

DIRECTORATE-GENERAL FOR INTERNAL POLICIES

**POLICY DEPARTMENT**  
STRUCTURAL AND COHESION POLICIES **B**



Agriculture and Rural Development

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**IMPACT OF THE ECONOMIC  
CRISIS ON SOCIAL,  
ECONOMIC AND TERRITORIAL  
COHESION OF THE EU  
Volume II**

STUDY







**DIRECTORATE-GENERAL FOR INTERNAL POLICIES**  
**POLICY DEPARTMENT B: STRUCTURAL AND COHESION POLICIES**

**REGIONAL DEVELOPMENT**

# **IMPACT OF THE ECONOMIC CRISIS ON SOCIAL, ECONOMIC AND TERRITORIAL COHESION OF THE EUROPEAN UNION**

**STUDY**

**Vol II.**  
**Case Studies**

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**DIRECTORATE-GENERAL FOR INTERNAL POLICIES**  
**POLICY DEPARTMENT B: STRUCTURAL AND COHESION POLICIES**

**REGIONAL DEVELOPMENT**

# **IMPACT OF THE ECONOMIC CRISIS ON SOCIAL, ECONOMIC AND TERRITORIAL COHESION OF THE EU**

## **STUDY**

### **Abstract**

The impact of the economic and financial crisis that started in 2008 is still being felt. In November 2008, the European Commission launched a European Economic Recovery Plan with a view to coordinate Member States' action in response to the crisis. In this context, the Study uses a combination of quantitative and qualitative methods in order to provide an overview of the impact of the crisis across four Member States and eight regions, in terms of economic, social and territorial cohesion, and to assess the responses of cohesion policy to counteract the crisis.



# CONTENTS

<b>CONTENTS</b>	<b>3</b>
<b>LIST OF ABBREVIATIONS</b>	<b>5</b>
<b>LIST OF TABLES</b>	<b>7</b>
<b>LIST OF FIGURES</b>	<b>10</b>
<b>1. ITALY</b>	<b>11</b>
1.1. Introduction	11
1.2. Basilicata	13
1.3. Campania	26
<b>2. GERMANY</b>	<b>41</b>
2.1. Introduction	41
2.2. Bavaria	42
2.3. North Rhine-Westphalia	52
<b>3. Poland</b>	<b>63</b>
3.1. Introduction	63
3.2. Podlaskie Voivodship	65
3.3. Lower Silesia Voivodship	76
3.4. Conclusion	88
<b>4. Bulgaria</b>	<b>91</b>
4.1. Introduction	91
4.2. North West Planning Region	99
4.3. South Central Planning Region	114
Appendix 1. North West Bulgaria goals and priorities comparison 2007-2010 and 2011-2013	131
<b>References</b>	<b>133</b>
<b>Annex 1. List of people interviewed</b>	<b>139</b>





## LIST OF ABBREVIATIONS

<b>AGRI</b>	Agriculture and Rural Development Committee
<b>CAP</b>	Common Agricultural Policy
<b>CEECs</b>	Central and Eastern European Countries
<b>CJ</b>	Court of Justice
<b>CoR</b>	Committee of the Region
<b>DG</b>	Directorate-General
<b>EAFRD</b>	European Agricultural Fund for Rural Development
<b>EC</b>	European Commission
<b>ECB</b>	European Central Bank
<b>EERP</b>	European Economic Recovery Plan
<b>EI</b>	European Institute
<b>EIB</b>	European Investment Bank
<b>EIF</b>	European Investment Fund
<b>EMU</b>	Economic and Monetary Union
<b>EPSO</b>	European Personnel Selection Office
<b>ERDF</b>	European Regional Development Fund
<b>ESCB</b>	European System of Central Banks
<b>ESF</b>	European Social Fund
<b>ETF</b>	European Training Foundation
<b>EU</b>	European Union
<b>EUROREG</b>	Centre for European Regional and Local Studies
<b>Eurostat</b>	Statistical Office of the European Union
<b>INTERREG</b>	Innovation & Environment Regions of Europe Sharing Solutions

<b>JASPERS</b>	Joint Assistance to Support Projects in European Regions
<b>LSE</b>	London School of Economics
<b>LSEE</b>	London School of Economics Enterprise (LSE Enterprise Ltd)
<b>MSs</b>	Member States
<b>NGO</b>	Non-governmental organisation
<b>NUTS</b>	Nomenclature of Territorial Units for Statistics (Eurostat)
<b>OECD</b>	Organisation for Economic Cooperation and Development
<b>OJ</b>	Official Journal of the European Union
<b>OP</b>	Operational Programme
<b>OSCE</b>	Organisation for Security and Cooperation in Europe
<b>RQ</b>	Research Question
<b>SFs</b>	Structural Funds
<b>ToR</b>	Terms of Reference
<b>UNDP</b>	United Nations Development Programme
<b>UNESCO</b>	United Nations Educational, Scientific and Cultural Organisation
<b>WB</b>	World Bank

## LIST OF TABLES

<b>TABLE 1.1</b>	Selected resilience factors in Basilicata in 2007	<b>14</b>
<b>TABLE 1.2</b>	Regional GVA by sector, 2006–2010	<b>15</b>
<b>TABLE 1.3</b>	Performance of Basilicata region across selected indicators	<b>16</b>
<b>TABLE 1.4</b>	ERDF and ESF priorities in 2007–2013 and respective financial allocations	<b>18</b>
<b>TABLE 1.5</b>	Expected outcomes of the main ERDF priority axes	<b>19</b>
<b>TABLE 1.6</b>	Expected outcomes of the main ESF priority axes	<b>20</b>
<b>TABLE 1.7</b>	An exemplification of the role of cohesion policy during the crisis	<b>21</b>
<b>TABLE 1.8</b>	Re-programming in the ERDF and ESF ROP	<b>23</b>
<b>TABLE 1.9</b>	Examples of change	<b>24</b>
<b>TABLE 1.10</b>	Selected resilience factors in Campania in 2007	<b>27</b>
<b>TABLE 1.11</b>	Regional GVA by sector, 2006–2010	<b>28</b>
<b>TABLE 1.12</b>	Non-market services as a proportion of total GVA in Campania and in Italy	<b>28</b>
<b>TABLE 1.13</b>	Performance of Campania region across selected indicators	<b>29</b>
<b>TABLE 1.14</b>	ERDF and ESF priorities in 2007–2013 and respective financial allocations	<b>31</b>
<b>TABLE 1.15</b>	Expected outcomes of the main ERDF priority axes	<b>32</b>
<b>TABLE 1.16</b>	Expected outcomes of the main ESF priority axes	<b>33</b>
<b>TABLE 1.17</b>	Countercyclical interventions and source of financing	<b>35</b>
<b>TABLE 1.18</b>	Re-programming in the ESF ROP	<b>36</b>
<b>TABLE 1.19</b>	Summary of main changes in cohesion policy during the crisis	<b>38</b>
<b>TABLE 1.20</b>	Promising practices emerging from changes in cohesion policy	<b>38</b>

<b>TABLE 2.1</b>	
Selected resilience factors in Germany and Bavaria in 2007	<b>43</b>
<b>TABLE 2.2</b>	
Sectoral specialisation in Germany and Bavaria in 2007	<b>44</b>
<b>TABLE 2.3</b>	
Performance of Bavaria across selected economic cohesion indicators	<b>44</b>
<b>TABLE 2.4</b>	
Performance of Bavaria across selected social cohesion indicators	<b>45</b>
<b>TABLE 2.5</b>	
ERDF fund allocation	<b>47</b>
<b>TABLE 2.6</b>	
ESF fund allocation	<b>48</b>
<b>TABLE 2.7</b>	
Selected resilience factors in Germany and North Rhine-Westphalia	<b>53</b>
<b>TABLE 2.8</b>	
Sectoral specialisation in Germany and North Rhine-Westphalia	<b>53</b>
<b>TABLE 2.9</b>	
Performance across selected economic cohesion indicators	<b>54</b>
<b>TABLE 2.10</b>	
Performance across selected social cohesion indicators	<b>54</b>
<b>TABLE 2.11</b>	
ERDF fund allocation	<b>56</b>
<b>TABLE 2.12</b>	
ESF fund allocation	<b>57</b>
<b>TABLE 3.1</b>	
Sectoral distribution of GVA in Podlaskie region	<b>65</b>
<b>TABLE 3.2</b>	
Resilience factors in Podlaskie	<b>66</b>
<b>TABLE 3.3</b>	
Economic structure of the Podlaskie voivodship after the crisis	<b>67</b>
<b>TABLE 3.4</b>	
Social structure of the Podlaskie Voivodship	<b>67</b>
<b>TABLE 3.5</b>	
Output and product indicators for ROP VP	<b>70</b>
<b>TABLE 3.6</b>	
Sectoral distribution of GVA in the Lower Silesia region	<b>77</b>
<b>TABLE 3.7</b>	
Resilience factors in Lower Silesia before the crisis and the level of change	<b>78</b>
<b>TABLE 3.8</b>	
Economic structure of Lower Silesia after the crisis	<b>78</b>
<b>TABLE 3.9</b>	
Social structure of Lower Silesia before (1) and after (2) the crisis	<b>79</b>
<b>TABLE 3.10</b>	
Output and result indicators for ROP LSV	<b>82</b>

<b>TABLE 4.1</b>	
Impact of mainstream OPs on GDP (%)	<b>93</b>
<b>TABLE 4.2</b>	
Sectoral specialisation in Bulgaria and the North West region in 2007	<b>100</b>
<b>TABLE 4.3</b>	
Selected dimensions in Bulgaria and the North West before the crisis	<b>101</b>
<b>TABLE 4.4</b>	
Performance of NW over two periods 2003-2007 and 2008-2012	<b>102</b>
<b>TABLE 4.5</b>	
Population at risk of poverty or social exclusion in the NW	<b>102</b>
<b>TABLE 4.6</b>	
Social inequalities	<b>102</b>
<b>TABLE 4.7</b>	
NW Regional road network (% of country total)	<b>103</b>
<b>TABLE 4.8</b>	
Assessment of resources needed (in euro)	<b>105</b>
<b>TABLE 4.9</b>	
Priorities of the CBC programme	<b>105</b>
<b>TABLE 4.10</b>	
Contribution to Europe 2020: Baseline and targets	<b>106</b>
<b>TABLE 4.11</b>	
Territorial cooperation and flexibility	<b>108</b>
<b>TABLE 4.12</b>	
Regional GVA and district contribution in 2011	<b>116</b>
<b>TABLE 4.13</b>	
Sectoral specialisation in Bulgaria and the South Central region in 2007	<b>117</b>
<b>TABLE 4.14</b>	
Selected resilience factors in Bulgaria and the South Central region	<b>117</b>
<b>TABLE 4.15</b>	
Performance of NUTS 2 and 3 regions	<b>118</b>
<b>TABLE 4.16</b>	
Population at risk of poverty or social exclusion in the SC region	<b>119</b>
<b>TABLE 4.17</b>	
Priorities of the CBC programme	<b>122</b>
<b>TABLE 4.18</b>	
Assessment of resources needed (in euro) 2011-2013	<b>122</b>
<b>TABLE 4.19</b>	
Indicators in Regional Development Plan 2011-2013	<b>123</b>
<b>TABLE 4.20</b>	
Constraints and space for regional response	<b>127</b>
<b>TABLE 4.21</b>	
Strategic objectives 2014-2020	<b>128</b>

