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Economic Crisis and the Structural Funds

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1. Introduction

At a time of fiscal austerity across much of the EU, it is little wonder that the budget of the European Union itself has come in for much scrutiny. Whilst accounting for around only 1% of the combined Gross National Income of Member States, debates on the future scale of the budget have taken on a much larger significance in many countries. Some of the strongest debates have taken place over the scale, and future shape, of those parts of the budget devoted to regional expenditure – most notably the ERDF, ESF and, to a lesser extent, the EARDF.

Whilst much of the political debate focuses on questions of scale and efficiency – who gets how much, who gives how much, whether the money is well spent - and whether the budgets would be more effective if 'repatriated' to Member States (see for example Bureau of Investigative Journalism, 2010), more academic work focuses on the effectiveness of the EU's only – explicit - transfer policy (Becker, 2012). Here the evidence is mixed. Some authors take a pessimistic review of the effect of EU expenditures on regional growth rates (Boldrin and Canova, 2001; Sala-i-Martin, 1996;), whilst others find more cause for optimism, suggesting that EU Structural Funds provide a positive boost to regional growth rates (Ederveen et al 2002; Cappelen et al, 2003). In a similar vein, Becker et al (2010), focusing on Objective 1 programmes across the EU, found positive effects beyond a simple consumption stimulus, arguing that every €1 of investment through Structural Fund programmes resulted in an additional boost to regional GDP of €1.20, although in later work Becker suggests that there exists a maximum threshold of support intensity beyond which inefficiency sets in (2012).

One area that has featured less strongly in the debate, however, is the role that the Structural Fund programmes have played in supporting regional economies through the economic crisis. The current budgetary period began in 2007 and ends in 2013. Thus, it neatly spans the period from the start of the economic crisis. This paper seeks to examine how Structural Fund programmes have been affected by the economic crisis in a small number of regions and how they have, in turn, responded to the changing economic circumstances in the regions concerned.

2. Background

The current round of Structural Fund programmes formally began on the 1st January 2007 and come to a close on the 31st December 2013. Thus, whilst they were prepared in the dying days of the economic boom, their implementation has coincided with the economic crisis that is generally considered to have been precipitated by the credit crunch of 2008.

In light of this juxtaposition, the ECR2 – Territorial impact of the financial and economic crisis study was asked to examine how Structural Fund programmes have been affected by the economic crisis and, in turn, how the programmes have responded to this and to the effects of the crisis itself.

The findings presented in this paper are based on research undertaken in eight regions across the EU. In this fieldwork consideration was given to the effect of the economic crisis on Structural Fund programmes, and how these programmes responded to the economic crisis. This provides a broad qualitative assessment of how EU Structural Fund programmes have been influenced by the economic crisis in a variety of economic and political contexts. The focus of this work has been on the ERDF financed programmes operating in the case study areas (both those eligible under the Convergence and Competitiveness strands), although respondents were also asked for their opinions on ESF financed programmes and the rural development aspects of the EARDF. In addition the study team spoke to a number of officials who had responsibility for territorial cooperation programmes, through a meeting of the INTERACT programme.

The fieldwork has been augmented by a review of secondary material that considers the effects of the economic crisis on Structural Fund programmes at a pan-European scale. Thus, whilst our empirical base is necessarily limited, we believe that it provides a valuable complement to the broader analyses which have previously been undertaken.

The eight case studies on which this analysis is based provide a microcosm of European regional support programmes, providing a mix across financial scale, geographical scale, EU12, EU15, north, south, west and eastern Europe, and Competitiveness and Convergence status. We provide a short summary of some key features in Table 1.

