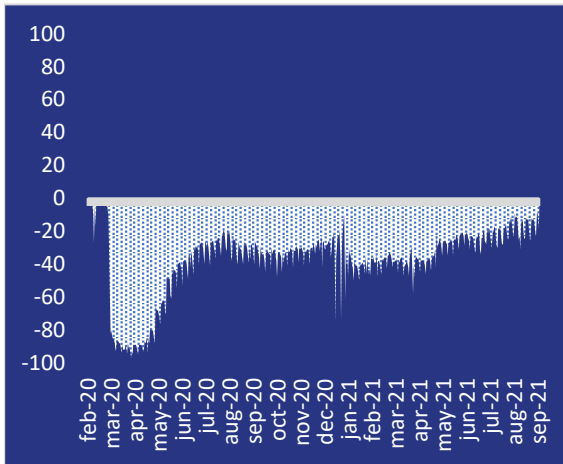


Source: Ecorys, based on Instituto Canario de Estadística data

Retail

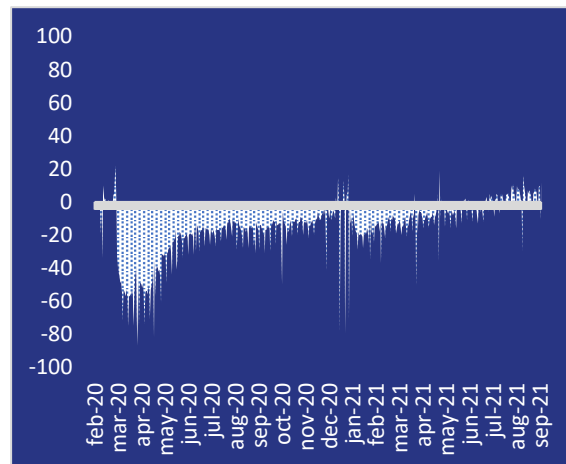
The restriction measures imposed to prevent the spread of COVID-19 had a clear impact on the mobility of people across the region. The decrease in mobility (Figures 13 and 14) was clearly linked to the imposed lockdown, following the pattern of reduced mobility during times of higher restrictions, with a few exceptions around specific periods like Christmas. The decrease was particularly marked for retail and recreation, which include some of the worst-hit sectors by the pandemic.

Figure 13: Google Mobility Index, Canary Islands, retail and recreation, 2020-2021



Source: Google Mobility Index

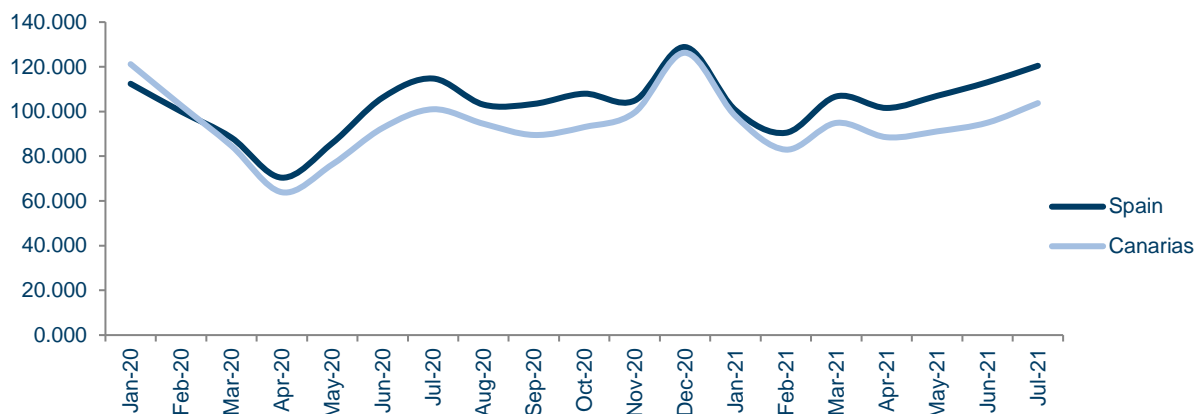
Figure 14: Google Mobility Index, Canary Islands, grocery and pharmacy, 2020-2021



Source: Google Mobility Index

During 2020 there was a decrease in turnover for retail trade. The magnitude of the decrease was closely linked to the restriction measures applied, and it was particularly severe for the months of March-May 2020 (Figure 15).

Figure 15: Index of turnover in retail trade, Spain and Canary Islands (2020)

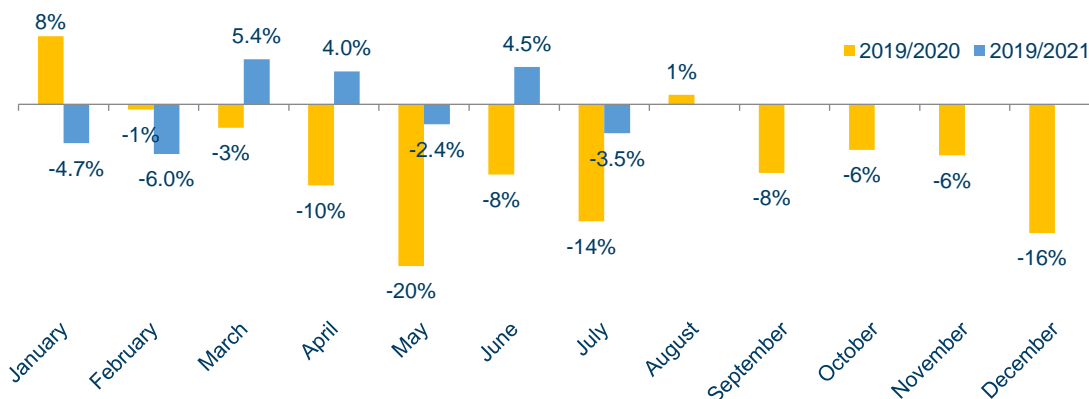


Source: Ecorys based on Instituto de Estadística de Canarias (ISTAC)

Transport

The transport sector, especially aviation and shipping, is key in the economy of the Canary Islands, as well as in the other outermost regions, given their insularity and geographical location. A proper supply of goods and services to the Canary Islands is reliant on adequate transport connections, as well as the mobility and connection of the residents with mainland Spain. However, since the outbreak of the pandemic, air transport has sharply decreased, with current levels still very much below those prior to the crisis. The reduction in the number and frequency of flights and airlines flying to and from the islands has limited movement even further. In addition, the maritime transport of goods decreased by monthly magnitudes ranging from -1% to -20% during 2020 (Figure 16).

Figure 16: Tonnes of goods (maritime transport) 2020 and 2021 in comparison with 2019 (percentage change)



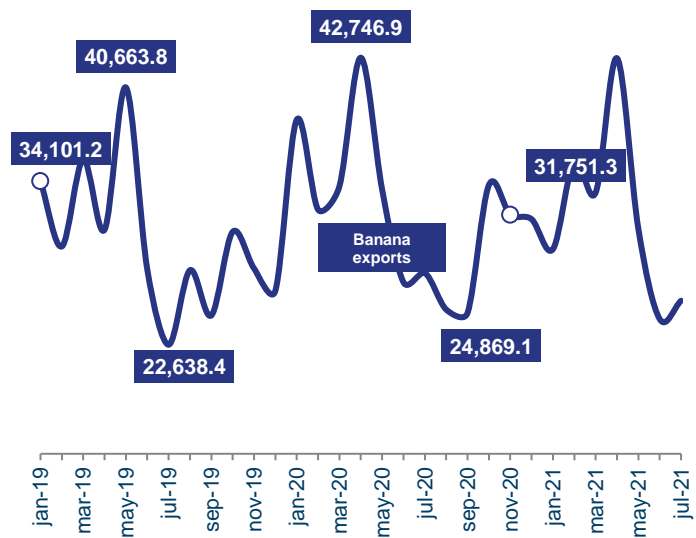
Source: Ecorys, based on Instituto Canario de Estadística data

Agriculture and fisheries

Until a few decades ago, the Canary Islands had a fundamentally agrarian economy. Today, however, the economic significance of the agricultural sector is low. The Canarian agricultural production only covers a tenth of the region's food needs. Traditional rainfed crops have become, in practice, part-time farming, for farmers who have income in other sectors. This allows for a modest domestic supply, but it is not sufficient to meet regional consumption needs.