## LIST OF FIGURES

<b>FIGURE 1.1</b>	
Percentage incidence of relative poverty by macro area (2009-2012)	<b>11</b>
<b>FIGURE 1.2</b>	
Percentage incidence of absolute poverty by macro area (2009-2012)	<b>12</b>
<b>FIGURE 4.1</b>	
GDP growth and FDI dynamics 2005-2011	<b>92</b>
<b>FIGURE 4.2</b>	
Regional objectives 2014-2020	<b>111</b>
<b>FIGURE 4.3</b>	
Strategic framework Regional Development Plan (2011)	<b>120</b>

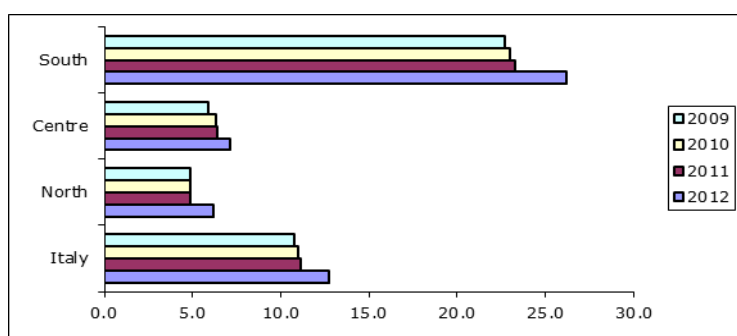
# 1. ITALY

## 1.1. Introduction

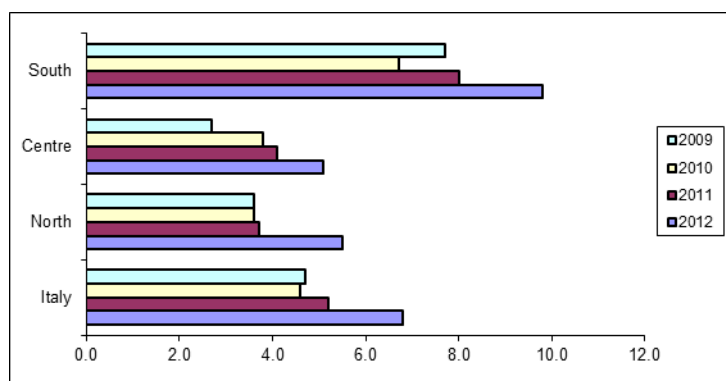
As illustrated in detail in the conceptual framework of the Study, the economic and financial crisis can be broadly divided in two phases, driven respectively by private debt and sovereign debt. Italy is no exception to this categorisation. Economic analyses carried out by the Bank of Italy identify two main features of the economic crisis in Italy in its early phase (i.e. 2008-2009). Firstly, the contractions of international trade that caused a sharp decrease in the exports of Italian firms 'that was rapidly transmitted to domestic demand and to employment' (Bank of Italy, 2009:58); and secondly, the growing difficulties that firms and households faced to access credit (*ibid.*). These features became even more evident in the later phase of the crisis, when the crisis turned into a sovereign debt crisis. The 2012 economic bulletin of the Bank of Italy notes how '[t]he contraction of economic activity in Italy in 2012 can be ascribed almost entirely to the repercussions of the sovereign debt crisis' (Bank of Italy, 2012:63), which predominantly manifested itself in an increasing cost of credit for the private sector (*ibid.*:63). The contextual slowdown of the European economy 'curbed the growth of exports' and 'the decline in confidence among businesses and households further dampened spending' (*ibid.*:64).

In this context, a severe nationwide deterioration can be observed across all the main economic and social indicators. GDP, which had been on an upward trend between 2000 and 2008, fell in 2009 by over 5% (Fabbri and Michelin, 2011:4). Public finances were characterised by a worsening government deficit and growing public debt, which rose to 127% of GDP in 2012, after being around 105% for most of the 2000s (Eurostat data). Exports experienced a significant decrease as well, falling by as much as 4.8% in 2009 (Eurostat data). The number of SMEs operating in the country dropped by 20,000 units between 2008 and 2009, and by a further 20,000 between 2009 and 2010 (Eurostat data). Contextually, unemployment rose from around 6% to over 10% between 2007 and 2012, and youth unemployment substantially increased from 20% to over 35% during the same period (Eurostat data), confirming 'the greater vulnerability of those occupying the most disadvantaged positions in the labour market' during the crisis (Eurofound, 2010). Finally, the incidence of both relative and absolute poverty grew across the whole country between 2009 and 2012, particularly affecting Southern Italy, as illustrated by Figures 1.1 and 1.2.

**Figure 1.1 : Percentage incidence of relative poverty by macro area (2009-2012)**



Source: ISTAT, 2013.

**Figure 1.2 : Percentage incidence of absolute poverty by macro area (2009-2012)**

Source: ISTAT, 2013.

However, while the main features of the crisis were broadly the same across the country, the impact was different across macro-geographic areas. A main distinction can be made with respect to the timing of the impact of the crisis between Centre-Northern regions (i.e. competitiveness and phasing-in regions) and Southern Regions (i.e. convergence and phasing-out regions) (Fabbris and Michielin, 2011:4).

In particular, Centre-Northern regions – characterised by more integration with the global economy and specialised in investment goods<sup>1</sup> – were hit harder by the initial phases of the crisis than Southern regions, which have less open economies specialised in traditional sectors that were initially less affected by lower demand (*ibid.*; Signorini, 2013:3; Eurofound, 2010). However, for the very same reason, Centre-Northern regions were able in the second phase of the crisis to take advantage of the partial recovery of the global economy, as well as increasing their competitiveness by diversifying exports and investing in innovation more than Southern regions (Signorini, 2013:3). Further, firms in Southern regions are more dependent on external financing than Centre-Northern regions and are also considered more risky by financial markets, making access to credit more difficult and more expensive in Southern Italy than in Northern Italy (Signorini, 2013:6).

Thus, Italy provides an example for both the dynamics hypothesised in the conceptual framework of the Study. On one hand, the crisis had a (temporary) equalising effect at the very beginning, when richer regions were affected more severely than poorer regions. On the other hand, more recent developments of the crisis brought about changes in the opposite direction: richer regions managed to reverse the trend, whereas the social and economic outlook kept worsening in Southern regions. National circumstances also contributed to the latter trend. In particular, the sovereign debt crisis was accompanied by austerity measures and tightened public expenditure at the national level, which had an asymmetric territorial impact: SVIMEZ (2012) identified that the sharp decrease in public expenditure (both capital and current) determined by the austerity measures affected disproportionately more Southern regions. In the context of a severe and overarching decrease of government expenditure during the crisis, public investments in Southern regions fell by around 19% between 2010 and 2011, as opposed to 8% in Centre-Northern regions (SVIMEZ, 2012:23). Thus, in addition to the dynamics of lower competitiveness and innovation and more difficult access to credit experienced by convergence regions, the austerity measures also contributed to a further divide between Northern and Southern Italy in the second phase of the economic crisis, which led, overall, to an increased level of inequality between the South and the North of the country (SVIMEZ, 2012:6). Within the pattern of shrinking public expenditure outlined above, cohesion policy became an important element in the

<sup>1</sup> The mechanical engineering sector appears as the sector most severely hit by the crisis, with a fall in exports of over 23% (Eurofound, 2010).



Southern regions' policy mix to cope with the crisis insofar as, in many respects, it *replaced* – rather than *added* to – ordinary public expenditure (SVIMEZ, 2012:24).

The case studies of Basilicata and Campania provide further insight into the use and role of cohesion policy during the crisis in the Southern regions. The two case studies form parts 1 and 2, respectively, of the document, and they follow the same structure: a description of the economic, social and territorial structure of the region and the key changes observed during the crisis, followed by an overview of the subsequent amendments to the region's cohesion policy during the crisis, a preliminary assessment of the changes to cohesion policy, and conclusions on the use of cohesion policy in that specific region. In addition, each case study begins with a list of the key findings and observations. Each case study constitutes a stand-alone document that can be read in isolation from the other.

## 1.2. Basilicata

### KEY FINDINGS

- Cohesion policy in Basilicata during the crisis presents a mix of **path dependency** and **path deviations**.
- Some central characteristics of the ROPs as they were **designed before the crisis** were maintained. Notably, these include a major focus on increasing the accessibility of the region by improving its infrastructure endowment.
- The crisis also prompted **some changes** – and consequent **financial re-allocations** – within the ROPs. Some long-term endeavours (e.g. investment in human capital as far as the ESF ROP is concerned, or investments in green energy start-ups in the ERDF ROP) were replaced by more pragmatic measures aimed to provide immediate relief from the crisis to individuals (e.g. through anti-poverty income support measures) and firms (e.g. through measures to ease access to credit).
- Practically, all the changes that occurred during the crisis were made **within the existing ROPs**, with only limited interaction with the national anti-crisis programmes, thus the crisis did not substantially affect the management of cohesion policy.
- A traditional feature of the region in terms of cohesion policy spending, i.e. **its high absorption capacity**, was indicated by the Managing Authorities (MAs) as a crucial element to counteract the crisis, by ensuring liquidity of the regional economy, although social partners, while acknowledging the merits of having a high absorption capacity, lamented the lack of selectivity in the use of cohesion policy.
- MAs and social partners agree that cohesion policy was effective insofar as it provided relief for the immediate needs posed by the crisis. However, social partners also observed that such a strategy fails to address the structural weaknesses of the region. The main constraint posed by the crisis – determining a consequent adaptation of regional strategy – seems therefore to have been a shift away from long-term objectives to focus more on short-term needs.
- With the exception of the continued investments in infrastructure, the strategy adopted during the crisis does not seem to have strengthened future regional resilience. However, this may be partly seen as a necessity stemming from the sharp decrease in ordinary public expenditure during the crisis that made cohesion policy less of an *additional* resource and more a *replacement* for ordinary expenditure.