Table 1 Key features of case study areas

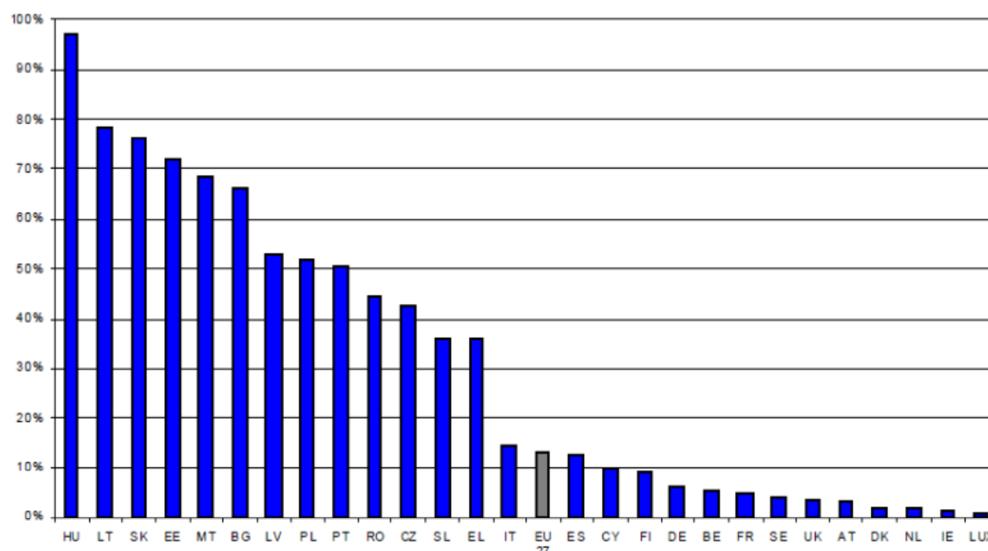
	EU15	***EU12***	***EFSM***	***Comp.***	***Conv.***	***Regional***	***National***
Southern and Eastern, Ireland	X		X	X		X	
Baden-Württemberg, Germany	X			X		X	
Pomorskie, Poland		X			X	X	
Uusimaa, Finland	X			X		X	
Estonia		X			X		X
Western Macedonia, Greece	X		X		X	X	
West Wales and the Valleys, UK	X				X	X	
Puglia, Italy	X				X	X	

The case studies also provide a broad spread of economic contexts, covering different responses to the economic crisis. Two of the studies are in countries supported by the European Financial Stability Mechanism (EFSM), as illustrated in Table 1, whilst a third is in a country formally regarded as having been strongly adversely affected by the economic crisis (Estonia). In contrast two cases are in countries which are regarded as having been less affected by the crisis in the medium-term (Finland and Germany) and a third is located in the only national economy in the EU not to have entered an economic downturn during the crisis (Poland).

The scale of European support available to national authorities varies across the EU. In some Member States, the contribution of EU funds to public investment levels is significant, whilst in others it is more marginal. This has led some respondents to suggest that in the latter cases, the Structural Fund programmes are seen as 'niche' investment activities, seeking to fill particular roles, rather than being spread too 'thinly'. Almost half of the programmes discussed were described as relatively small compared to the overall level of economic activity in the regions concerned. The significance of this is that the relative scale of programme resources may influence the extent to which substantial responses to the economic crisis might be anticipated.

As public sector funding cuts have been implemented through national austerity measures, the significance of European Structural Funds (and associated co-financing) have substantially increased in some Member States, providing an important fillip to overall levels of public investment finance (Figure 1). This is particularly so in Estonia, Poland and Greece in the context of our case studies, and much less so in Ireland and the UK (although in the case of Wales actually levels are probably slightly higher).

Figure 1 Structural funds and national co-financing as % of total public investment (average 2009-2011)



Source: EU Structural Funding for Growth and Jobs

We break this down further in Figure 2, for those economies dealt with by this study. It is clear that the national significance of Structural Fund programmes is much stronger in some economies than others, both in terms of GDP and as a proportion of government capital expenditure. It is equally apparent that the effects of the crisis are not spread equally across the economies concerned. Whilst some of those hardest hit by the crisis exhibit significant delays in capital expenditure profiles, this is not universally so. It is also clear that in economies such as Italy, the value of the Structural Funds as a proportion of overall government capital expenditure remaining is significantly increased, with potential implications for future delivery. In contrast, in Estonia, the relative significance of Structural Funds for government capital expenditure over the remainder of the programme period has fallen. The continuing, and generally increasing, significance of available Structural Fund resources is apparent in the rising proportion of GDP which the funds remaining constitute.