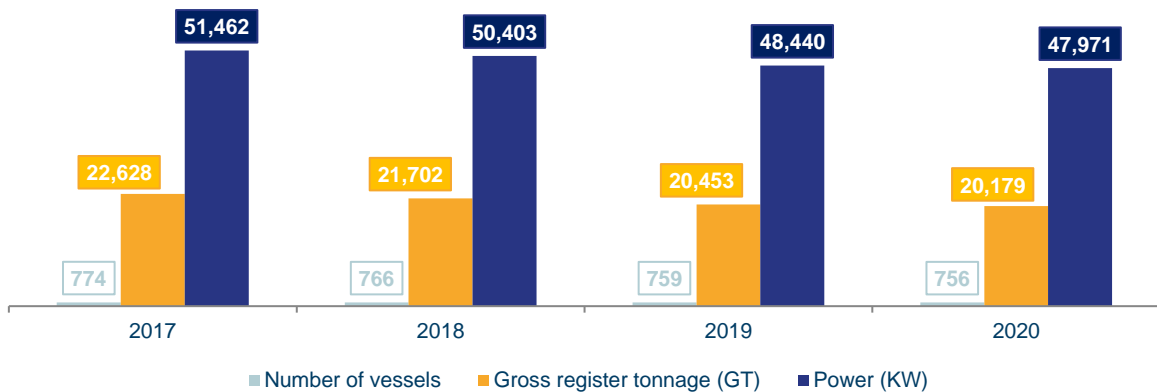
Bananas are the most important food crop in the region in terms of quality and distribution. Irrigation has made it possible to reduce the area under cultivation while maintaining, and even increasing, production. However, the availability of land is currently the main factor limiting further production, as water resources are limited. Bananas are mainly exported to the rest of Spain. During the pandemic, food patterns have somewhat been altered, with the population eating more at home and less in hotels and restaurants, and thus increasing aggregate consumption of staple foods in lieu of higher-priced foods (the latter often eaten in restaurants). Therefore, the export of bananas has not seen a sharp decline, as opposed to other economic sectors (Figure 17). The second most important crop in terms of exports is tomatoes. Almost all production is exported, mainly to the United Kingdom and the Netherlands.

Figure 17: Banana exports (tonnes), 2019-2020



The fishing sector has always been secondary to agriculture in the Canary Islands. For the most part, it is a small-scale fleet run by family businesses, mostly based in Gran Canaria and Lanzarote. The coastal fleet, and the fleet in the interior of Canarian waters, is of limited economic importance, but generates some jobs due to its family-based ownership characteristics. In any case, the number of vessels has been steadily decreasing for the past few years, independently of the COVID-19 crisis (Figure 18).

Figure 18: Number of vessels and capacity of the fishing fleet, 2017-2020



Source: Ecorys based on Gobierno de Canarias

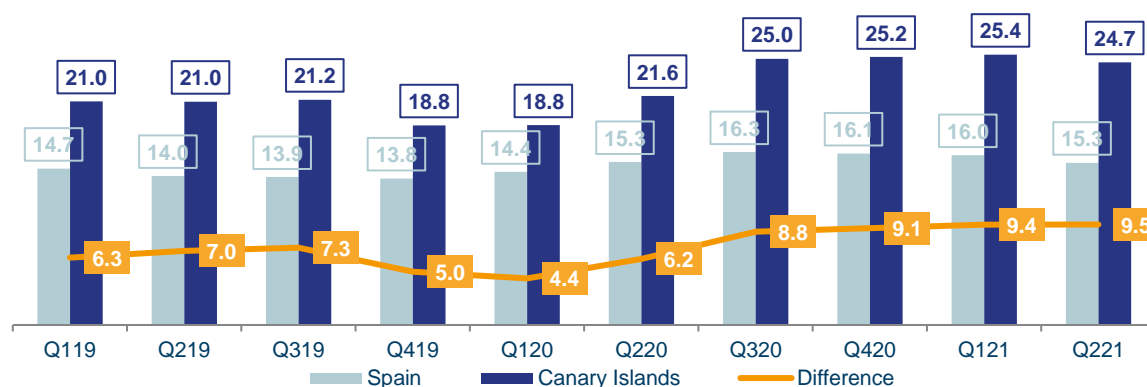
3. SOCIAL IMPACT OF THE COVID-19 CRISIS

The Canary Islands are characterised by high and persistent unemployment rates, high inequality levels, a mismatch between workforce qualifications (skills and experience) and labour market demands, and higher seasonality in employment compared to the Spanish national average. Another important difference with respect to the national average is the risk of poverty rate, which in 2019 was 20.7% for Spain and 28.5% for the Canary Islands.¹⁶ The

¹⁶ Information from the Canary Government, available at: <http://www.gobiernodecanarias.org/istac/jaxi-istac/tabla.do>

reduced economic activity resulting from the pandemic has inevitably been reflected in a sharp decline in employment and a sharp increase in unemployment in the region. Almost 1,000 companies in June 2021¹⁷ in the Canary Islands are taking part in ERTE (*Expediente de Regulación Temporal de Empleo*, a labour flexibilisation measure that enables the company to reduce or temporarily suspend employment contracts).¹⁸ This measure induces protection for workers and, as the OECD has remarked, has been relatively successful in protecting the most vulnerable, as evidenced by the much more moderate increase in post-transfer income inequality.¹⁹ This post-transfer inequality, which increased initially in March 2020, began to fall back to levels close to those seen the previous year as early as April 2020 and have remained relatively stable since.²⁰ It is important to note that ERTE workers in the Canary Islands account for a greater proportion of the employment base (i.e. the total number of registered workers) than they do at the national level, accounting for 11% and 3.9% respectively (in February 2021).

Figure 19: Unemployment rates in Spain and the Canary Islands (Q1 2019 – Q1Q2 2021)



Source: Ecorys based on Instituto Nacional de Estadística

If ERTE workers were to be added to the unemployed, the Canary Islands would be the region with the highest registered unemployment rate of all the Spanish regions, amounting to 35% in February 2021.²¹ The long-term unemployment did not increase in 2020, but it remained high – 8.4% of the population in the labour force, as compared to 5% for the national average and 2.5% for the EU27 average²². The youth unemployment rate, traditionally high in the Canary Islands, stood at 57.7% in Q4 2020 (40.1% nationally) after standing at 35.4% (30.5% nationally) in the same quarter in 2019. In other words, divergence from the national average has increased. The unemployment rate increased from 18.8% in Q4 2019 to 25.2% in Q4 2020. Moreover, divergence from the national average has steadily increased since Q2 2020. In Q4 2020 it stood at 9.1%, while in Q2 2021 it was 9.5% (Figure 19).

The impact on employment has been profound, given the high specialisation in tourism and commerce. Consequently, the most affected branches of activity in terms of employment are tourism (hotels and catering), trade and transport. Given the importance of tourism, both in terms of its direct and indirect contribution to the economy, this has affected the rest of the sectors to a greater or lesser extent.

¹⁷ Informe de seguimiento del impacto económico del covid-19. Available at: [http://www.datosdelanzarote.com/Uploads/doc/Informe-de-seguimiento-del-impacto-econ%C3%B3mico-del-covid-19-en-Canarias-\(julio-2021\)-20210713112123805Informe-de-seguimiento-impacto-covid-19-Julio-2021.pdf](http://www.datosdelanzarote.com/Uploads/doc/Informe-de-seguimiento-del-impacto-econ%C3%B3mico-del-covid-19-en-Canarias-(julio-2021)-20210713112123805Informe-de-seguimiento-impacto-covid-19-Julio-2021.pdf)

¹⁸ ERTE stands for Expediente de Regulación de Empleo Temporal and is a measure taken by companies when, for justified reasons (economic, technical, organisational, production, or due to force majeure), they decide to temporarily suspend or reduce the contracts of their workers. This means that employees, on a temporary basis, either stop working or work fewer hours.

¹⁹ This is inequality after taxes, grants and other re-distribution schemes have been taken into account.