### 1.2.1. Context Analysis

#### 1.2.1.1. *Change in economic, social and territorial structure*

At the outset of the economic crisis, in 2007, the socio-economic structure of Basilicata appeared ill-suited to respond to a major external shock. The limited endowment of resilience factors and weak socio-economic structure prior to the crisis translated into a worsening of the regional conditions, between 2007 and 2008-2009, across most of the main indicators analysed.

An overview of the regional resilience factors identified in the conceptual framework of the Study shows that Basilicata region was in 2007 below the Italian averages in terms of adults with tertiary education and expenditure on R&D.

Indeed, with 100 as the Italian average, Basilicata recorded around 87% of adults with tertiary education and 37% of total gross domestic expenditure on R&D (Eurostat). If framed against the European average, this data produces even lower results, with Italy being a (considerably) below-average performer in these themes, as shown in Table 1.1.

**Table 1.1 : Selected resilience factors in Basilicata in 2007**

	<b>% of adults 25-64 with tertiary education</b>	<b>Total gross domestic expenditure on R&amp;D</b>
EU	100	100
Italy	55.34	66.73
Basilicata	48.29	24.48

**Source:** Author, based on Eurostat data.

A further element of vulnerability lies in the 'traditional' economic structure of the region, with high reliance on a few manufacturing sectors such as the automotive and home furniture industries – both highly labour-intensive sectors that were severely hit by the crisis as confirmed by the analysis of the regional Gross Value Added (GVA), which reveals a sharp contraction between 2007 and 2009, as shown in Table 1.2. It should be further noted that the aggregate data only partially show the severity of the crisis upon the manufacturing sector, since they are combined with data referring to the energy sector, which in comparison has not been affected by the crisis substantially but is not a labour-intensive sector either, thus providing only a limited contribution to regional employment (Interview F1).

**Table 1.2 : Regional GVA by sector, 2006–2010**

Year	Agriculture		Energy and manufacturing		Construction		Distribution, tourism, transport and communications		Market services		Non-market services		Total	
	% change	Abs. value	% change	Abs. value	% change	Abs. value	% change	Abs. value	% change	Abs. value	% change	Abs. value	% change	Abs. value
2006	-4.3%	495.776	6.7%	1,543.144	13.1%	698.922	7.1%	1,689.322	1.1%	1,686.076	3.0%	2,125.777	4.4%	8,239.017
2007	7.2%	531.404	-1.8%	1,515.695	-9.0%	635.865	3.2%	1,742.635	6.8%	1,800.335	0.1%	2,128.76	1.4%	8,354.694
2008	3.5%	550.212	-11.4%	1,343.211	7.3%	682.475	4.0%	1,811.953	-7.3%	1,668.897	-0.7%	2,113.786	-2.2%	8,170.534
2009	-11.0%	489.955	-5.6%	1,267.981	-15.5%	576.912	-2.2%	1,771.695	-0.6%	1,658.25	-4.9%	2,009.592	-4.8%	7,774.385
2010	-1.7%	481.414	5.1%	1,332.933	-4.1%	553.178	2.1%	1,808.066	2.5%	1,699.756	2.0%	2,048.925	1.9%	7,924.272

**Source:** Author, based on Eurostat data.**Note:** % change refers to the change from the previous year; absolute value is in million EUR.

Poor resilience factors at the outset of the economic crisis are accompanied by low performance among most of the social and economic indicators analysed, as shown in Table 1.3, which compares Basilicata (and Italy) to the EU average across selected indicators of economic and social cohesion and also shows the percentage change between 2007 and 2008-2009.

**Table 1.3 : Performance of Basilicata region across selected indicators before the crisis and percentage change after the crisis**

	Economic cohesion indicator	Social cohesion indicators		
	GDP per capita	Total unemployment	Youth unemployment	Female employment
EU	100	100	100	100
Italy	105.06	85.07	128.92	80.83
Basilicata	73.63	130.45	186.47	60.16
% change	-2.7	1.65	5.05	1.15

**Source:** Author, based on Eurostat data.

Two main observations emerge from the data presented in Table 1.3. Firstly, Basilicata was in a weak position before the crisis, with some indicators, such as total unemployment and youth unemployment, suggesting an extreme fragility of the region as far as social cohesion is concerned. Secondly, the crisis impacted on this fragile structure by worsening the socio-economic position of the region, apart from the indicator concerning female employment, which registered an increase of over 1%.

This picture was confirmed by the interviewees who pointed out how macroeconomic indicators in the region were already critical before the crisis (Interview C1). Thus, the crisis was not so much an external shock reversing a trend of growth, but rather it acted as an accelerator of existing processes and trends.

The ordinary Cassa Integrazione Guadagni (CIG), i.e. unemployment benefits aimed at complementing salaries at times of low production to avoid workers' dismissal, increased by almost 150% between the first quarter of 2008 and the first quarter of 2009 (Fabbris and Michielin, 2010:5). This provides a clear example of the escalating socio-economic problems of the region during the crisis, fuelled, in this instance, by the large automotive industry – a cornerstone of the regional economy and employment – experiencing a severe drop in production (CGIL, 2012).

#### **1.2.1.2. Economic, social and territorial structure of Basilicata**

The **economic structure** of the region was characterised by the following key features (ERDF ROP, 2007:73):

- The need to tackle the relatively low productivity of the regional economic system by strengthening industrial clusters, increasing the propensity to innovate, diversification of the economic structure, and improving the relationships between enterprises and the banking system;
- the relatively low accessibility of the territory, which was a central issue preventing the region from exploiting its full economic potential, but which has been partly counteracted through public investment in infrastructure co-financed by cohesion policy funds; and
- a relatively closed regional economy, both in terms of its capability to export and its attractiveness for foreign investors.

In terms of **social outlook**, the region was socially cohesive, with a low incidence of organised crime, high security, and the overall high quality of the 'social climate' (ERDF ROP, 2007:73). However, some specific issues stand out, especially linked to the inability of the regional labour market to provide employment to young, highly qualified individuals, who are increasingly migrating out of the region (ESF ROP, 2007:17). As of 2007, only 2.2% of the newly hired workforce in the region had a tertiary qualification, as opposed to 43.6% of hired individuals with low qualifications, compared to the national averages of 8.8% and 37.5% respectively.

The **territorial structure** of Basilicata was such that '[b]roadly speaking, economic development is extremely polarised in the urban areas', leaving the inner areas of the region characterised by higher unemployment and an ageing population (Boschma *et al.*, 2012:10). A reversal of this trend was in turn hindered by limited accessibility, in terms of physical infrastructure as well as social services, of the inland area. Thus, the spatial distribution of Basilicata raised issues that cut across the economic and social dimensions briefly discussed above, pointing to the importance of increasing the accessibility of the (whole) region, in terms of both physical infrastructure and social services, to support balanced economic and social development.

### **1.2.1.3. Regional strategy adopted by the region for economic, social and territorial development**

At the beginning of the programming period, the following strategies can be identified, both of which are discussed at length in the following sections of the report.

As far as ERDF is concerned, the ROP was geared towards **transport connectivity** (catch-up narrowly focused), with strong priority given to developing the infrastructural endowment of the region, as identified by LSE Enterprise (2012:66) and confirmed by stakeholders (Interviews C1, D1, E1).

The ESF strategy was heavily focused on **improving human capital**, with over one-third of the overall resources of the ESF ROP devoted to the human capital axis, aimed at filling the innovation gap identified in the socio-economic analysis of the region (Interviews B1, E1).

## **1.2.2. Cohesion policy analysis: initial strategy and changes**

### **1.2.2.1. Strategy of cohesion policy prior to the crisis**

#### **Main focus of cohesion policy in terms of spending**

Both the ERDF and ESF ROPs are divided into axes that allow for a preliminary assessment of the relative weight placed by the regional government on different policy areas. The table below reports the priorities set by the two ROPs at the beginning of the programming period.

**Table 1.4 : ERDF and ESF priorities in 2007–2013 and respective financial allocations**

ERDF		ESF	
Axis	Resources*	Axis	Resources*
1. Accessibility	116	1. Adaptability	ca. 53
2. Knowledge society	88	2. Employability	ca. 51.5
3. Productive competitiveness	79.5	3. Social inclusion	ca. 51.5
4. Valorisation of natural and cultural endowment	82	4. Human capital	ca. 129
5. Urban systems	74.5	5. Transnational and inter-regional initiatives	ca. 14
6. Social inclusion	98	6. Technical assistance	ca. 13
7. Energy and sustainable development	186	7. Institutional capacity	ca. 10
8. Governance and technical assistance	ca. 28	Total	ca. 322
Total	ca. 752		

**Source:** Author, ERDF data based on FESR MA (2013: 9), ESF data based on ESF mid-term evaluation (2012: 52). \*In million EUR, resources are total, i.e. also include national contributions.

The distribution of expenditure in the two ROPs follows the broad strategic priorities identified in Section 1.1. As far as ERDF is concerned, it emerges that the two central priorities in terms of (planned) expenditure at the beginning of the programming period were on Axes 1 (accessibility) and 7 (energy and sustainable development); as far as ESF is concerned, Axis 4 (human capital) took up more than one-third of the total resources.

### **Expected outcome of cohesion policy**

The overall objective of cohesion policy was summarised by the respective ROPs as follows.

**As far as ERDF is concerned**, the global objective of the strategy is 'to promote the convergence of Basilicata in terms of economic growth and sustain its transition towards the objective of 'competitiveness' through the improvement of the innovation capacity and the diversification of the productive system' (ERDF ROP, 2007:110). As mentioned above, increasing the accessibility of the region is seen as a crucial element conducive to the achievement of this global objective. The ROP places a strong emphasis on making Basilicata an 'open system' (ERDF ROP, 2007:111) as a cornerstone of its development strategy, with a key role played, inevitably, by the accessibility axis, which is aimed at improving the regional endowment of physical infrastructure (ERDF ROP, 2007:113).

With respect to the main axes identified in Table 1.4, specific outcomes were envisaged, as summarised in Table 1.5.