Figure 2 Structural Fund intensity and expenditure profile

	Allocation			***Expenditure remaining***		***% change GDP***	***% change Gov. capital***
	Euro millions	*% GDP*	*% Gov. capital exp.*	*% GDP*	*% Gov. capital exp.*		
EU27	262,182.3	0.3	8.2	0.38	10.4	+26%	+26%
EU15	112,671.8	0.14	4.0	0.17	5.0	+21%	+25%
EU12	149,510.5	2.14	37.7	2.76	48.5	+29%	+27%
Germany	16,107.6	0.09	3.3	0.09	3.5	0	+6%
Ireland	375.4	0.03	0.5	0.04	0.5	+33%	0
Italy	21025.3	0.19	5.8	0.33	10.0	+73%	+72%
Finland	977.4	0.07	2.6	0.08	2.9	+14%	+12%
UK	5416.0	0.04	1.4	0.06	1.8	+14%	+29%
Greece	15,846.5	1.09	28.3	1.22	31.8	+12%	+12%
Estonia	3,011.9	2.7	54.2	2.53	50.9	-6%	- 6%
Poland	57,178.2	2.21	34.2	2.5	38.8	+13%	+29%

Source: adapted from European Commission (2013) p. 10

There is something of a paradox in the question of the contribution that Structural Funds can make in economies hit by economic crisis, for it is precisely those economies that have been most adversely affected by the crisis where the stimulus effect of the Structural Funds could be most valuable. Yet, it is these very economies that are most seriously affected by public sector austerity measures, which in turn could curtail their ability to co-finance potential Structural Fund interventions.

In the following section we examine how the Structural Funds responded to the emerging economic crisis, at a regulatory level; how the effects of the crisis were felt at a programme level, and how Structural Fund programmes reacted to and responded to the new economic landscape.

3. Findings

3.1 A European level enabling response

At a European level, the European Commission, European Council and European Parliament reacted relatively rapidly to the emerging economic crisis. Between 2008 and 2011 a number of Amending Regulations were passed which have enabled changes to the rules governing the use of the EU's Structural Funds. The aim has been to enhance the flow of funds through simplifying procedures, accelerating payments and protecting major projects (Smail, 2010).

One of the first initiatives was to extend the life of the 2000-06 Operational Programmes from the end of December 2008 to the end of June 2009. This would ensure that budgets could be fully spent, and that key projects did not come to an end just as the crisis began to bite. The Commission then initiated a further financial injection by enabling an increase in the value of advance payments made to the new Operational Programmes (2007-13). By 2009 around 8% of programme value was made available in the form of advance payments, with further resources made available to those Member States[1] which have seen GDP fall by more than 10% or which have significant cash flow problems (Smail, 2010).

The Commission has also relaxed the regulations in a number of ways in order to promote full use of the funds, and recognizing the fiscal difficulties of a number of Member States. It removed, for example, the n+2/n+3 rule for 2007 to limit the risk of decommitment of funds in 2009/2010. In a bid to speed up project expenditure, Member States can also now incur expenditure on major projects prior to receiving Commission approval, although this will be at risk if approval is not forthcoming, whilst the definition of major projects was harmonized at €50m. In a further bid to maintain construction-based expenditure, the Commission has also widened the eligibility criteria for the use of ERDF investments in the housing stock, so that this now applies across the EU as a whole and at an enhanced value.

Similarly, the Commission also recognized the financial challenges being faced across Europe, particularly in accessing finance for future investment. To encourage ongoing investment, State Aid rules were eased to raise the *de minimis* limit for aid to SMEs from €200,000 to €500,000 between 2009 and 2011[2] and threshold values for revenue-generating projects were raised from €200,000 to €1,000,000 in order to ease reporting requirements.