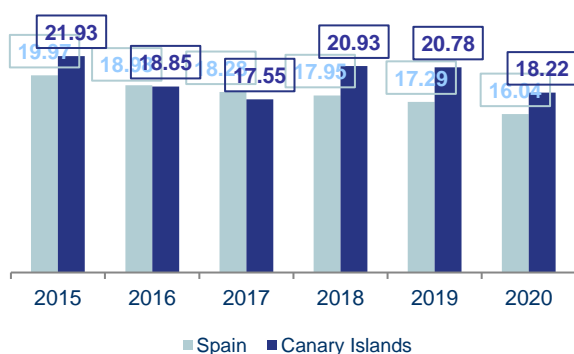
²⁰ OECD Employment Outlook 2021. Available at: <https://www.oecd-ilibrary.org/sites/5a700c4b-en/1/3/1/index.html?itemId=/content/publication/5a700c4b-en&csp=d31326a7706c58707d6aad05ad9dc5ab&itemIGO=oecd&itemContentType=book>

²¹ Input Interview: Viceconsejería de Economía de las Islas Canarias.

²² Eurostat (code: [fst_r_lfu2ltu]), Long-term unemployment (12 months and more) by sex, age, educational attainment level and NUTS 2 regions (%), Percentage of population in the labour force.

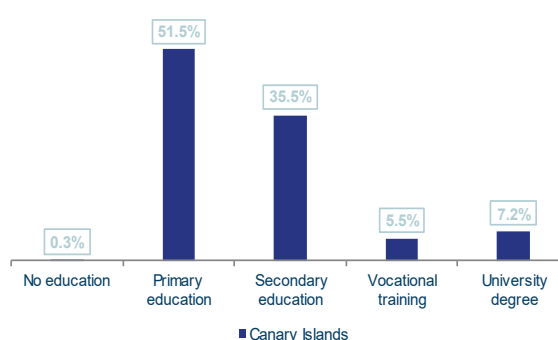
The increase in unemployment was also driven by losses in lower qualified jobs. Thus, almost two-thirds of the increase in unemployment (February 2021 / February 2020) has been accounted for by workers with primary education. A further 29% has been accounted for by workers with secondary education, and the remaining 7.3% by workers with post-secondary education.²⁶ Thus, the pandemic has acted to further widen employment inequality linked to educational attainment. This is very relevant, given the higher rate of early leavers from education and training in the Canary Islands compared to mainland Spain (Figure 23) and since lower educational levels are correlated with higher unemployment rates (Figure 24).

Figure 23: Rate of early leavers from education and training, Spain and Canarias



Source: Ecorys based on INE

Figure 24: Distribution of unemployed people by level of education, Canary Islands, August 2021



Source: Ecorys based on SEPE (Servicio Público de Empleo Estatal)

In addition, according to Eurostat, the percentage of young people not in employment, education or training (NEET) shows an increasing trend from 2015. It was 19.7% in 2020, consistently higher than mainland Spain (13.9%) and EU27 (11.1%). There have been varying effects across sub-regional geographies, with a greater negative impact on the islands and municipalities most dependent on tourism, such as the south of Gran Canaria and the islands of Lanzarote and Fuerteventura. Additionally, the average income of households in the Canary Islands has been consistently lower than the Spanish national average. Therefore, any negative impacts on household income in the region will have a direct impact on poverty. In this context, it is important to highlight that the AROPE rate (risk of poverty and/or social exclusion) in 2019 was 25% for Spain and 35% for the Canary Islands, which reflects the severity of the challenge facing the region.²⁷ Moreover, since the onset of the COVID-19 crisis, the proportion of people at risk has increased, but many have different profiles and needs compared to those typically at risk prior to the pandemic.²⁸ The economic crisis has not affected all groups equally. Individuals with lower incomes before the crisis have generally been more affected. Moreover, the impact of the crisis has also differed according to other socio-economic characteristics such as age, gender, origin or place of residence.²⁹

All in all, the region has seen a steady increase in the number of registered jobseekers since the outbreak of the pandemic (Figure 25). There were almost 75,000 more people registered as jobseekers in February 2021 compared to the same month in the previous year.

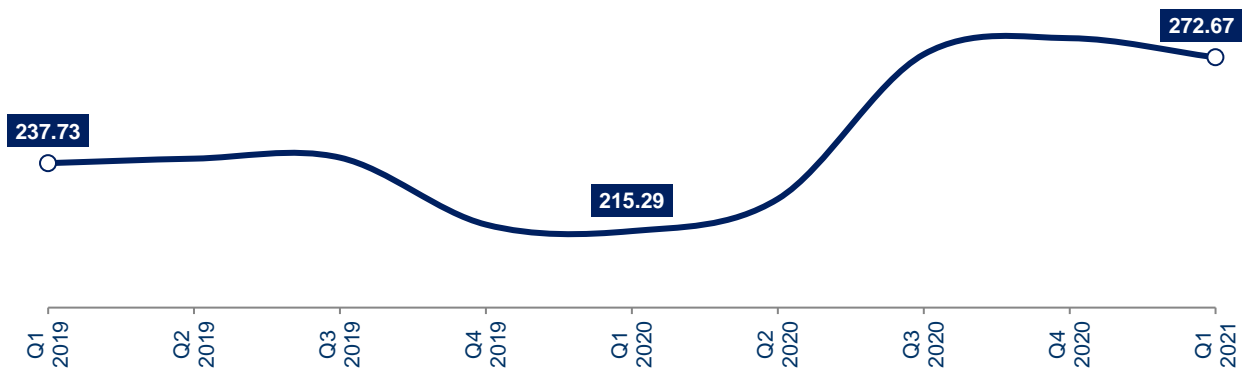
²⁶ OBECAN based on Servicio Público de Empleo Estatal. Ministerio de Trabajo y Economía Social.

²⁷ https://www.eapn.es/estadodepobreza/ARCHIVO/documentos/Informe_AROPE_2019_CANARIAS.pdf

²⁸ Input interview, EAPN

²⁹ <https://www.caixabankresearch.com/es/economia-y-mercados/sector-publico/colectivos-están-sufriendo-más-crisis-economica-covid-19>

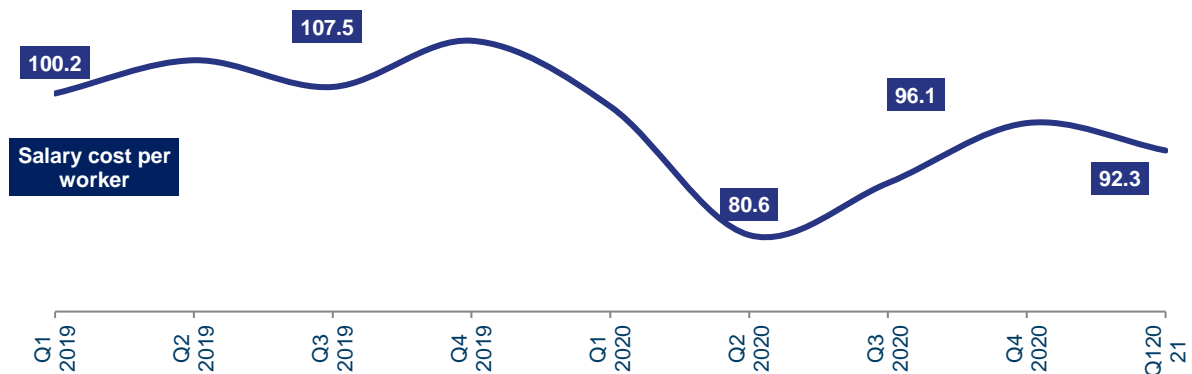
Figure 25: Registered number of jobseekers in the Canary Islands, thousands of people, 2019–2021



Source: Ecorys based on Instituto Nacional de Estadística

The workforce has seen a steady and constant decrease in remuneration levels, illustrated by the decline in the indexed salary cost per worker, from 107.5 in Q4 2019 to 92.3 in Q1 2021 (Figure 26).