**Table 1.5 : Expected outcomes of the main ERDF priority axes**

Axis	Expected outcomes (selected)
1. Accessibility	Increased index of infrastructural accessibility Increased index of railway utilisation Increased tons of goods (in and out) as share of the total amount of goods transported (ERDF ROP, 2007:153)
2. Knowledge society	Increased public and private expenditure in R&D as a share of GDP Increased patents registered at the European Patent Office Increased number of individuals who use networked services Increased usage of internet amongst enterprises (ERDF ROP, 2007:166)
3. Productive competitiveness	Increased number of enterprises that have introduced product or process innovation Ability to export product of high or increasing productivity (ERDF ROP 2007: 178)
4. Valorisation of natural and cultural endowment	Percentage increase of tourist arrivals Number of tourists per inhabitant during non-summer months Percentage increase of tourist arrivals in protected areas (ERDF ROP, 2007:189)
6. Social inclusion	Diffusion for services for infants Percentage change of young people who dropout Increase of employees within enterprises operating in the social sector (ERDF ROP, 2007:213)
7. Energy and sustainable development	Increase in proportion of electricity consumption covered by renewable energy Saved energy Efficiency in the distribution of water for human consumption (ERDF ROP, 2007:232)

**Source:** Author, based on ERDF ROP, 2007.

**As far as ESF is concerned,** the global objective of the strategy is 'to promote development, full employment and quality of jobs through investments in human capital and research, adaptability of workers and public and private enterprises, the support to social integration and equal opportunities' (ESF ROP, 2007:45).

With respect to the main axes identified in Table 1.4, specific outcomes were envisaged, as summarised in Table 1.6.

**Table 1.6: Expected outcomes of the main ESF priority axes**

Axis	Expected outcomes (selected)
1. Adaptability	Increased number of individuals receiving continuous training as share of the total workforce  Increased number of enterprises involved in projects aiming to increase the quality of work and organisational change as a share of the total number of enterprises (ESF ROP, 2007:65)
2. Employability	Increased coverage of individuals covered by active labour market policies (ALMPs)  Increased rate of labour market entry for recipients of ESF interventions  Increased rate of female population covered by ALMPs (ESF ROP, 2007:77)
3. Social inclusion	Increased rate of disadvantaged individuals affected by the implementation of the axis (ESF ROP, 2007:83)
4. Human capital	Increased number of young individuals covered the initiatives of the axis as a share of the total potential population  Increased number of initiatives aimed to improve enterprises' research activities and knowledge transfer (ESR ROP, 2007:92)

Source: Author, based on ESF ROP, 2007.

### **1.2.2.2. Cohesion policy during the crisis (2008 onwards)**

#### **Role of cohesion policy during the crisis**

During the crisis, cohesion policy played a relevant role in the region in economic and social terms. Interviewees agreed that, while the crisis has a supranational scale and scope that cannot be counteracted by a ROP alone, cohesion policy constituted an important resource to filter and – to some extent – moderate the impact of the crisis (Interviews A1, C1, D1).

This role of 'buffer' was the outcome of different logics, including some changes that had been prompted specifically by the crisis and some decisions that were taken at the very beginning of the programming period and which proved to be an effective means of counteracting the crisis, even though they were not designed to that end.

It should be noted that, different from most of the other regions of Southern Italy, cohesion policy in Basilicata interacted to a limited extent with national anti-crisis programmes, such as the Plan of Action and Cohesion (PAC). The PAC was designed by the national government to speed-up the expenditure of cohesion policy resources, especially in Southern Italy, where several regions subsequently 'extracted' some financial resources from the ROPs and channelled them into the PAC, which is characterised by simplified rules for expenditure and therefore provides an opportunity for accelerating the process.

However, Basilicata has traditionally been a region with a relatively high absorption capacity (Milio, 2007), and therefore the prospect of diverting resources from the ROPs to the PAC did not seem a necessary or attractive option to the MAs (Interviews A1, B1).



Indeed, at the time of the design and initiation of the national anti-crisis programmes, Basilicata had already achieved a fairly advanced expenditure performance and therefore it did not need to engage with national programmes in order to speed up the absorption of funds (Interviews A1, B1, C1, D1, E1). Table 1.7 exemplifies the different measures that were enacted through cohesion policy during the crisis.

**Table 1.7 : An exemplification of the role of cohesion policy during the crisis**

Domain	Example of initiative	Logic	Role in the crisis
Economic cohesion	Public investment in infrastructure	Long-term investment planned since the beginning of the programming period and central to the regional strategy of economic development	Since resources in this axis were concentrated in a few projects, and since financial resources were allocated and confirmed before the crisis, public investments in infrastructure proceeded as planned. This proved to be an (unintended) instrument to sustain the regional economy during the crisis, since it determined a considerable amount of liquidity to circulate in the regional economy in one sector – the construction sector – that was hit severely by the crisis (Interview C1).
Economic cohesion	Increased financial resources on ERDF Axes II and III	Short-term, pragmatic initiative to respond to the crisis (and in the framework of the EERP)	Financial resources were modulated to respond more effectively to the crisis. An important outcome of this strategic decision was to decrease (by almost 40 MEUR) Axis VII (energy and sustainable development) to finance counter-cyclical measures (mostly in Axes II and III), seizing the opportunities offered by the EC in the framework of the EERP (e.g. simplification/relaxation of some state aid rules). Interviewees agreed that expenditure in Axis VII was lagging behind and difficult to implement, as it entailed measures aimed at start-ups and similar innovative initiatives for which the crisis proved to be a hostile context. It was therefore preferred to finance more immediate needs, such as liquidity constraints faced by existing firms (Interviews A1, C1).
Social cohesion	Increased financial resources on ESF Axes II and III	Short-term, pragmatic initiative to give priority to immediate needs determined by the crisis	The ESF ROP was tailored to the needs of the crisis by allocating extra resources to the employability and social inclusion axes, which were mainly 'extracted' by the human capital axis. The rationale for such choice was to give priority to the immediate needs posed by the crisis, crucially poverty relief measures and contributions to active and passive labour market measures, giving up part of the resources initially devoted to more long-term types of initiatives, such as those in the human capital axis (Interviews B1, E1)

**Source:** Author, own interpretation based on interviews.

### Main changes in strategy and objective

The changes in strategy in cohesion policy during the crisis differ between ERDF and ESF funds. While both the ROPs had internal financial re-allocations across axes to respond better to the challenges posed by the crisis, the ERDF overall strategy did not move away from its central focus on the accessibility of the region (Interviews A1, C1). The ESF, somewhat differently, saw its re-allocation of funds affecting its central axis at the beginning of the strategy – i.e. human capital – determining an overall change of strategy from being focused on improving human capital to become more geared towards **improving access to employment and improving the social inclusion of less-favoured persons** (Interviews B1, E1).

The reason for such a difference lies in the different natures of the pre-crisis strategies in the ERDF and in the ESF ROPs and in the extent to which pre-crisis long-term objectives conflicted with the immediate needs posed by the crisis.

The ERDF ROP, with its major focus on infrastructural development, was characterised by large projects that had been financially committed and initiated before the crisis and that *also* worked as counter-cyclical measures, by guaranteeing a degree of liquidity to the regional economy (Interview C1). Thus, the ERDF strategy operated as a source of support to the regional economy without moving away from its initial focus, since the long-term objectives (e.g. increasing the physical accessibility of the region) did not conflict with the short-term needs (e.g. contributing to stimulating the regional economy, in this instance through infrastructural projects that aided the regional economy during the crisis). Conversely, the ESF strategy was characterised by a conflict between long-term developmental objectives (i.e. increasing the human capital and innovation capacity of the region) and short-term needs (e.g. financing active and passive labour market measures that were high in demand because of the economic downturn). Thus, the ESF MA opted for a shift of resources from the human capital axis to finance measures that could provide immediate relief to the most disadvantaged segments of the population (Interviews B1, E1). Table 1.8 shows the financial changes that occurred in the two OPs.

**Table 1.8 : Re-programming in the ERDF and ESF ROP**

	Original allocation and weight		Allocation and weight after re-programming		
Axis	Resources	%	Resources	%	%change
<b>ERDF ROP</b>					
1. Accessibility	116	15%	ca. 88	12%	-3%
2. Knowledge society	88	<b>12%</b>	ca. 157	<b>21%</b>	+9%
3. Productive competitiveness	79.5	<b>11%</b>	ca. 120	<b>16%</b>	+5%
4. Valorisation of natural and cultural endowment	82	11%	ca. 103	14%	+3%
5. Urban systems	74.5	10%	ca. 32	4%	-6%
6. Social inclusion	98	13%	ca. 71	9%	-4%
7. Energy and sustainable development	186	<b>25%</b>	ca. 146	<b>19%</b>	-6%
8. Governance and technical assistance	ca. 28	4%	ca.35	5%	+1%
<b>ESF ROP</b>					
1. Adaptability	ca. 53	16%	ca. 45	14%	-2%
2. Employability	ca. 51.5	<b>16%</b>	ca. 70	<b>22%</b>	+6%
3. Social inclusion	ca. 51.5	16%	ca. 62	19%	+3%
4. Human capital	ca. 129	<b>40%</b>	ca. 110	<b>34%</b>	-6%
5. Transnational and inter-regional initiatives	ca. 14	4%	ca. 12	4%	-
6. Technical assistance	ca. 13	4%	ca. 13	4%	-
7. Institutional capacity	ca. 10	3%	ca. 10	3%	-

**Source:** Author, own calculations based on FESR MA (2013:9), ESF data based on ESF mid-term evaluation (2012:52). \*In million EUR, resources are total, i.e. also include national contributions.

The reallocation of funds across the two ROPs provides insights into which axes were deemed more strategic by the regional authorities in terms of facing the crisis. The ERDF ROP displays a sharp decrease of Axis VII in favour of Axes II and III, while the ESF ROP considerably downsized Axis IV to increase the resources of Axes II and III.

### **1.2.3. Effectiveness, constraints and adaptation of cohesion policy**

#### **1.2.3.1. Effectiveness of cohesion policy before and after the crisis**

As noted above, assessing the effectiveness of cohesion policy during the crisis is a rather difficult exercise. Arguably, the crisis has not yet finished, and therefore the analysis must take into account the fact that it focuses on events that are still unfolding at the time of writing. Having acknowledged this note of caution, interviewees agreed that cohesion policy had a role in preventing an escalation of the social and economic consequences of the crisis (Interviews C1, E1). This was achieved by a mix of ad hoc changes and initiatives as well as by choices made at the beginning of the programming

period, which also proved to be effective measures to cope with the crisis (such as the case of investment in infrastructure, as noted in sub-section 1.2.2).

### Specific examples of promising practices deriving from changes in cohesion policy

From the interviews with stakeholders and the analysis of relevant documentation, several examples emerged of changes that seem to have effectively tackled some of the key challenges posed by the crisis emerge, and they are summarised in Table 1.9.