Significantly, in 2011, a change was made to the maximum intervention rate, allowing a temporary increase in the level of European co-financing by up to 10% in countries receiving special macro-economic assistance (Ireland, Latvia, Greece, Portugal and Romania). This enables co-financing rates of up to 95% to be applied in each of these countries, except Ireland where the rate is 60%. Actions have also been taken to provide greater flexibility in programme management to make it easier for reprogramming to occur in response to changing needs as a consequence of the economic crisis in particular places.

More latterly (2012/13), the Commission has amended the Structural Fund regulations so that Member States in crisis (those in receipt of rescue funds), could use EU funds in cooperation with

[1] Estonia, Latvia, Lithuania, Hungary, Romania
[2] Temporary Union framework for State Aid measures to support access to finance in the current financial and economic crisis *Official Journal of the European Union* 11.1.2011 C6/5

the EIB to mobilise increased loan financing for private promoters of projects. The aim being to boost private co-financing rates of structural fund projects. In another major initiative the Commission also initiated its Youth Opportunities Initiative, in response to the endemic levels of youth unemployment being experienced across many Member States. Our research occurred too soon after these initiatives to witness any effects.

These, and other, actions set the framework for responses at both the national and regional level across the EU.

3.2 Programme level effects and responses

Overall, the effects of the economic crisis on the present programmes are quite mixed. For half of our sample the economic crisis has not had any significant effect on programme activities, although in all cases programmes have responded to the crisis to a greater or lesser extent.

3.2.1 Effect of the crisis

The most visible effect of the crisis on Structural Fund programmes in the EU has been a reduction in the level of resources available to co-finance programme activities. In around half of the regions considered in this study this has proved to be a modest or significant issue. This has led to the withdrawal of some partners from projects, as well as to past applicants no longer applying for funds through the Structural Fund programmes. Programme authorities also report delays in their ability to drawdown EU funds. This occurs as partners are forced to reduce the level of their planned activities or incur lower levels of expenditure than forecast, owing to static or falling salary costs and reductions in the costs of tendered activities.

Many respondents reported that activity levels under the current programmes were reduced owing to the sense of uncertainty felt by potential applicants. This related particularly to uncertainty over future budget settlements. This led organisations to take a risk-averse attitude and not commit to longer-term project activity, such as those financed by the Structural Fund programmes.

An unanticipated side-effect of the crisis has been felt by third sector organisations that traditionally made use of credit and overdraft facilities to pre-finance their activities. The offer of grant by programme authorities was sufficient in some Member States, such as Ireland, for banks to offer credit facilities. This option is no longer available and so organisations are less able to engage with Structural Fund programmes than was previously the case.

One of the useful distinctions to be drawn in the consideration of the effect of the crisis on Structural Fund programmes is the extent to which the programmes are part of national delivery programmes and co-financed through central exchequer resources, rather than sub-national public sector budgets or private and third sector resources. In broad terms, those priorities that have central co-financing appear to have been less affected by the economic crisis and public sector austerity measures than those that were more dependent on other sources of co-finance.

Respondents have put forward the view that in a time of budgetary pressures this is due to a desire not to ‘lose’ the additional funds available from the EU programmes. In practice, the opportunity cost of cutting programmes with EU funding attached is greater than the immediate savings made. However, as the case of Ireland demonstrates, this argument only applies where a central government department is responsible for the delivery of the programme priority or measure itself. In Ireland’s Southern and Eastern Competitiveness Programme, the Innovative Actions Measure under Priority 1 has not been delivered, as no Ministry would provide additional funds from their own budget lines to do so.

The crisis has also affected the pattern of expenditure in some programmes. This is most clearly seen in the case of ESF-financed programme activities where participation of employers in workforce training projects has reduced for example, but demand for training courses by individuals (either within the workforce or seeking work) has increased. It is also evident in programme activities financed by the ERDF, where some priorities have proved more able to maintain planned co-finance levels resulting in a shift in programme emphasis by default. This is illustrated in Table 2, which provides data for Southern and Eastern Ireland and Western

Macedonia, demonstrating the asymmetric effects on programme expenditure. In Ireland, there is also a suggestion that the economic crisis precipitated an increase in demand for some farm-based measures in the Rural Development Programme, leading to the early closure of these measures.