Figure 26: Indexed salary cost per worker, Canary Islands (Q1 2019 – Q1 2021)



Source: Ecorys based on Instituto Nacional de Estadística (INE)

Additionally, the deterioration of the global economy due to the COVID-19 pandemic has had an impact on the number of irregular migrants reaching the Canary Islands. During 2020, 23,023 irregular migrants were recorded as having arrived at the Canary Islands coast by sea; 757% more than in 2019 (2,687).³⁰

This unprecedented increase in the arrival of migrants to the Canary Islands resulted in an institutional crisis, with governmental agencies and NGOs being unable to accommodate all arrivals. In particular, the area around the Arguineguín port has demonstrated the region's insufficient capacity to manage large numbers of arrivals, in terms of providing migrants with legal protection, medical assistance, and accommodation. As a response, the port had to be closed and the Spanish government developed a plan to deal with the migration situation in the Canary Islands.

³⁰ Ministry of the Interior, 2020. Report of the Ministry of the Interior on Irregular Immigration. Available at: <http://www.interior.gob.es/documents/10180/11389243/Informe+Quincenal+sobre+Inmigraci%C3%B3n+Irregular+-+Datos+acumulados+desde+el+1+de+enero+al+31+de+diciembre+de+2020.pdf/e5553964-675a-40d7-9361-5dbf4dfd3524>

4. POLICY RESPONSES TO TACKLE THE EFFECTS OF THE CRISIS

EU, NATIONAL AND REGIONAL PLANS

There have been various EU support measures in response to COVID-19, which can be outlined according to their time horizon. In the short term, the Coronavirus Response Investment Initiative (CRII) and Coronavirus Response Investment Initiative Plus (CRII+) allowed the use of ERDF funds to alleviate the impact of the COVID-19 outbreak. It provided additional flexibility to use available funds to support response measures, mainly for working capital and to strengthen health infrastructure. Since February 2020, more than €64 million from existing funds have been re-allocated in the Canary Islands.³¹ The Recovery Assistance for Cohesion and the Territories of Europe (REACT-EU) envisages specific aid to the Canary Islands for a total value of €630 million in 2021 and 2022, which translates into €285 per inhabitant.³² The measures include resilience and longer-term actions, with a specific focus on climate change. In the longer term, the EU Recovery and Resilience Facility³³ (RRF) is a key tool to support recovery, as it will finance reforms and investments in Member States until 2026. These funds will support new European Social Fund (ESF) measures (€169.7 million) with the aim of increasing access to the labour market, supporting the self-employed and the creation of long-term quality employment by investing in initiatives targeting social inclusion, education, vocational training and lifelong learning to support the upskilling and reskilling of the workforce.

The EU Recovery and Resilience Facility (RRF) is a key tool to support recovery, and amounts to €69.5 billion in grants for Spain. Specifically, it finances the main national measure, Spain's Recovery, Transformation and Resilience Plan, which outlines actions for the inclusive and resilient reconstruction of the Spanish economy, following the COVID-19 pandemic. The plan aims to modernise the Spanish economy and boost national economic growth and employment levels. This plan includes specific provisions for tourism sector modernisation and competitiveness, with a special focus on the Canary and Balearic Islands.³⁴ The plan provides €3.4 billion to modernisation and competitiveness of the tourism sector and establishes the implementation of specific resilience plans in extra-peninsular territories through which the Canary Islands will receive €50 million³⁵.

The regional government has also implemented a wide range of responses to the COVID-19 crisis. The *Plan Reactiva Canarias* of October 2020 includes more than one hundred specific lines of action. Collectively, they aim to strengthen health and social health services, preserve essential public services, maintain employment levels, care for the most vulnerable members of society, streamline administrative procedures, and promote the Canary Islands' Sustainable Development Agenda.

HEALTH SECTOR MEASURES

As a consequence of COVID-19 effects on the health sector, public investment in medical equipment and infrastructure for 2021 increased by 29% relative to the previous year. Planned investments now have a value of €94.9 million; €21 million more than in 2020. The Canary Islands' Ministry of Health has increased its budget for 2021 by 5.1%, reaching €3.301 million. This increase is primarily focused on enhancing the areas of primary care and public health.³⁶ Spending on medical personnel has also been increased by 7%, to €1.743 million.³⁷

³¹ Data from Cohesion data, available at: <https://cohesiondata.ec.europa.eu/stories/s/CORONAVIRUS-DASHBOARD-COHESION-POLICY-RESPONSE/4e2z-pw8r/> [21.09.2021]

³² Information from the Government of the Canary Islands, available at: https://www.gobiernodecanarias.org/asuntoseuropeos/COVID-19/fondos_europeos/react-eu/ [21.09.2021]

³³ The RRF aim is to mitigate the economic and social impact of the coronavirus pandemic and make European economies and societies more sustainable, resilient and better prepared for the challenges and opportunities of the green and digital transitions. It was approved in 2021 and will support member states until 2026.

³⁴ Information from Gobierno de España. Available at: https://www.mineco.gob.es/stfls/mineco/comun/pdf/201015_des_recovery.pdf [21.09.2021]

³⁵ https://www.sepg.pap.hacienda.gob.es/Presup/PGE2022Proyecto/MaestroDocumentos/PGE-ROM/doc/2/1/4/5/1/14/3/N_22_A_V_1_2_2_T ITECPC14_1_itelnl03_1_1.PDF

³⁶ Gobierno de Canarias. Noticias. Available at: <https://www3.gobiernodecanarias.org/noticias/el-presupuesto-de-sanidad-para-2021-aumenta-un-512-y-se-situa-en-3-301-248-249-euros%e2%80%8b/> [21.09.2021]

³⁷ *Ibid.*

MEASURES IN SUPPORT OF THE ECONOMY

The Decree Law 2/2021 of March set forward a process for the direct granting of subsidies aimed at maintaining the activity of self-employed workers and small and medium-sized companies of the sectors most affected by the COVID-19 crisis, for a total of €84 million, which are financed by the EU under REACT-EU.

The economy of the Canary Islands is composed almost entirely of SMEs. It is therefore not surprising that multiple support measures were rolled out targeting SMEs. They include support for:

- **SMEs in the Canary Islands:** Monetary transfers to cover the operating expenses of Canary Islands SMEs which have been forced to suspend or shut down their activities. Support for digital transition has been provided through bonuses covering costs incurred in business projects, which incorporate information and communication technologies. This measure is co-financed by the European Regional Development Fund (ERDF) (85%) and the government of the Canary Islands (15%) with a total grant value of €2.4 million.³⁸ More than 20,000 SMEs are expected to benefit from these measures.
- **Self-employed and micro-enterprises:** Multiple subsidies have been made available to alleviate the negative economic impacts of the COVID-19 crisis on the self-employed and MSMEs (Micro, Small & Medium Enterprises). Specific measures have been introduced for companies registered in Gran Canaria,³⁹ Tenerife,⁴⁰ Lanzarote and La Graciosa,⁴¹ La Gomera,⁴² El Hierro,⁴³ La Palma, Fuerteventura.⁴⁴
- A direct subsidy for the 'Financing of the Cost of the Aval 2020', to the company "SGR Aval Canarias", which provides guarantees similar to the ones provided by banks, to alleviate effects on economic activities, derived from the lack of liquidity of SMEs and self-employed people who carry out their activity in the Canary Islands, for a total amount of €550,000.⁴⁵

SECTORAL MEASURES

Specific funds and support schemes for the sectors which make the greatest contribution to the economy of the Canary Islands were also designed and applied. Tourism, undoubtedly the most affected sector, received the greatest support. The cultural sector, an adjacent sector also affected by the pandemic, also received support. The agricultural sector received specific assistance for some of the more iconic products of the island. Likewise, the fishery sector received support, due to the vulnerable nature of the mostly small-scale operators. The measures provided were/are as follows.

The tourism sector: The *Canarias Fortaleza*, a competitive grant scheme aimed at financing the expenses incurred by tourist accommodation operators to ensure biosecurity measures, with a focus on accessibility, sustainability and digitalisation. A grant from the regional government (€4.34 million) covered between 60-75% of incurred expenses, which can range from €3,000-100,000 per SME.