**Table 1.9 : Examples of change**

Initiative	Type of change	Why promising?
Increased amount of <i>de minimis</i> aid	Short-term initiative to respond to the crisis (and in the framework of the EERP)	The EC took a series of initiatives aimed at better equipping Member States' and regions' toolkits against the crisis. One such initiative was the possibility to increase the <i>de minimis</i> state aid from EUR 200,000 to EUR 500,000. This opportunity was seized by the Region, representing something long requested by the partnership (Interview A1).
Programme against poverty and social exclusion (COPEs)	Short-term initiative to respond to the crisis	The ESF MA put in place a programme of income support co-funded through the ESF and available for 24 months to individuals in low income-brackets. Interviewees agreed that this measure – albeit short-term – provided a buffer against the immediate threat posed by the crisis (Interviews B1, E1).

**Source:** Author, own interpretation based on interviews.

### Impact of changes in fund management and expenditure

In Basilicata, the crisis – and related changes – did not have a major impact on the fund management and expenditure. In terms of management, stakeholders highlighted how the development of integrated programming, involving broad partnerships in the management of funds, formed an important change during the 2007-2013 programming period. This approach was pursued, among others, in the tourism sector through public-private partnerships (FESR MA, 2010:18-19). Interviewees agreed that the integrated approach to fund management was an important innovation, but it was not something prompted or substantially affected by the crisis (Interviews A1, D1). Similarly, in terms of expenditure during the 2007-2013 programming period, Basilicata confirmed its traditional good performance in absorption capacity of funds, which was not affected by the crisis. As indicated in sub-section 1.2.2, the fairly stable progress in expenditure that the region had throughout the programming period was one of the main reasons that the regional administration decided not to join the PAC.

### 1.2.3.2. *Regional strategies adaptation*

The severity of the crisis prompted the MAs to revisit their initial strategy, re-directing some of the resources initially foreseen for the region's long-term developmental objectives towards providing relief to more immediate needs posed by the crisis (e.g. rising unemployment and increasing difficulties in accessing credit). However, the extent to which the strategy was modified appears to be different between the ERDF and the ESF ROPs.

As noted in sub-section 1.2.2, the main line of differentiation between the ERDF and ESF strategies seems to lie in the different interaction and relationship between pre-crisis long-term objectives and the immediate needs posed by the crisis. In the case of the ERDF strategy, long-term objectives and short-term needs did not enter into a significant conflict. Although some resources initially devoted to long-term innovation-driven endeavours (e.g. start-up creation) were re-directed towards short-term counter-cyclical measures (e.g. increased de minimis aid) (Interview A1), the overall strategy did not move away from the centrality of the infrastructural development of the region (Interviews A1, C1). A different pattern was followed in the ESF ROP. In this case, the conflict between long-term objectives and short-term needs prompted the MA to shift resources away from the human capital axis in order to finance measures aimed at poverty relief and tackling social exclusion (Interviews B1, E1).

Thus, the main example of strategy adaptation is to be found in the shifting of resources away from long-term objectives to respond to short-term needs. This pattern affected the overall ERDF strategy to a limited extent and the overall ESF strategy to a significant extent. Such adaptation managed to effectively tackle some of the immediate needs and threats posed by the crisis, but doubts were raised as to whether the provision of immediate relief from pressing socio-economic issues, such as those posed by the crisis, should be a primary concern of cohesion policy. Interviewee E1, for instance, raised concerns over the lack of selectivity in the provision of financial support to enterprises during the crisis, which failed to act upon the structural weaknesses of the region (e.g. lack of innovative capacity), although it may have provided immediate help to firms and individuals to navigate the hardship of the crisis. This conflict between long-term objectives and short-term needs can be partially explained by the sharp decrease of national public investment in Southern Italy during the crisis, which led to cohesion policy becoming increasingly more a replacement for ordinary public funding as opposed to an additional resource serving the developmental needs of the region (SVIMEZ, 2012; Interview F1; see the introduction for further discussion of this issue).

### 1.2.4. **Conclusion**

Cohesion policy in Basilicata during the crisis offers some interesting insights into elements of path dependency and elements of path deviation. The crisis certainly had an overall **impact** on the use of cohesion policy: the financial re-allocations across the two ROPs were to a large extent consequences of the changed socio-economic context, which was in turn heavily affected by the economic crisis. Such changes affected the ERDF ROP to a lesser extent, where a strong emphasis on the region's accessibility was maintained, and the ESF ROP to a greater extent, where the initial strategic focus on human capital was modified to focus more on social inclusion and employability.

The **management** of cohesion policy during the crisis did not differ substantially from the pre-crisis period, and only very limited interaction with the national anti-crisis plans was registered.

From interviews with stakeholders and document analysis, no major findings emerged to help us assess a difference in **effectiveness** of cohesion policy *before and after* the crisis. However, the MAs have made use of the opportunities offered by the EU in the

framework of the EERP (such as increasing the *de minimis* aid), which were considered an effective means of responding to some of the demands of individuals and firms in the region *during* the crisis.

As discussed at length in several parts of the report, the main **constraints** posed by the crisis – determining a consequent **adaptation** of regional strategy – seems to be a shift away from the long-term developmental objectives of the region.

Although this shift seems to have been effective in tackling some of the most immediate needs posed by the crisis, the overall strategy adopted during the crisis, with the exception of the continued investments in infrastructure, does not seem to strengthen future regional **resilience** precisely because, by focusing on short-term needs, it failed to act upon structural problems. However, this may be partly seen as a necessity stemming from the sharp decrease in ordinary public expenditure during the crisis, which made cohesion policy less of an *additional* resource and more of a *replacement* for ordinary expenditure.

### 1.3. Campania

#### KEY FINDINGS

- Cohesion policy in the region underwent **substantial changes** in the period analysed. Such changes were prompted by two sets of factors: (i) the slow implementation and low absorption capacity displayed by the region at the beginning of the programming period; and (ii) the changed socio-economic context that developed as a consequence of the economic crisis.
- There were **three types of changes**: (i) **counter-cyclical measures** to cope with the crisis in the short-term and targeting the worse-off segments of the socio-economic fabric of the region; (ii) introduction of **innovative instruments** (e.g. equity funds and internationalisation vouchers) for enterprises relatively untouched by the crisis; and (iii) **investments in 'large projects'** favoring concentration of resources in strategic areas and speeding-up the advancement of expenditure.
- While stakeholders agreed that the counter-cyclical measures seem to have been **effective in providing immediate relief** from some socio-economic problems posed by the crisis, it is not possible to assess any of the long(er)-term measures adopted, such as the large infrastructural projects or the measures in support of enterprise internationalisation.
- Most of the changes were made possible through shifting resources 'out' of the ROPs and into the newly established national Plan of Action and Cohesion (PAC). The PAC did not alter the priorities of the ROPs substantially, but it allowed for resources to be spent in a simplified, more flexible way, representing a change mostly in terms of the implementation and management of cohesion policy, rather than in content.
- Whether the changes that occurred in cohesion policy will lead to increased **resilience of the region** appears to be a major question mark. The sharp decrease in ordinary government expenditure – leading cohesion policy to being a replacement for ordinary expenditure rather than an addition – emerges as the central problem undermining the capacity of cohesion policy to be an effective developmental tool acting upon the structural weaknesses of the region.

### 1.3.1. Context Analysis

#### 1.3.1.1. Change in economic, social and territorial structure

At the outset of the economic crisis, in 2007, the socio-economic structure of the region appeared ill-suited to respond to a major external shock. The limited endowment of resilience factors and weak socio-economic structure prior to the crisis translated into a worsening of the regional conditions, between 2007 and 2008-2009, across all the main indicators analysed.

An overview of the regional resilience factors identified in the conceptual framework of the Study shows that in 2007 Campania region was below the Italian averages in terms of adults with tertiary education and expenditure on R&D.

Indeed, with 100 as the Italian average, Campania had around 87% of adults with tertiary education and 67% of total gross domestic expenditure on R&D (Eurostat). If framed against the European average, these results become even lower, with Italy representing a (considerably) below-average performer, as shown in Table 1.10.

**Table 1.10 : Selected resilience factors in Campania in 2007**

	<b>% of adults 25-64 with tertiary education</b>	<b>Total gross domestic expenditure on R&amp;D</b>
EU	100	100
Italy	55.34	66.73
Campania	48.29	44.74

**Source:** Author, based on Eurostat data.

The productive structure of the region features a prevalence of small and medium-sized enterprises (SMEs) (Interview H2), which were considerably hit by the crisis, as shown by the sharp decrease in regional gross value-added (GVA) across the construction, manufacturing and energy, and market services sectors in 2008 and 2009, as shown in Table 1.11. High taxation was a further element that made it more difficult for SMEs to navigate the crisis (Interview H2), with Campania representing the Italian region with the second-highest fiscal burden on individuals and firms (Confcommercio, 2013:5). Conversely, the large non-market services sector experienced a much less severe contraction, providing – to some extent – a buffer to the effects of the crisis. Table 1.12 shows how the non-market services sector in Campania is substantially larger than the national average.

**Table 1.11 : Regional GVA by sector, 2006–2010**

Year	Agriculture		Energy and manufacturing		Construction		Distribution, tourism, transport and communications		Market services		Non-market services		Total	
	% change	Abs. value	% change	Abs. value	% change	Abs. value	% change	Abs. value	% change	Abs. value	% change	Abs. value	% change	Abs. value
2006	-4.6%	2,305.597	11.0%	9,605.178	-9.2%	3,447.824	0.1%	19,050.48	2.5%	17,562.08	1.4%	20,167.04	1.7%	72,138.2
2007	-0.8%	2,286.142	3.0%	9,894.722	10.8%	3,820.151	-2.1%	18,641.34	3.4%	18,167.93	-0.7%	20,016.49	1.0%	728,26.77
2008	0.3%	2,294.059	-2.5%	9,643.293	-7.8%	3,523.399	-0.8%	18,498.34	-4.5%	17,351.23	0.0%	20,016.9	-2.1%	71,327.22
2009	6.7%	2,447.624	-10.8%	8,606.455	-8.7%	3,218.123	-6.9%	17,231.18	-0.6%	17,250.34	-2.1%	19,588.94	-4.2%	68,342.65
2010	0.2%	2,452.804	6.8%	9,190.234	-4.0%	3,090.275	2.6%	17,686.03	1.1%	17,436.72	1.5%	19,881.43	2.0%	69,737.49

Source: Own calculations based on Eurostat data.