Table 2 Actual expenditure as a proportion of planned values

Southern and Eastern Ireland		**Western Macedonia**	
Priority Axis	*% of planned 2007-13 expenditure (2010)*	*Priority Axis*	*% of planned 2007-13 expenditure (2011)*
Innovation and Knowledge Economy	208	Accessibility to infrastructure and services	53
Environment and Accessibility	113	Digital Convergence and Entrepreneurship	67
Sustainable Urban Development	39	Sustainable Growth and Quality of Life	17

Source: Annual Implementation Reports

It is perhaps worth noting that some of the activities that have proved most difficult to secure co-finance for have been in the area of sustainable (urban) development, where urban authorities have either withdrawn from planned activities or novel means to secure their involvement have had to be found (Baden-Württemberg and Southern and Eastern Ireland for example). This reflects the challenging fiscal climate for many sub-national authorities and civil society organisations.

One further area where Programme authorities are reporting the effects of the economic crisis is in terms of the outputs and results being achieved by the programmes. Whilst there is increasing demand for some activities, such as support for the unemployed, results for other activities are proving more challenging to achieve owing to the effects of the crisis. Reportedly, this is particularly so for measures of jobs created.

One effect of the crisis has been the reorganization of governance structures in Member States such as Greece and Ireland. In the case of Greece, the 'Kallikratis reform'[3] has affected the implementation of programmes through the need to transfer programme management responsibility, and project implementation, to new institutions, which have no experience of such roles. Implementation delays have affected the ability of programmes to respond to the effects of the crisis.

3.2.2 Response by Programme Authorities to crisis

As noted, all programme authorities report at least some measure of response to the economic crisis. The most common response has been to ease the administrative procedures for accessing programme funds. This has been achieved in five principal ways.

1. Through increasing the speed of decision-making on project applications in order to reduce delays in the system. This was particularly the case in Estonia, but was also explicitly highlighted in the case of Ireland.
2. Through changing rules on eligibility for grant support to encourage additional applications, this has been particularly significant for those programmes seeking to stimulate additional private sector activity. In Baden-Württemberg for example, the state government

[3] The program Kallikratis concerns the administrative reform of the country by creating secondary local administrations at the regional level and the restructuring of the first level local administration with fewer and bigger municipalities.

successfully applied to the Commission to extend eligibility for some measures to non-SMEs.

3. Through the greater use of advances, which in some cases have been used to seed particular measures that were proving difficult to implement. This was a strong feature of the approach in the Southern and Eastern Ireland programme, which used the advances to seed investments in sustainable urban development projects, which were proving difficult to get off the ground. It was also cited by programme managers from Territorial Cooperation Programmes, where they sought to move the advances out to beneficiaries as soon as possible.
4. Increasing the speed of payments in order to reduce the risks of cashflow difficulties. Again, this was highlighted by a number of programmes, which reported that payments were often made before all the required audit checks had been made.
5. Changing co-finance rates. This has been adopted in some programmes but not all. It is particularly the case in Western Macedonia where the maximum proportion of European funding rose to 85% in July 2011. After December 2011, with each application from the Greek authorities the share can be raised to 95% for payments that have been credited or will be credited from May 2010-December 2013. This change in co-finance rates is aimed not only at the absorption of funds but also at protecting national funds for other activities, a valuable consideration at times of fiscal austerity. However, the opportunity provided by the Amending Regulation has not been utilized in all programmes. It has not been applied in the South and Eastern Ireland Programme for example, (although co-finance rates were changed in the Border, Midlands, West Programme of Ireland), nor has it been applied in the Central Greece or South Aegean Programmes in Greece. Other programmes, such as West Wales and the Valleys, have also taken the opportunity to increase their planned co-finance rates which, originally, were set at a level below the maximum eligible.