³⁸ Gobierno de Canarias. Boletín Oficial. Available at: <http://www.gobiernodecanarias.org/boc/2020/270/026.html> [21.09.2021]

³⁹ Cabildo de Gran Canaria. Available at: https://sede.camaragrancanaria.org/sede/documentos/CONV_SUBV_AUTONOMOS_PYMES.pdf [21.09.2021]

⁴⁰ Source: <https://sede.tenerife.es/en/tramites-y-servicios/item/7474-2-convocatoria-de-subvenciones-directas-a-autonomos-y-micropymes-a-fin-de-paliar-los-efectos-de-la-crisis-covid-19-en-el-tejido-productivo-de-la-isla-de-tenerife> [21.09.2021]

⁴¹ Source: <http://www.boplaspalmas.net/nbop2/index.php> [21.09.2021]

⁴² Source: <https://transparencia.lagomera.es/ayudas-y-subvenciones/relacion-ayudas-subvenciones-concedidas> [21.09.2021]

⁴³ Source: <https://transparencia.elhierro.es/informacion-ayudas-subvenciones/lineas-ayudas-subvenciones> [21.09.2021]

⁴⁴ http://www.cabildofuer.es/documentos/covid/ayuda_autonomos_pymes_covid-19.pdf

⁴⁵ <https://www.pap.hacienda.gob.es/bdnstrans/GE/es/convocatoria/542113>

The cultural sector: Subsidies were rolled out to finance the expenses derived from the suspension of cultural activities by companies and non-profit culture organisations (a total value of €1 million).⁴⁶

The transport sector: Subsidies to cover the maintenance costs of the taxi fleet management systems, for a total value of €1.2 million.⁴⁷ An incentive scheme was also designed for all airlines flying towards the Canary Islands to support the sector itself, as well as the tourism sector indirectly. Total expenditure is up to €979,699.⁴⁸

The agricultural sector: Including pineapple farmers, floriculturists, wineries, milk and banana farmers. Each of the tropical pineapple farm holders⁴⁹ had access to a fund of a total value of €750,000.⁵⁰ The floriculture sector was allocated a total of €4 million in funding.⁵¹ Wineries with the Canarian Denomination of Origin, which labelled wine for 2020 and incurred losses in that year, were allocated €2.5 million in support. Milk producers affected by the crisis are receiving a total of €375,000 of support, by means of an exceptional temporary support scheme granted to dairy farmers affected by the COVID-19, under the Canary Rural Development Programme 2014-2020.⁵² Banana farmers with protected geographical indication (PGI) status, other than those normally receiving aid from the Community Programme to Support Agricultural Production in the Canary Islands (POSEI) financed by the European Agricultural Guarantee Fund (EAGF), also obtained €141,100 in aid.⁵³ Moreover, there were several modifications to the POSEI regime during 2020 in order to protect the agricultural sector against Brexit and COVID-19 pandemic effects.

The fishery sector: In the form of subsidies for owners of fishing vessels having incurred losses as a result of COVID-19, who will receive a total of €1 million.⁵⁴

The aquaculture sector receives support in the form of compensation for the decrease or loss of income suffered by aquaculture enterprises due to difficulties in selling their products as a result of the outbreak of COVID-19 - a total of €1 million.⁵⁵

LABOUR/SOCIAL SECTOR MEASURES

Several resolutions were also passed to tackle social and labour market difficulties. These resolutions were developed by the regional government and took the form of:

- **Rental assistance** to tenants struggling to meet partial or full payment of their rent. Grants were typically awarded for up to half of total rental value and credit to the Canary Housing Institute was increased by €5.3 million for this purpose.⁵⁶
- **Pension plan support** to help alleviate the liquidity pressure felt by households due to the crisis by allowing for longer timelines for pension contributions. Individuals facing unemployment and those owning an establishment that ceased activity due to the crisis were allowed access to accumulated savings within their pension fund.
- **Emergency income for vulnerable households.** The *Ingreso Canario de Emergencia* (ICE) provides a monthly payment to households in which family members are unemployed and are not collecting welfare benefits or pension payments. It is estimated that this measure will benefit over 100,000

⁴⁶ <http://www.gobiernodecanarias.org/boc/2020/111/005.html>

⁴⁷ Source: <http://www.gobiernodecanarias.org/boc/2020/238/022.html>

⁴⁸ Source: <https://turismodeislascanarias.com/es/incentivo-promocional-en-el-marco-del-fondo-del-desarrollo-de-vuelos/?lang=es>

⁴⁹ Provided it was registered in the General Registry of Primary Agricultural Production (REGPEA) of the Canary Islands or in the Registry of Organic Production Operators (ROPE)

⁵⁰ Source: https://sede.gobcan.es/agp/procedimientos_servicios/tramites/6636

⁵¹ Source: https://sede.gobcan.es/agp/procedimientos_servicios/tramites/6650

⁵² Source: https://sede.gobcan.es/sede/procedimientos_servicios/tramites/6554

⁵³ Source: <https://www.subvenciones.gob.es/bdnstrans/A05/es/convocatoria/581550> [21.09.2021]

⁵⁴ Source: <https://sede.gobcan.es/sede/tramites/6539#> [21.09.2021]

⁵⁵ https://sede.gobcan.es/sede/procedimientos_servicios_destacados/otros/tramites/6536 [21.09.2021]

⁵⁶ Source: <http://www.gobiernodecanarias.org/boc/2020/089/005.html> [21.09.2021]

vulnerable residents of the Canary Islands. Funding came from grants from the regional government of the Canary Islands (Social Rights Council) for an estimated €16 million.

- **Fiscal measures** to ease tax payment pressures by adjusting deadlines,⁵⁷ adjusting the indices upon which indirect taxation are based⁵⁸ and putting forward systems to facilitate payments.⁵⁹ The amount for the partial refund of the Special Tax of the Autonomous Community of the Canary Islands on petroleum-derived fuels was adjusted to support the transport sector.⁶⁰ Canarian Indirect General Tax was waived entirely for imports of goods needed to combat the effects of the pandemic, such as medical equipment.

These measures have had a direct effect on preventing further increases in poverty and social exclusion in the Canary Islands. As described in the previous section, the region's unemployment increased sharply in Q3 2020, becoming the Spanish region with the highest registered unemployment rate (classifying ERTE workers as unemployed) and with a significant increase in long-term unemployment. To tackle this issue, the national government provided:

- **Grants for firms in temporary workforce reduction programmes** to provide liquidity for micro-SMEs and the self-employed, if forced to file for temporary employment suspension. The grants provide funds needed to reemploy workers and cover their salary costs once the economy recovers.
- **Faster access to unemployment benefits** for specialised sectors, such as for technical and auxiliary personnel of the cultural sector. Artisans on the island of Tenerife also received direct subsidies from the Council of Tenerife.
- **Special unemployment benefit** as a complementary social measure to provide income for unemployed individuals registered as jobseekers having exhausted their present unemployment benefits between 14 March and 30 June 2020. This measure was offered as a comprehensive means to support individuals during a time of limited employment opportunity.

These measures have had a direct effect on the prevention of further increases in unemployment in the region, with over 80,000 workers benefiting from the ERTE measures. The ERTE measures are financed at the national level by the national government, through the Public Employment Service, with the view of integrating the loans within the SURE Programme of the European Union.⁶¹

REFLECTIONS ON THE MEASURES⁶²

Given the recent implementation of several measures and the lack of information, it is difficult to fully assess their effectiveness. However, stakeholder interviews and available information have provided some initial insights.

Broadly, all of the measures mobilised to address the crisis were seen to be relevant. Measures related to health and social support were seen to be effective in addressing the immediate impacts of the pandemic. Measures such as support schemes for the self-employed, SMEs, and large firms which have incurred considerable liquidity losses as a consequence of the pandemic, were seen to be extremely important.

The regional government will have to manage a higher number of funds and policies than they have in the past, considering the effects of the COVID-19 crisis and the unprecedented support at the EU and national level. To

⁵⁷ Source: <http://www.gobiernodecanarias.org/boc/2020/065/001.html> [21.09.2021]

⁵⁸ Source: <http://www.gobiernodecanarias.org/boc/2020/081/003.html> [21.09.2021]

⁵⁹ Source: <http://www.gobiernodecanarias.org/boc/2020/067/001.html> [21.09.2021]

⁶⁰ Source: <http://www.gobiernodecanarias.org/boc/2020/083/002.html> [21.09.2021]

⁶¹ Source: https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/financial-assistance-eu/funding-mechanisms-and-facilities/sure_en [21.09.2021]

⁶² The reflections on the measures are mainly based on stakeholder feedback collected in the period January-July 2021. These should be treated as initial feedback and insights from the measures rather than an evaluation. The final report attempts to provide a more detailed review of the measures in terms of relevance and outputs achieved.

tackle this, a new executive order⁶³ has been passed, which aims to reduce bureaucracy and facilitate faster decision-making within the government. However, based on interviews, it is clear that there are a number of challenges in relation to the processing and implementation of the funds. The processing of funds is hindered by administrative requirements and delays. Additionally, as explained further in section 6 of this fiche, there is a limited administrative capacity in the region, which makes it more difficult for designated authorities to effectively oversee the management and implementation of funds.