**Table 1.12 : Non-market services as a proportion of total GVA in Campania and in Italy, 2006–2010**

Year	Non-market services Campania		Non-market services Italy	
	share of regional GVA (%)	Abs. value	Share of national GVA (%)	Abs. value
2006	28%	2,305.597	20%	225,572.7
2007	27%	2,286.142	19%	225,474.3
2008	28%	2,294.059	20%	226,923.9
2009	29%	2,447.624	21%	225,115.5
2010	29%	2,452.804	20%	228,623.8

Source: Own calculations based on Eurostat data.



Poor resilience factors at the outset of the economic crisis were accompanied by low performance along most of the social and economic indicators analysed, as shown in Table 1.13, which compares Campania (and Italy) to the EU average across selected indicators of economic and social cohesion and also shows the percentage change that occurred between 2007 and 2008-2009.

**Table 1.13 : Performance of Campania region across selected indicators before the crisis and percentage change after the crisis**

	Economic cohesion indicator	Social cohesion indicators		
	GDP per capita	Total unemployment	Youth unemployment	Female employment
EU	100	100	100	100
Italy	105.06	85.07	128.92	80.83
Campania	66.63	162.69	207.98	50.2
% change	-3.01	1.55	2.75	-1.1

**Source:** Author, based on Eurostat data.

Two main observations emerge from the data presented in Table 1.13. Firstly, Campania was in a weak position before the crisis, with some indicators, such as total unemployment and youth unemployment, suggesting an extreme fragility of the region as far as social cohesion is concerned. Secondly, the crisis impacted on this fragile structure by worsening the socio-economic position of the region.

A specific example that supports this second claim can be found in the substantial increase from 2007 onwards in the number of working hours paid out of the Cassa Integrazione Guadagni (CIG), the main measure provided against unemployment by the Italian employment protection system. The CIG is activated when a firm needs to downsize its production and allows a firm to decrease the amount of hours worked by its employees without dismissing them, but instead by supplementing their salaries through the CIG. The number of hours financed through the ordinary CIG in 2007 was well below 5,000,000, but it peaked at approximately 25,000,000 in 2009 (NVVIP, 2012:13), providing strong evidence for the weak – and increasingly weakening – demand in the regional economy during the crisis.

While the data point strongly towards the complexity of the socio-economic situation in the region, there are nevertheless some noteworthy aspects not captured by the indicators. From interviews with stakeholders, it emerges that while socio-economic conditions are alarming, if the indicators were able to capture the socio-economic situation of the region in full, the social tension would be much higher (Interviews B2, D2, E2). Conversely, in addition to the resilience factors discussed above, there are specific characteristics in the region that provide a buffer to absorb some of the effects of the crisis. These characteristics may be seen as 'unofficial automatic stabilisers' that helped the region to cope – to some extent – with the crisis, such as:

- **Strong family links:** Campania's share of elderly living alone is well below the EU average, suggesting that family ties are strong, and this proved to be an important factor of resistance to the crisis (Interviews D2, G2);
- **Informal economy:** the regional economy of Campania is characterised by a significant degree of informality, which appears to have absorbed part of the macroeconomic shock caused by the crisis (Interview D2);

- **Major public sector presence** in the employment structure: the public sector is a significant source of employment in the region, and it was largely unaffected by the crisis (Interviews D2, E2; see also Table 1.3).

### ***1.3.1.2. Economic, social and territorial structure of Campania***

**From an economic point of view**, the following central features characterise the region (ROP, 2013:41):

- a manufacturing sector unready to innovate and as such presenting a rather traditional structure, more exposed to international competition and less equipped to cope with it;
- a production model based on small enterprises characterised by a low propensity to invest in human capital and difficulties in accessing credit; and
- a limited infrastructural endowment (physical and technological).

**From a social standpoint**, the socio-economic analysis conducted at the beginning of the 2007-2013 programming period highlights the following issues (ESF ROP, 2013:5-10):

- the unemployment rate progressively converged towards the national average between the end of the 1990s and the early 2000s, before increasing again in the run up to the economic crisis in the mid-2000s;
- the dropout rate from compulsory schooling is the highest in Italy, posing a fundamental threat to the formation of human capital in the region and to its social cohesion; and
- the social fabric of the region weak in terms of legality and the rule of law, with some areas severely affected by the presence of organised crime.

**The territorial structure** of the region is characterised by a large metropolitan area (Naples), coupled with a large number of small and medium-sized cities, located along the coast or inland. The ERDF ROP highlights two territorial dynamics (2013:37-38). Firstly, there is a substantial share of the regional population (over 10%) living in areas characterised by depopulation and impoverishment, with poor availability of services to the citizen and poor connections with the rest of the region. Secondly, the metropolitan area of Naples experienced a period of demographic stabilisation, in parallel with the growth of other middle-sized towns, which changed the traditional relations between the local and regional levels of government and prompted some forms of territorial competition (ERDF ROP, 2013:38).

A final issue, which in some ways cuts across the various dimensions summarised in this section, is that of the environment. Severe environmental problems, such as insufficient and inefficient mechanisms of waste disposal (NVVIP, 2012:38), impact upon the economic performance of the region (e.g. negatively affecting tourism) and its social issues (e.g. waste disposal forms a significant component of illegal activities conducted by organised crime).

### ***1.3.1.3. Regional strategy adopted by the region for economic, social and territorial development***

At the beginning of the programming period, the following strategies can be identified, both of which are discussed at length in the subsequent sections of the report. As far as ERDF is concerned, the ROP was geared towards a **broad-based economic development** approach, with resources mostly invested across three axes, namely the improvement of tourism and environment, the competitiveness of the region, and accessibility and transportation.

The ESF strategy also entailed a mix of major investments in **human capital**, policies to boost **employment**, increasing **adaptability** of workers and firms, improving **social inclusion**, and **strengthening institutional capacity** at regional and local levels.

### 1.3.2. Cohesion policy analysis: initial strategy and changes

#### 1.3.2.1. Strategy of cohesion policy prior to the crisis

##### Main focus of cohesion policy in terms of spending

Both the ERDF and ESF ROPs are divided into axes that allow for a preliminary assessment of the relative weight placed by the regional government on different policy areas. The table below reports on the priorities set by the two ROPs and highlights the axes that received the most substantial financial resources.

**Table 1.14 : ERDF and ESF priorities in 2007-2013 and respective financial allocations**

ERDF		ESF	
Axis	Resources*	Axis	Resources*
<b>1. Environmental sustainability and cultural/tourism attractiveness</b>	2,025	<b>1. Adaptability</b>	160
<b>2. Competitiveness of the regional production system</b>	1,215	<b>2. Employability</b>	320
3. Energy	300	<b>3. Social inclusion</b>	170
<b>4. Accessibility and transport</b>	1,200	<b>4. Human capital</b>	298
5. Information society	395	5. International and inter-regional initiatives	30
6. Urban development and quality of life	ca. 225	6. Technical assistance	25
Total	ca. 6,865	7. Institutional capacity	115
		Total	1,118

**Source:** Author, based on 2010 AIRs analysis. \*In millions of EUR, resources are total, i.e. also include national contributions. In bold, axes with a financial allocation >10% of the total resources.

As emerges clearly from the table, the main focus on cohesion policy in terms of (planned) expenditure for the 2007-2013 period was heavily geared towards (i) stepping up the tourism sector, the competitiveness of the regional economy, and the accessibility of the region as far as ERDF is concerned; and (ii) increasing the adaptability of workers, their employability as well as human capital, coupled with a significant dimension of social inclusion within the ESF.

### Expected outcome of cohesion policy

The overall objective of cohesion policy was summarised by the respective ROPs as follows.

**As far as ERDF is concerned**, the global objective of the strategy is 'to promote a balanced and sustainable development of Campania, increasing regional GDP and employment rate, through qualification and re-balancing of the territorial system and the socio-economic structure' (ERDF ROP, 2013:113).

With respect to the three main axes identified in Table 1.14, the specific outcomes envisaged are summarised in Table 1.15.

**Table 1.15 : Expected outcomes of the main ERDF priority axes**

Axis	Expected outcomes (selected)
1. Environmental sustainability and cultural/tourism attractiveness	<p>Increased amount of waste disposed through separate waste collection</p> <p>Decreased shared of coastal areas subject to erosion</p> <p>Increased number of tourists visiting cultural heritage of the region</p> <p>Valorisation of archaeological and tourist areas (ERDF ROP, 2013:160)</p>
2. Competitiveness of the regional production system	<p>Increased total expenditure in R&amp;D p.c.</p> <p>Increased (public and private) expenditure in R&amp;D as a share of GDP</p> <p>Increased number of enterprises introducing innovative production processes</p> <p>Increased export of high-productivity products</p> <p>Increased number of international contracts implemented by regional firms (ERDF ROP, 2013:177)</p>
4. Accessibility and transport	<p>Improved accessibility from/to outside the region and within the region, measured in shortened journey times</p> <p>Increased use of public transport</p>

**Source:** Author, based on ERDF ROP.

**As far as ESF is concerned**, the global objective of the strategy is 'to create the conditions to accompany and sustain the processes of transition from a condition of productive backwardness to a condition where virtuous and autonomous processes of growth are enacted, facilitating the transformation of the productive system into a knowledge economy' (ESF ROP, 2013:28).

With respect to the four main axes identified in Table 1.14, the specific outcomes envisaged are summarised in Table 1.16.

**Table 1.16 : Expected outcomes of the main ESF priority axes**

Axis	Expected outcomes (selected)
1. Adaptability	<p>Increased coverage of individuals participating in continuous training programmes</p> <p>Increased number of enterprises:</p> <ul style="list-style-type: none"> <li>- participating in projects aimed to improve quality of work and organisational change</li> <li>- participating in interventions aimed at stimulating innovation</li> <li>- participating in interventions focused on fostering entrepreneurship (ESF ROP, 2013:48)</li> </ul>
2. Employability	<p>Increased coverage of individuals served by active labour market policies (ALMPs)</p> <p>Increased rate of women entering the labour market (ESF ROP, 2013:57)</p>
3. Social Inclusion	<p>Increased number of individuals accessing social inclusion services (ESF ROP, 2013:64)</p>
4. Human capital	<p>Increased number of young people reached by interventions against early school-leaving</p> <p>Increased number of interventions to foster R&amp;D and knowledge transfer at enterprise level</p> <p>Increased number of interventions to foster R&amp;D and knowledge transfer at university level (ESF ROP, 2013:74)</p>

**Source:** Author, based on ESF ROP.

### **1.3.2.2. Cohesion policy during the crisis (2008 onwards)**

#### **Role of cohesion policy during the crisis**

A preliminary observation that should be made when assessing the role of cohesion policy in Campania after 2008 is that there was practically no advancement of the programme until 2008-09. This was due to both internal and external constraints. The former refer to the election of a new regional government that brought about changes in the original programming and therefore delayed the launch of the interventions funded through the Structural Funds. The latter refer to the Internal Stability Pact (SP) and the problems that this caused for the national and regional administrations in providing co-funding, as well as the sanctions that the region was subject to for non-compliance with the SP (ESF MA, 2013:13). Polverari and Tegle (2013:55) note that discussing achievements for the 2007-2013 programming period 'is still premature', considering that as of 2011, hence already in the second half of the programming period, only 12% of ERDF ROP resources had been spent. Thus, the actual implementation of cohesion policy in Campania, and the bulk of its expenditure, started and developed *during* the crisis.