In some cases programmes have also amended their activities more significantly. This has been most evident in areas of activity supported by the European Social Fund, where measures supporting the unemployed rapidly took on a greater significance. It is also evident to a certain extent programme activities supported by the ERDF. In the case of Estonia the Structural Funds provided a strong and active stimulus to the economy with a conscious effort to direct the funds at private sector to stimulate trade and entrepreneurship. There is a strong acknowledgement amongst many beneficiary firms in Estonia that this support made the difference between their survival and failure in difficult economic times.

In Uusimaa and Baden-Württemberg, despite being less affected initially by the crisis, a proactive approach was also taken, particularly to stimulating entrepreneurial activity and mobilizing short-term ‘emergency’ support. In the case of Baden-Württemberg this took the form of short-term temporary allowances to firms in order that they could retain labour. ESF resources were used to support this programme on the condition that workers used their shorter working hours to undertake additional training. In Western Macedonia, stronger emphasis has been placed on measures to stimulate entrepreneurship and increase the involvement of the private sector in the programme. In Wales, projects were introduced to support those affected by firm closures (React) and, following criticism that this was too reactive, those at risk of firm closure (Proact).

The timescales for these actions have varied though. Whereas in Estonia, Uusimaa and Baden-Württemberg this was an almost immediate response to the emerging economic crisis, the real changes in Western Macedonia did not fully materialize until 2012. The expenditure figures illustrated in Table 2, thus reflect both a reaction to the crisis (where co-finance becomes more scarce for some measures than others) as well as reflecting responses to the crisis by programme authorities and national/regional governments.

There is some evidence that programmes that were able to draw upon pre-existing procedures were more able to make rapid changes to their activities in the face of the economic crisis. In Baden-Württemberg for example, procedures that had been used in East German Lander (or in the

case of serious flooding) to offer additional funds to crisis-hit areas were mobilized to provide short-term support from the Structural Fund programme. Similarly, in 2012, national procedures for tackling problems in geographical areas or sectors affected by abrupt structural change were implemented to support two localities in the Uusimaa area. This was the first time that this approach had been required in the region.

Owing to the changing fiscal circumstances and the effects of austerity measures, most programmes have reported some difficulties in securing anticipated levels of match funding. This has proven to affect some programme measures and priorities more than others. In consequence, most programmes have tended to focus support on those areas where demand has held up and to reduce the emphasis on measures where demand has not been as strong as originally anticipated. This is particularly so in Ireland, Malta and Portugal (European Commission, 2013). In their response to the crisis, our research suggests that programme authorities are also maintaining a longer-term perspective around Structural Fund programmes, with a strong focus on protecting the longer-term growth effects of investments in research and innovation. This is a finding echoed by the broader analysis carried out by the EC (European Commission, 2013).

Our own analysis has reinforced the perspective that these distributional changes are not undercutting the programme strategies. The Expert Evaluation Network reports that the economic crisis is regarded as a short-term event that does not fundamentally affect the longer-term structural objectives set out in the programmes themselves. This longer-term perspective explains the fact that whilst programmes have responded to the short-term financial implications of the crisis, few have been subject to serious re-programming activities. In general, the strategies that were set out at the beginning of 2008 remain the same in 2013, albeit with a shift in the balance of resource allocation between Measures and Priorities.

In most cases, reprogramming has only occurred following the completion of mid-term evaluation exercises. In Ireland this concluded that the basis of the programme remained sound and that resources should be redirected towards those priorities and measures where demand remained strong. In Greece, reprogramming was delayed until late in the programme lifecycle as there was a concern that to make formal programme changes earlier would lead to additional delays in initiating project activity and expenditure. From 2012, the Operational Programme for West Macedonia places a greater emphasis on:

- Enhancement of new development actions including entrepreneurship
- Dealing with the consequences of unemployment, especially for young people, new scientists and women, or to address unemployment with regional characteristics, through actions to increase productivity and innovation
- Encourage the participation of the private sector in the NSRF programmes and actions through PPPs or funding tools such as JEREMIE and JESSICA.