The focus of funding on the most affected sectors has been relevant, considering the sector-specific effects (described in Section 2 of this fiche). However, there is a challenge in reaching the affected workers, and enterprises in all sectors, which have seen a loss of business due to the pandemic and associated restriction measures.

The EU Recovery and Resilience Facility is a significant mid- and long-term measure to address the COVID-19 crisis. Stakeholders feel that the REACT-EU funds will likely have an impact on regional recovery in the medium term, with 55% of the funds allocated to essential public services, €180 million to businesses affected by the crisis and €80 million to support measures for the recovery of the tourism sector and connectivity.⁶⁴

Overall, the transformation of the regional economy towards a more sustainable model has been a well-recognised priority by the government for the past years. However, the pandemic has highlighted the fact that the economy is heavily dependent on tourism. This presents opportunities for the region to diversify, and explore possibilities in niche sectors such as astrophysics and the blue economy, amongst others highlighted by stakeholders and experts.

5. FUTURE PROSPECTS

The Canary Islands have been substantially affected by the COVID-19 crisis, especially due to their dependence on tourism. This has resulted in a historically significant economic shock, with a 35% decrease in GDP in Q1 2020.⁶⁵ Socio-economic recovery has been marked by the extensive public expenditure to address unemployment, enterprises and people at risk. These measures will continue, as they are still needed. European initiatives such as CRII, REACT-EU and the Recovery and Resilience Facility are expected to play an important role in supporting the recovery of the Canary Islands. A study developed by BBVA Research, the 'Situación Canarias' report, highlighted the fact that public expenditure has helped to buffer employment losses. Employment has declined by only a third as much as GDP in the Canary Islands.⁶⁶

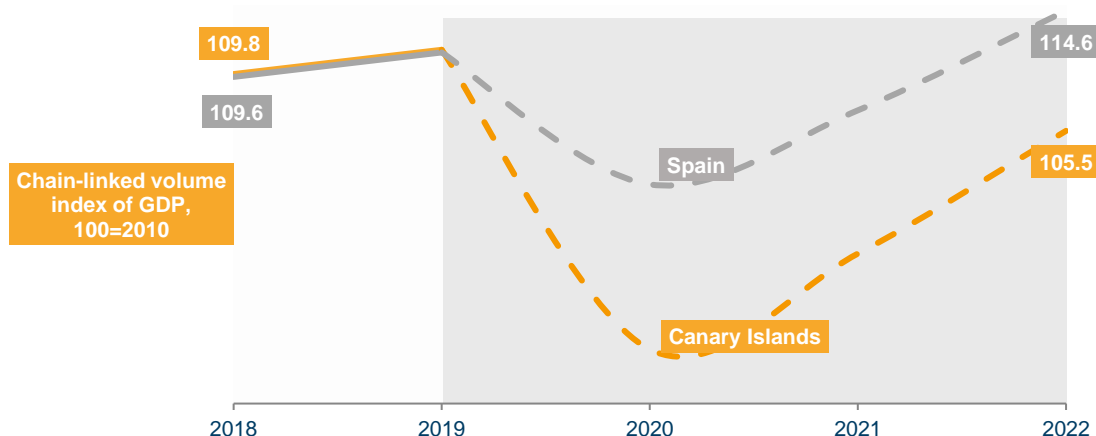
⁶³ Source: <https://www.iberley.es/legislacion/decreto-ley-4-2021-31-mar-c-canarias-medidas-urgentes-gestion-fondos-procedentes-instrumento-next-generation-eu-26829204> [21.09.2021]

⁶⁴ Gobierno de Canarias. Available at: https://www.gobiernodecanarias.org/asuntoseuropeos/COVID-19/fondos_europeos/react-eu/ [21.09.2021]

⁶⁵ ISTAC: GDP. Available at: https://www3.gobiernodecanarias.org/istac/statistical-visualizer/visualizer/data.html?resourceType=query&agencyId=ISTAC&resourceId=C00046A_000002#visualization/table

⁶⁶ Situación Canarias. Available at: <https://www.bbvaesearch.com/publicaciones/espana-situacion-canarias-2021/>

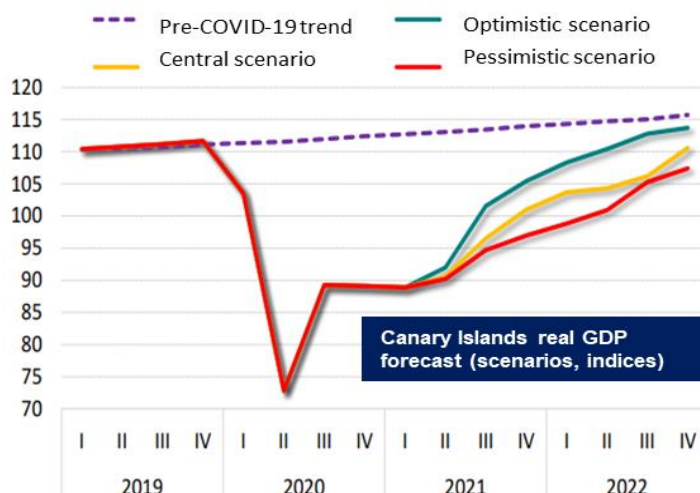
Figure 27: Chain-linked volume index of GDP (100=2010) forecasts for 2021 and 2022



Source: Ecorys based on ISTAC and BBVA

During the first half of 2021 the travel restrictions in the UK and Germany – countries which accounted for 60% (in 2019) of international (i.e. non-Spanish) tourists in the Canary Islands - led the Canarian government to lower their expectations for a swift recovery in the region.⁶⁷ Although tourists coming from these two countries increased between 50-100% over July and August, compared to the same months in 2020, tourism rates were still below pre-COVID-19 levels (between -15% and -30% compared to summer 2019). Moreover, according to the study developed by BBVA Research, in the first half of 2021, infection rates and associated restrictions dampened consumer demand and tourism sector recovery. The forecasts for the Canary Islands were revised downwards due to uncertainties about foreign tourism and a weaker than expected summer season 2021 in the region. The Canary Islands are one of the three Spanish regions most affected by lower than expected numbers of foreign tourists during the months of July and August 2021. Moreover, it is also expected to be among the regions with the slowest recovery in 2022 compared to the national average (Figure 27).⁶⁸ Therefore, although the region will experience economic growth in 2022, it will likely not recover to pre-COVID-19 (2019) levels, even in an optimistic scenario (Figure 28).

Figure 28: Canary Islands real GDP forecast, scenarios, indices (right)



Source: Gobierno de Canarias (2021)⁶⁹

Considering its economic importance, growth-promoting measures should support the tourism sector, but also encourage diversification of activities within it. By means of tourism promotion, the Canary Islands would benefit from capturing new links in the tourism value chain to strengthen the effects of the supply chains between the tourism sector, the accommodation sector, ICT, etc.

The COVID-19 pandemic has also highlighted the latent potential of the blue economy, the circular economy and renewable energies. Growth in these sectors would be in line with EU goals. The European Commission study “Realising the potential of the Outermost Regions for sustainable blue growth” analysed the blue economy in the Canary Islands, highlighting its potential for growth and development.⁷⁰ Among the diverse results, the research found great investment opportunities in fisheries and aquaculture, desalination, transport of passengers and ports, coastal and cruise tourism, and blue technologies and energies.⁷¹

As outlined in this fiche, public spending and support during the COVID-19 pandemic have been crucial in terms of cushioning impacts on citizens and businesses. This is expected to continue, as inequality was already a significant problem in the region. In comparison with its impact on the tourism sector, the impact of COVID-19 on other sectors in the economy was lesser. Hence, the regional government expects a faster recovery in sectors other than tourism.⁷²

6. SUGGESTIONS FOR RECOVERY AND RESILIENCE MEASURES

RECOMMENDATION 1: CREATING MORE ADDED VALUE IN THE TOURISM SECTOR THROUGH IMPROVED KNOWLEDGE SHARING, SUSTAINABILITY AND DIGITALISATION

Type of measure: Sectoral policy, digitalisation

Duration: Medium to long-term

Challenge: The economy of the Canary Islands is heavily dependent on the tourism sector, which represented 35% of the economy and 40% of employment in the region in 2019. Additionally, this dependence comes from a very specific tourism sector profile, characterised by general reliance on temporary, seasonal, and low-paid jobs.⁷³

Objective: Continue to make the tourism model more sustainable, and to boost its added value.