The role of cohesion policy during the crisis was mostly one of support to anti-cyclical measures (ESF ROP, 2013:6) aimed, among others:

- to provide fiscal incentives to SMEs to prevent the need to dismiss workers (funded via ERDF);

- to provide ALMPs and safeguard levels of employment as much as possible (funded mainly via ERDF and partially via ESF); and
- to foster professional training (funded mostly via ESF, with a substantial contribution via ERDF).

In addition to the anti-cyclical measures, two additional features characterise cohesion policy in Campania during the crisis.

Firstly, building on a needs assessment of the most successful enterprises in the region, instruments of financial engineering were put in place (e.g. equity funds) (Interview A2). Interviewees identified the rationale for such a choice in the awareness reached on the side of the regional government that some firms during the crisis had actually improved their performance, and these firms were generally reluctant to take up cohesion policy funds because they were not considered appropriate for their needs (Interview A2). Conversely, they would welcome more 'innovative' instruments, such as financial engineering, which were therefore designed (i) to serve 'regional champions' and (ii) to prompt others to follow (Interview A2).

Secondly, in order to increase, concentrate and speed up the amount of spending, a number of 'large projects' deemed of high strategic relevance were initiated in three areas: (i) environment; (ii) technological infrastructure; and (iii) physical infrastructure (Interviews A2, F2).

### **Main changes in strategy and objective**

The main changes that occurred in cohesion policy during the crisis need to be framed in a dual – European and national – context. Two elements stand out in this respect: (i) the European Economic Recovery Plan (EERP), and (ii) the national Plan of Action and Cohesion (Piano di Azione e Coesione, PAC).

The former allowed for some modifications in the use of cohesion policy that fed into the latter. In particular, as part of the EERP, regional governments were allowed more flexibility in the management of cohesion policy funds. Thus, the regional administration used this increased flexibility to transfer some funds out of the ROP and place them within the PAC, which had analogous objectives to the ROP, but is characterised by simplified rules of implementation (ESF MA, 2013:15). Thus, in 2013, cohesion policy in Campania was *re-programmed* through, by and large, a shift of resources out of the ROP which were moved into the PAC. While the re-programming was affected by the crisis (ESF MA, 2013), it should be also noted that the PAC offered the opportunity to the MAs to increase the advancement of expenditure relative to the total share of planned expenditure by taking some resources from the ROPs (by lowering the domestic co-financing rate) (Interview G2). Thus, the re-programming appears shaped by both external and internal logics. The former refers to the changing socio-economic context caused by the crisis, which informed which policies should be prioritised (e.g. financing counter-cyclical measures); the latter refers to the pragmatic choice made by the MA to 'join' the PAC, which helped to minimise the potential loss of resources resulting from the slow advancement of expenditure in the original ROPs.<sup>2</sup>

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<sup>2</sup> It is particularly interesting to compare the choices made by the MAs in Campania with those made by the MAs in Basilicata. While the ROPs in both regions were re-programmed to respond to some of the needs posed by the crisis, Basilicata – characterised by a higher absorption capacity – carried out the re-programming within the existing ROPs. By contrast, Campania – characterised by a lower absorption capacity – carried out the re-programming to a large extent through the PAC. This observation suggests that a distinction should be made between the 'content' of the re-programming (i.e. what measures are foreseen) and the process of re-programming (i.e. how these measures are enacted). Comparing Basilicata and Campania, it emerges that the content of the re-programming is associated with external factors (i.e. the crisis) and was similar in the two regions; conversely, the process through which the re-programming is carried out seems associated with internal factors (i.e. the absorption capacity of the region) and differs

An example of how the re-programming affected the resources initially allocated to the ERDF and ESF ROPs is provided in Table 1.17, which shows how the PAC's counter-cyclical measures<sup>3</sup> have been financed.

**Table 1.17 : Countercyclical interventions and source of financing**

	Action	Reprogramming by downsizing national co-financing	Reprogramming within the ROP	ERDF ROP	ESF ROP	Total
1	Fiscal support to SMEs in disadvantaged areas	100	0	100	0	100
2	Re-financing of the fiscal measures to incentivise SMEs to hire workers from disadvantaged backgrounds ( <i>credito d'imposta</i> )	50	50	50	0	100
3	Deployment of innovative ALMPs linked to other social security benefits	200	0	150	50	200
4	Promotion of new entrepreneurship	75	0	75	0	75
5	Fostering high quality technical and professional education	50	0	20	30	50
6	Fostering commercial and tourism development	64	0	64	0	64
7	Interventions in favour of industrial areas hit by the crisis	150	0	150	0	150
	Interventions in the environmental sector	50	0	50	0	50
9	Incentives for renewal of firms' technical equipment and machinery	10	0	10	0	10
10	Support to individuals experiencing high levels of social exclusion	60	0	40	20	60
Sub-total		809	50	709	100	859

**Source:** Author, based on ESF MA 2013:6, in million EUR.

The table above shows how cohesion policy substantially changed its shape during the crisis. A particular feature is that the great majority of the resources that financed the counter-cyclical measures (809 out of 859 MEUR) have been re-directed from the ROPs to the PAC, lowering the overall value of the ROPs and exploiting the advantage offered

significantly between the two regions. Part 1 of this document contains further information on the choices made by the MAs in Basilicata.

<sup>3</sup> Counter-cyclical measures are used here to provide an example of the changes that occurred in cohesion policy during the crisis. They are not the only changes undertaken during the crisis through the PAC, but they are the most significant ones (ESF MA, 2013:6-7).



by the EC and the national government – through the PAC – to accelerate expenditure by means of simplified procedures, amongst other factors.

Thus, following the re-programming, both the ERDF and ESF ROPs experienced a change in the relative weight of their various axes, as exemplified by the following table, which shows the changes in financial allocation within the ESF ROP.<sup>4</sup>

**Table 1.18 : Re-programming in the ESF ROP**

Axis	Original allocation and weight		Allocation and weight after re-programming		% change
	Resources	%	Resources	%	
1. Adaptability	160	14.31	160	16.53	2.22
2. Employability	320	28.62	260	26.86	-1.76
3. Social Inclusion	170	15.21	140	14.46	-0.75
4. Human capital	298	26.65	298	30.79	4.14
5. International and inter-regional initiatives	30	2.68	30	3.10	0.42
6. Technical assistance	25	2.24	25	2.58	0.34
7. Institutional capacity	115	10.29	55	5.68	-4.61
<b>Total</b>	<b>1,118</b>	100.00	<b>968</b>	100.00	

**Source:** Author, based on ESF MA, 2013:24, in million EUR.

As exemplified by the reallocation of funds within the ESF ROP, the 2013 re-programming is a significant change in the implementation of cohesion policy in the region. However, this change is not underpinned by grand changes in the strategy and objectives of cohesion policy, rather it seems driven by pragmatic reasons, such as providing an immediate response to criticalities caused by the crisis (e.g. through counter-cyclical measures), as well as concentrating expenditure (e.g. through the 'large projects', more visible in the ERDF ROP) and speeding up absorption of funds by decreasing the total amount of resources within the ROPs. In some instances, those axes characterised by slow advancement in terms of financial absorption were sensibly downsized to provide additional resources for other axes.<sup>5</sup> However, overall, as noted by the interviewees, the major changes occurred *within* axes rather than *across* axes, for instance by concentrating expenditure on fewer projects and initiatives (Interview A2).

<sup>4</sup> The ERDF ROP underwent similar – and more profound – changes, but, at the time of writing, the official documentation had not been released by the regional government.

<sup>5</sup> ESF Axis 7 (Institutional Capacity) is an obvious example of considerable resources being moved into the PAC to finance counter-cyclical measures, with the relative incidence of this axis almost halved.



### **1.3.3. Effectiveness, constraints and adaptation of cohesion policy**

#### **1.3.3.1. Effectiveness of cohesion policy before and after the crisis**

As noted in sub-section 2.2.2, cohesion policy in Campania underwent substantial changes during the crisis, and especially after 2011. Such changes have the potential to impact on the effectiveness of cohesion policy. However, the limited data availability and the fact that the analysis focuses on events that are unfolding at the time of writing mean that the scope is restricted to making considerations and hypotheses about changes in effectiveness, rather than providing definitive answers.

#### **Specific examples of changes**

The changes in cohesion policy during the crisis can be categorised into three types.

Firstly, the adoption of counter-cyclical measures stands out as a major change. Such measures have been financed through the PAC, resorting to both ERDF and ESF resources, and they represented immediate actions taken in response to the crisis, particularly targeting the most disadvantaged groups in society.

Secondly, more sophisticated instruments of financial engineering have been introduced. These include the introduction of equity funds and vouchers to promote the internationalisation of enterprises.<sup>6</sup> The rationale for these measures is completely different from the previous one. In this case, the main target is specific enterprises that have been thriving during the crisis, mostly in the agro-industry and shipbuilding sectors, and that were demanding more sophisticated forms of public support. According to interviewees, by introducing instruments targeted specifically at the most successful segments of the regional economy, it also aimed to provide an example of best practice to be shared within the region.

Thirdly, a number of 'large projects' have been financed following yet another logic. Large projects focus on strategic sectors, such as the environment and the endowment of technological and physical infrastructure. In this case, the logic informing the interventions is that of simultaneously achieving large-scale investments concentrated in limited strategic sectors and ensuring a rapid processing of the expenditure. Table 1.19 summarises these changes.

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<sup>6</sup> This choice is partially linked to the crisis insofar as the crisis provided – somewhat paradoxically – an opportunity for the MAs to contact relatively successful enterprises at whom these initiatives are primarily – but not exclusively – targeted (Interview A2). The support for internationalisation also represented a long-standing request from the social partners (Interview H2).