Although our own research has not shown a strong use of financial instruments such as JEREMIE, this is partly to do with the small sampling frame. Certainly, as sources of bank finance have reduced, instruments such as JEREMIE have become a popular source through which to bridge funding gaps. However, experience also demonstrates the importance of having these instruments in place. In Ireland, for example, the ready availability of credit prior to 2008 meant that financial instruments, such as JEREMIE, were not considered for inclusion in the Structural Fund programmes. This meant that there was no available instrument to provide bridging finance for firms following the onset of the credit crunch in Ireland. In other regions, these instruments were available and so could be rolled out more quickly. As one respondent in Wales noted, it can take two years or more to develop such schemes, reinforcing the point that there are response-lags if mechanisms are not already in place.

The time-lags involved in developing new instruments are also apparent in West Macedonia, Greece. Here, the Financing Agreement for the JESSICA instrument was signed on the 1st of July 2010 and the call for expression of interest for the establishment of Urban Development Funds was published in 2011, with regional proposals for Integrated Plans for Sustainable Urban

Development in the Regions to follow. Actual investment activity could not begin until 2012 at the earliest, some five years after the official launch of the programme.

The effects of some of the measures introduced under the Temporary Union framework are not visible within the individual case studies undertaken for this project. However, the Commission's own analysis is instructive. Of the schemes approved by the Commission, only around 7% of the funds allocated by Member States have actually been paid out, with the majority of expenditure occurring in Germany (which accounted for 78% of all funds granted under this measure) and Italy (which accounted for a further 8%)[4]. This spatial concentration of activity was one of the reasons the Commission determined that whilst this measure had been useful as a short-term stimulus measure, it was at risk of creating disparities in the internal market and so was phased out after 2011. The slow take-up of available funds may also be indicative of programmes learning to put mechanisms in place on a 'just-in-case' basis. Certainly, one programme authority provides evidence of this pre-emptive mentality in its raising of the intervention rate for the programme, although it acknowledges that it does not intend to grant aid at the new rate unless further changes in circumstances occur.

National level (and multi-level governance) responses have also been an important dimension in some Member States. This is clearly the case in the smaller economies such as Ireland and Estonia where national ministries are key participants in the programmes. It is also apparent in Greece where the scale of the challenges has emphasised the role of joint national and European governance approaches to securing the absorption of available funds to stimulate economic development. This ranges from the identification of 181 priority projects (of which 13 are in Western Macedonia), through to the launch of a Taskforce involving the Greek Government, European Commission, European Investment Bank and the International Monetary Fund.

One reported effect of the crisis is the reduced significance attached to tackling regional economic disparities in some of those Member States that are most affected by the crisis, as national attention is redirected towards macro-economic growth and recovery (European Commission, 2013). This was partly visible in our work in Greece, but was less apparent in our other programme examples.

4. Conclusions

From the evidence available it is apparent that the effects of the crisis on Structural Fund programmes have varied across the EU. One common feature has been the challenges presented by budget cut-backs and austerity measures to the overall absorption of the funds - a challenge recognized early on at the level of the Commission, Council and Parliament. The effects of this have not been evenly distributed and the programmes appear to have maintained funding of research and innovation activities, and those financed by national ministries, more readily than those activities reliant on sub-national budgets or civil society. The tight financial environment has also led to a reduction in demand owing to organisations being unwilling to commit to longer-term projects, whilst some organizations that have made the commitment have found that their costs are lower than anticipated, reducing absorption rates further.

The crisis has also affected demand for certain activities over others. This is most clearly seen in the case of ESF programmes, where demand for in-company training has reduced and demand for support for the unemployed has increased. It is also evident in some rural development measures, as farmers have taken advantage of early retirement schemes and a new generation have taken the opportunity to enter the industry as alternative opportunities, particularly in the construction sector, become more limited.

Programmes have almost universally responded to the absorption challenges presented by the economic crisis. Making use of the headroom provided by the various Amending Regulations, programmes have initiated a number of measures to encourage the full use of EU funding

[4] Temporary Union framework for State Aid measures to support access to finance in the current financial and economic crisis *Official Journal of the European Union* 11.1.2011 C6/5

programmes. This has largely been through simplifying procedures and enhancing access to funds.