Actions: The COVID-19 pandemic has highlighted the need for new tourism business models, which can make the sector more sustainable and resilient. The change in the tourism model would need to focus on two main

⁶⁷ Data available at:

http://www.gobiernodecanarias.org/turismo/estadisticas_y_estudios/Pasajeros_procedentes_del_extranjero_seqxn_Pais_de_origen_/index-bis.html

⁶⁸ BBVA Research (2021). España | Observatorio Regional. Tercer Trimestre 2021. Updated on 12 August 2021. Available at: <https://www.bbva.com/publicaciones/espana-observatorio-regional-tercer-trimestre-2021/> [16.09.2021]

⁶⁹ Gobierno de Canarias (2021). Informe de seguimiento del impacto económico del COVID-19. July 2021. Available at: https://www.gobiernodecanarias.org/cmsweb/export/sites/economia/galeria/Galeria_politica_economica_2/Informe-de-seguimiento-impacto-covid-19_Julio-2021.pdf [16.09.2021]

⁷⁰ Realising the potential of the Outermost Regions for sustainable blue growth, 2017. Available at: https://ec.europa.eu/regional_policy/en/information/publications/reports/2017/realising-the-potential-of-the-outermost-regions-for-sustainable-blue-growth

⁷¹ Source:

https://www.gobiernodecanarias.org/cmsweb/export/sites/asuntoseuropeos/galeria_descargas_DGAUE/Economia_azul/Exploracion_potencia_RUP_crecimiento_azul-Annex-9-Canary-Islands.pdf [21.09.2021]

⁷² Informe de seguimiento del impacto económico del covid-19. Available at: https://www.gobiernodecanarias.org/cmsweb/export/sites/economia/galeria/Galeria_politica_economica_2/Presentacion-del-Informe-de-seguimiento-impacto-covid-19-Marzo-2021_public.pdf [21.09.2021]

⁷³ Value-added is the additional features or economic value that a company/sector adds to its products and services before offering them to customers. In this case it means that tourism is a sector that consumes resources but contributes little to increasing the value of the economy. In many cases the tourist sector in the Canary Islands offers temporary and low paid jobs.

trends: sustainability (shifting the economy's region onto a sustainable and resilient path with positive impact on the local community and the area) and digitalisation. Tourism actors also have yet to take up digital business models at scale, and there is a particular need for SMEs to digitalise. The starting point could be the creation of a knowledge cluster (group of private and public actors in the tourism sector) and laboratory to facilitate knowledge and information exchange to stimulate innovation and the further development of the tourism sector, situated within the region as a world-class data management and intelligence gathering centre in the sector. The integration of companies and administrations in such a hub would be essential to shaping an innovative, intelligent and sustainable tourist destination platform to bring together data, information and services to improve the tourist experience and promote a sustainable tourism model.

Sustainability implies having a positive impact on the local community and the area. Examples of specific potential measures could include reducing carbon footprints, hiring local staff, recycling waste, and sourcing local products. This last action could further support and enhance the agricultural capacity of the region, focussing on specific niche products that can be grown locally, and thus reducing dependency on external sources. By promoting local enterprises, local products would be enhanced, reducing transportation costs and emissions.

The Canary Islands also have an important opportunity to broaden the tourism sector by seeking to attract so-called digital nomads. This implies retaining professionals with high purchasing power⁷⁴ and high levels of education⁷⁵, which can be an effective approach for increasing the level of talent in a region. Some of the islands are already considered to be a top 10 destination for digital nomads.⁷⁶ In order to be able to capture this opportunity, infrastructure investment should be designed to attract professionals willing to live in the region.

The Canary Islands could explore possibilities for EU and national funding. EU funding possibilities could include the RRF and InvestEU. Additional funding sources could also come from the national government. Spain's Sustainable Tourism Strategy 2030 is a national tourism agenda designed to address sectoral challenges in the medium and long term, promoting the three pillars of sustainability: socio-economic, environmental, and territorial. The regional Canary Islands Reactiva Plan, with its special focus on tourism, could also support this measure.

RECOMMENDATION 2: TOOLS FOR THE SUSTAINABLE DEVELOPMENT OF THE BLUE ECONOMY

Type of measure: Diversification, investment

Duration: Medium-term

Challenge: The structural, social and economic situations of the ORs, exacerbated by their remoteness, insularity, small size, difficult topography, economic dependence on a small number of products, and climatic conditions, makes it necessary to compensate for the additional costs of certain fishery and aquaculture products. There are blue economy opportunities that could be further exploited, given that the Canary Islands possess huge blue economy potential with new emerging sectors.^{77 78}

Objective: To diversify the economy based on an integrated development of the blue economy

Actions: The dependence of the Canary Islands on a single sector – tourism, which was strongly affected by the COVID-19 pandemic, emphasises the need for regional economic diversification. The blue economy offers many

⁷⁴ Four out of ten earning more than €75,000 per year

⁷⁵ More than 60% holding a university degree

⁷⁶ <https://factorhuma.org/es/actualitat/noticias/15020-nomada-digital-una-especie-al-alza>

⁷⁷ [Methodological assistance for the outermost regions to support their efforts to develop blue economy strategies - Publications Office of the EU \(europa.eu\)](#)

⁷⁸ <https://op.europa.eu/en/publication-detail/-/publication/029afe70-a725-11e7-837e-01aa75ed71a1/language-en>

possibilities for diversification. This proposed action could include concrete activities to develop specific blue economy sectors with high potential in the region, such as: blue biotechnology aiming at transforming the region into an important R&D actor, especially in the field of biotechnology-based on microalgae; continuing efforts to develop marine renewable energy with high potential, such as wind and wave energy; enhancing existing inter-island transport of passengers and goods; improving port infrastructure to satisfy the envisaged demand for services for storage, the transport of goods and passengers, bunkering and nautical activities; boosting the shipbuilding and repair sector, and yacht fitting and repair businesses; and developing fishing activity linked to pesca-tourism and promotion of the natural and cultural wealth of the coastal zone.

Furthermore, the tools to boost the development of the sustainable blue economy in the region could include a cross-cutting action for training in blue skills. In particular, investment in the training to meet the needs of large recreational vessels is required, together with specific training for recreational port and facility administrators.

RECOMMENDATION 3: GENERATE KNOWLEDGE AND GOOD PRACTICES ON IMPROVING SOCIAL PROTECTION FURLOUGH SCHEMES

Type of measure: Social policy

Duration: Short to medium-term

Challenge: Low resilience of the region and in particular its labour market, given the structurally high unemployment and poverty and social exclusion rates.

Objective: Improve the social resilience of the region and its labour market to be better able to maintain its function throughout future potential sharp and unexpected declines in economic activity.

Actions: New approaches to improving the resilience of the region's labour market would benefit from learning from ERTE implementation during the COVID-19 pandemic, and linking it to the promotion of active labour market policies, particularly Effective Active Support to Employment (EASE). ERTEs were designed to avoid increasing pockets of poverty, housing aid, and social exclusion. They have contributed to social resilience and the maintaining of a certain degree of social sustainability. However, they are a temporary measure designed to address a specific short-term duration shock, and to mitigate the risks and negative impacts on unemployed individuals. They could therefore be complemented with additional measures to align with active labour market policies, in order to gradually transition from emergency measures taken to preserve jobs during the pandemic towards measures needed for a job-rich recovery. Looking forward, adapting and strengthening active employment policies would be a means to ensure resilience in future crises, thereby facilitating re-employment and ensuring green and digital transitions.