The economic crisis has also witnessed something of a shift towards a greater emphasis on involving the private sector, stimulating entrepreneurship and, as noted previously, supporting the unemployed. In only one programme (Estonia) do the Structural Funds appear to have been consciously deployed as a macro-economic stimulus programme, although in both Baden-Württemberg and Uusimaa they have been used to focus on targeted support for sectors or geographical areas particularly hard hit by the crisis. In both cases, this was facilitated by the ability of the programmes to tap in to institutional arrangements that predated the crisis itself.

Where programmes have sought to develop new instruments there is a more mixed picture emerging. The West Wales and the Valleys Programme demonstrates that developing traditional projects with a new focus is relatively straightforward, but that developing novel financial instruments can be more time consuming. This was particularly so in Greece, where the JESSICA instrument was only ready to be rolled out some 5 years into the life of the programme.

What is particularly noticeable is that there have been very few fundamental changes to the Structural Fund programmes themselves. In general, programme amendments have amounted to a re-distribution of resources amongst previously agreed priorities and measures. This appears to have been led by logic of financial absorption, although programme authorities argue that it reflects the fact that the underlying logic of the programmes remains sound over the longer-term. This reflects the argument that the Structural Fund programmes are broadly regarded as supporting longer-term, structural, economic adjustment rather than acting as a short-term stimulus measure. This perspective holds even in those programmes that are described by participants and programme authorities as ‘small-scale’ or ‘niche’.

The argument that Structural Fund programmes are inflexible and so unable to react in the short-term to changes in circumstances is not found to be wholly true. There are numerous examples, even from our limited sample, of programmes flexibly responding to changing circumstances. Amendments to the Regulations governing the Structural Funds provided room to manouevre by programme authorities, even if not all availed of the opportunities available.

However, inflexibility can emerge as programmes become increasingly committed during their implementation cycle. It is notable that in the case of Estonia, programme authorities are of the view that the crisis occurred at an opportune point in the programme life-cycle, being sufficiently close to the start of the programmes to enable a rapid response. Several respondents also comment on the eligibility rules for Structural Fund activities preventing fully flexible responses.

Our work illustrates the significance of Structural Fund programmes in some Member States. In many instances they have provided the only source of external investment funds as domestic budgets have been cut-back and banklending has diminished. The economic value of this cannot be judged on the basis of our work, but it is fair to argue that it is likely to be substantial.

Yet, in several of our cases, there are clear (and recognized) capacity constraints that affect the ability of sub-national authorities to engage with Structural Fund programmes. Some of these constraints are financial, but they are also technical and institutional (see also Charron et al 2011, for example). Measures taken in some Member States to reform institutional structures have, in the short-term at least, exacerbated these challenges and highlight the importance of taking appropriate actions in a pre-emptive manner, rather than being crisis-led.

A final consideration in our review has been a tendency across several case studies to move towards larger, more strategic projects, and away from smaller more locally-focused activities. This is apparent in West Wales and the Valleys, Baden-Württemberg and Southern and Eastern Ireland. Whilst this appears to reflect a changing political agenda in all cases, rather than an explicit response to the economic crisis, it arguably supports those that argue for a more effective use of Structural Fund programmes, as measured by traditional economic indicators.

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More information

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It shall support policy development in relation to the aim of territorial cohesion and a harmonious development of the European territory. ESPON shall support Cohesion Policy development with European wide, comparable information, evidence, analyses and scenarios on framework conditions for the development of regions, cities and larger territories. In doing so, it shall facilitate the mobilisation of territorial capital and development opportunities, contributing to improving European competitiveness, to the widening and deepening of European territorial cooperation and to a sustainable and balanced development.

The Managing Authority responsible for the ESPON 2013 Programme is the Ministry of Sustainable Development and Infrastructures, Department for Spatial Planning and Development of Luxembourg.

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