This action would imply complementing the economic subsidy with several components of active policies, mainly: (1) hiring incentives and entrepreneurial support, (2) upskilling and reskilling opportunities for those in sectors/job positions that may have become obsolete, and (3) enhanced support by employment services, with a special focus on young people and workers of all ages in the sectors worst affected by the crisis.⁷⁹

Associated funding could be managed by the central government for the regulatory changes and financing and SEPE (State Public Employment Service) for the implementation, complemented by training actions, and could possibly be financed through the national budget or from loans obtained through the European instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE). EASE (Effective Active Support to Employment) provides guidance to Member States on active labour market policies and indicates how Member

⁷⁹ Available at: https://ec.europa.eu/commission/presscorner/detail/en/qanda_21_971

States could use EU funds to support EASE policies, including those available under NextGenerationEU and the Recovery and Resilience Facility.

RECOMMENDATION 4: CONTRIBUTING TO THE REDUCTION IN ENERGY POVERTY BY PROMOTING MICRO-GENERATION AND COMMUNITY GENERATION SCHEMES

Type of measure: Investment, Green transition

Duration: Medium to long-term

Challenge: The Canary Islands electricity system is formed by six electrically isolated systems, which are small in size and have a weakly integrated electricity infrastructure network. These systems are less stable and secure than large interconnected systems that can better guarantee electricity supply in the event of demand peaks or network generation failures. Thus the Canary Islands face significant challenges, including a small electricity grid that does not permit economies of scale, isolation from big electricity networks, and a lack of connectivity between islands.⁸⁰ As a result, energy prices are high - the Canary Islands score 10 points above the national average in the After Fuel Cost Poverty index. This situation has been aggravated by the COVID-19 crisis, affecting some vulnerable groups disproportionately.

Objective: To reduce energy poverty, understood to be a combination of three factors: rising energy prices, the containment or fall in household incomes, and living in energy inefficient housing. This phenomenon has significant negative social, economic and human impacts. The COVID-19 crisis has particularly affected the most vulnerable groups.

Actions: There is an opportunity to address the energy poverty challenge through the promotion of self-consumption and self-supply of energy, and particularly, renewable energy. Microgeneration and community power generation schemes, in which all the founders are partners and owners of the energy produced, could be implemented in social housing, where the property is public, and where it is feasible to install solar panels. There are currently an estimated 17,660 social houses in the region, many of which could benefit from the microgeneration, at least in part.⁸¹

This measure could be further explored by pilot projects and could build on some existing pilots and initiatives, such as the European project Nesoi, which aims to advance the energy transition of EU islands through its support to innovation projects. As part of this, the first energy community in the Canary Islands was created in Tenerife. On the island of La Palma, the local energy community project 'Energía Bonita y Renovable' will be developed, while in Gran Canaria, an industrial energy community project based on renewable energies will be carried out in the Arinaga Industrial Estate, which will be the first energy community in Gran Canaria to transform this business area into an energy complex supplied entirely by renewable energies. There is, therefore, an increasing number of relevant projects on which this recommendation could inspire and build and develop further, translating them into the context of social housing in the Canary Islands.

Funds for this measure could come from the Spanish Ministry for Ecological Transition and the Demographic Challenge. Moreover, the Canary Islands regional government under the Energy Transition Plan for the archipelago (PTECan) could also support concrete actions in this regard. Finally, the EU Energy Poverty Observatory could also be a potential source of support.

⁸⁰ <https://www.ree.es/es/actividades/sistema-electrico-canario/singularidades-del-sistema>

⁸¹ <https://apps.fomento.gob.es/CVP/handlers/pdfhandler.ashx?idpub=BAW072>

RECOMMENDATION 5: PROMOTING ENERGY NEUTRALITY IN THE REGION THROUGH VARIOUS INITIATIVES, INCLUDING THE IMPLEMENTATION OF A PILOT PROJECT IN ONE OF THE ISLANDS WHICH FORM THE ARCHIPELAGO

Type of measure: Investment, green transition

Duration: Long term

Challenge: To advance and promote energy neutrality in the Canary Islands in view of the commitments made for achieving energy neutrality in the EU by 2050.

Objective: Promoting energy neutrality in the region in order to reduce dependence on external sources of energy, and increasing recognition of the region as a green destination.

Actions: As part of the commitment to decarbonisation, this recommendation would involve piloting an energy system transition from its current configuration toward a model based on renewables. It could include a pilot scheme in one of the Canarian islands (for instance, the island of La Gomera, or Lanzarote) to verify the possibility of achieving energy neutrality, possibly as part of the European Commission's "Clean Energy for EU Islands" initiative. Such an action could follow the example of the island of Menorca, based on a comprehensive vision of different energy sources, infrastructure arrangements and uses, with the aim of drastically reducing greenhouse gas emissions (GHG). This would contribute towards making the Canary Islands a green destination; another tourism attraction asset (thereby complementing Recommendation 1).

To implement this recommendation, it would be appropriate to promote involvement and connection between relevant actors both at national and regional/local level through the development and establishment of a working group. They would need to define an energy transition vision, establish energy policy priorities, actions to be carried out, the formation of channels of cooperation, support and financing, and the creation of a guide for decision-making in public and private sectors, while also facilitating other public and private initiatives that would contribute.

This measure could also build on the experience gained through the implementation of the project, "The bioclimatic village in the island of Tenerife". This project is the only village of this kind to date, consisting of a group of 25 houses conceived to be as environmentally-friendly as possible. It is the result of a project in which several institutions collaborated in order to conceive and implement the idea of a completely clean human settlement, based on the consumption of renewable and clean sources of energy (wind, water, and sun).

For example, this measure could be carried out by the government of Spain and the government of the Canary Islands funded through the national budget (Presupuestos Generales del Estado) and also follows the remit of the 2021-2027 Cohesion Policy funds.

RECOMMENDATION 6: ENHANCING THE ADMINISTRATIVE CAPACITY OF THE REGIONAL GOVERNMENT

Type of measure: Governance, policy reform

Duration: Short term

Challenge: The implementation of new policy measures and the arrival of new funds has posed, and will continue to pose, an important challenge in terms of the implementation of the new funds. The Canary Islands region already has a pipeline of projects that will benefit from EU funds: Next Generation EU, RRF (Recovery and Resilience

Facility) and REACT-EU programmes.⁸² This is an unprecedented situation in terms of the volume of funds received, which are generally being coordinated and managed by the regional government.

Objective: Increasing the administrative capacity of the regional government and agencies, enabling the region to advance in the management and implementation of funds and ensure a pipeline of relevant projects.

Actions: The current timeframe approved for the implementation of the "Next Generation EU" funds poses a major challenge for the regional administration, in terms of the volume of funds to be managed. The Canary Islands' administration, even though it has undergone a significant modernisation process in recent years, is likely to find it a challenge to respond efficiently and with the necessary organisational agility to meet the deadlines unless its capacity is further enhanced.⁸³ Therefore, the region's administrative capacity needs to be strengthened, for example through the creation of dedicated units within the public sector specialised in the management and implementation of COVID-19 recovery initiatives.

In practical terms, this could translate into:

1. Improved access to information – centralising all information and digital skills, assessing the absorption capacities of specific agencies through a needs assessment exercise and exploring short to medium term the possibility of making use of third parties/agencies to channel some of the measures.
2. Better training for current public sector employees as well as hiring new staff specifically dedicated to the management and implementation of funds.
3. In specific instances, private sector/banks/third parties – including potentially public-private partnerships - could be further engaged to execute specific schemes such as grants, support to private sector/SMEs through Chambers of Commerce, amongst others.
4. In the medium/long-term, it would be important to build the capacity of regional agencies to manage future shocks through training in the areas of project management, risk control, risk mitigation and tools that improve administrative processing of policy measures.
5. In the long-term, it would be important to equip the regional governments with efficient data collection and monitoring capacities to allow for evidence-based and informed decision making.

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⁸² <https://www3.gobiernodecanarias.org/noticias/canarias-ha-programado-ya-1-534-millones-de-euros-en-fondos-europeos-de-reconstruccion/>

⁸³ <https://www.iberley.es/legislacion/ley-4-2021-2-ago-c-canarias-agilizacion-administrativa-gestion-control-fondos-instrumento-europeo-next-generation-eu-26929803>

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