**Table 1.19 : Summary of main changes in cohesion policy during the crisis**

Type of change	Counter-cyclical measures	Financial engineering	Large projects
Example	<i>Credito d'imposta</i>	Equity funds	Ultra-broadband
Main targets	Individuals and companies hit particularly hard by the crisis	High-quality industry relatively untouched by the crisis	Companies as well as society at large
Timeframe of expected effects of the measures	Short-to-medium term	Long-term	Long-term
Assessment	Effective in terms of observed high demand for the policy, but too early to assess any medium-term effects	Too early to assess the effects	Too early to assess the effects

**Source:** Prepared by the author, own assumptions based on interviews with stakeholders.

### Examples of promising practices

As discussed in earlier in the document, the timeframe of this research is largely overlapping with the subject that is being analysed. It is therefore almost impossible to single out specific initiatives developed over the last year (or sometimes even over the last months or days) and categorise it as a good or bad practice as there is not enough evidence to inform such assessment.

On the other hand, deskwork and interviews with stakeholders point towards specific initiatives that may be seen as promising practices, but as yet they have only been developed to a limited – and in some instances *very* limited – extent.

Two promising practices have been identified, reflecting two of the different 'logics of change' explored in the previous section, as summarised in Table 1.20.

**Table 1.20 : Promising practices emerging from changes in cohesion policy**

Initiative	Description	Why promising?
<i>Credito d'imposta</i>	The <i>Credito d'Imposta</i> is an incentive given to enterprises who hire disadvantaged workers on a permanent contract, favouring their participation in the labour market, by contributing 50% of the salary of these workers for up to 24 months <sup>7</sup>	The initiative seems to have been effective as far as the demand for it is concerned. It was initially financed to the tune of 20 MEUR, but the requests exceeded the financial allocations, prompting the allocation of an additional 100 MEUR. The high demand suggests that this initiative was effective in responding to a need of enterprises during the crisis (ESF MA, 2013:15). On the other hand, even though it accommodated an immediate need, interviewees expressed uncertainty as to whether such counter-cyclical initiatives would have positive impacts in the longer term on the economic structure of the region.

<sup>7</sup> <http://www.fse.regione.campania.it/index.cfm?m=69&s=70&a=creditoimp-detail&i=1331>, accessed 13<sup>th</sup> December 2013.

Initiative	Description	Why promising?
Ultra-band	A large project to equip the regional territory with ultra-wide band	The ultra-wide band project has just been assigned through public tender and it will equip a large part of the regional territory with ultra-wide band. The project was presented as potential best practice, and is therefore reported here as a 'promising' practice – because it is an example of using funds at a time of crisis to promote longer-term development. For instance, interviewees mentioned the spillovers created with private sector development and actions foreseen in the 2014-20 programming period, where the availability of ultra-band will be used to support investment and enterprise development in the region, and start-ups in particular.

**Source:** Prepared by the authors, own assumptions based on interviews with stakeholders.

### Impact of changes in fund management and expenditure

The changes to the original structure of cohesion policy prompted by the crisis had two major impacts in terms of fund management and expenditure.

Regarding fund management, the crisis provided an incentive to the regional administration to concentrate expenditure on a few selected areas deemed of high strategic relevance in facing the crisis (ESF MA, 2013:5), a strategic direction that was also demanded by the social partners (Interview H2).

With regard to expenditure, it was noted above that the crisis determined a shift of resources between and within axes, aiming at ensuring financing for those interventions that were considered more important. In addition, during the crisis the share of resources committed and spent increased rapidly, on account of the downsizing of the ROP and the considerable amount of resources transferred to the PAC, as well as through investment in large projects. The advancement of expenditure in the ESF ROP provides evidence to support this claim: at the end of 2010, the ROP was lagging at just above 20% in terms of commitments and around 5% in terms of actual payments (ESF AIR, 2010:22); these figures subsequently peaked sharply, and in 2013 registered over 50% of resources committed and around 30% of payments made (ESF MA, 2013:17).

#### 1.3.3.2. Regional strategies adaptation

As discussed in several parts of this report, the regional strategy was affected by both internal and external constraints. The internal constraints were particularly relevant at the beginning of the programming period, as outlined in sub-section 2.2.2, and they refer to the change of government and to the constraints posed by the Internal Stability Pact. These factors led to a severely delayed start by cohesion policy programmes, resulting in very limited absorption capacity in the first half of the period.

This situation was unlocked partly thanks to the PAC, which was designed at the national level by the central government to support the regions' capacity to respond to the crisis. The PAC facilitated a more rapid advancement of the programmes, by shifting some resources out of the ROPs and moving them into the PAC.

Thus, the main changes and consequent adaptation of cohesion policy and of the overall regional strategy are the outcome of internal and external factors. While some initiatives (such as the financing of counter-cyclical measures) seem to be a direct response to the

most immediate problems posed by the crisis, the significant use of major projects seems to be at least partially driven by pragmatic behaviour adopted by the region to minimise the risk of losing substantial resources as a consequence of the slow absorption of the programme thus far (Interview G2). External factors seem therefore to explain those changes that occurred in the 'content' of the policies, such as the introduction of counter-cyclical measures. Internal factors, such as the slow absorption capacity, seem to explain the changes that occurred in terms of management and implementation of the policy, such as the decision to join the PAC and the substantial use of large projects.

Overall, whether these changes in content, management and implementation of cohesion policy might lead to an overall increased resilience of the region is highly debatable. As highlighted in the introduction to this report, the sharp decrease in ordinary public funding from the central government in Southern Italy – particularly evident during the crisis – led to cohesion policy being increasingly used as a *replacement* for ordinary public resources and less as an *additional* resource (Interviews H2, I2). While acknowledging the importance of cohesion policy in providing – to some extent – immediate relief to some of the socio-economic problems of the region, the social partners expressed concerns as to whether cohesion policy – in the present context of decreasing ordinary government expenditure – may be able to tackle the structural problems of the region (Interviews H2, I2).

#### 1.3.4. Conclusion

Cohesion policy in Campania during the timeframe analysed underwent substantial changes. While the **impact** of the crisis was visible insofar as some of the resources of the ROPs were used to finance counter-cyclical measures, changes were also substantially affected by pre-crisis internal factors that determined the low absorption of funds in the first half of the programming period. Resorting to large projects is an example of the impact of internal factors in the changes that occurred in cohesion policy, which were particularly visible in the **management** of the policy.

The **effectiveness** of the changes that occurred cannot be assessed at present. While stakeholders agree that the counter-cyclical measures seem to have been effective in providing immediate relief from some socio-economic problems posed by the crisis, it is not possible to assess any of the long(er)-term measures adopted, such as the large infrastructural projects or the measures in support of enterprise internationalisation.

Internal and external **constraints** must therefore both be taken into account when analysing the **adaptation** of the regional strategy in Campania during the most recent programming period. The former were particularly relevant in the adaptation of the management of cohesion policy (e.g. the concentration of resources on fewer projects), and the latter were particularly relevant in the adaptation of the 'content' of cohesion policy (e.g. the financing of counter-cyclical measures).

Whether such adaptation may lead to an increased **resilience** of the region appears to be a major question mark. While some modifications adopted during the crisis, such as the concentration of expenditure on fewer projects and priorities, seem to be potentially sustainable and beneficial in the long-term, the sharp decrease in ordinary government expenditure emerges as the central problem undermining the capacity of cohesion policy to be an effective developmental tool for the region. As noted several times throughout the report, the ability of cohesion policy to act upon the structural problems of the region seems to be undermined from the outset by the fact that, rather than forming an *additional* resource, it has progressively become more of a *replacement* for ordinary public resources.

## 2. GERMANY

### 2.1. Introduction

Germany, a traditionally export-oriented economy, experienced the **first wave of the global financial crisis** primarily as a steep decline in exports in 2009, resulting in a decline in GDP.<sup>8</sup> However, Germany was able to mount a **strong recovery**, which was to a large extent fuelled by trade with non-EU markets, primarily China. By 2010, the country was broadly seen as having recovered from the crisis, experiencing GDP growth and falling unemployment. Although it would be incorrect to say that Germany was not impacted by the crisis, the duration of the crisis in Germany was shorter than in many other EU Member States and was followed by a period of recovery. The investigation of the two German regions within this Study is conducted with this broad national context in mind.

The two regions in focus are Bavaria and North Rhine-Westphalia. Bavaria is a prosperous southern-German region, with large urban centres in Munich, Nurnberg, and Augsburg, as well as a large rural area. It is a key exporting region with a strong industrial base. It is home to a range of world-class automotive producers, as well as financial and technology companies. Bavaria is a Regional Competitiveness and Employment region selected to enable a better understanding of the impact of the crisis on prosperous export-oriented regions.

The other selected region is North Rhine-Westphalia. It is the most populous German region and the traditional industrial heartland of Germany. It has undergone substantial **structural change** since the 1980s, which experienced a decline in the coal and steel industries, the previous source of prosperity in the region. The social and economic consequences of these developments are still visible today, in particular in the urban areas of the *Ruhrgebiet*. The region has therefore traditionally been an area of focus for the European Structural Funds since the late 1980s.<sup>9</sup> As in the case of Bavaria, North Rhine-Westphalia is also a Regional Competitiveness and Employment region. At the same time, it is a worse-performing region compared to a number of other West German regions, in particular Bavaria, with challenges in the labour market linked to the aforementioned structural changes.

When viewing both regions in a national context, it is also important to keep in mind the **disparities between Regional Competitiveness And Employment regions and Convergence regions** located in the area of the former German Democratic Republic, which have traditionally lower levels of GDP per capita and higher unemployment rates.

The fact that the crisis has not had a major long-lasting impact on Bavaria has created a number of research challenges. Firstly, limited information concerning the interaction between cohesion policy and the crisis is available. Secondly, this meant that the Managing Authorities and other stakeholders found the study to be of little relevance to the regional context and were reluctant to participate. Where participation was secured, relatively little information was identified in the interviews.

The two case studies form parts 1 and 2, respectively, of the document and follow the same structure: a description of the economic, social and territorial structure of the region and the key changes observed during the crisis, followed by an overview of the subsequent amendments to the region's cohesion policy during the crisis, a preliminary

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<sup>8</sup> See, for instance, Heilemann et. al. (2010), *A 'perfect storm'? The present crisis and German crisis patterns*, Universität Leipzig Faculty of Economics and Management Science, Working Paper No. 93.

<sup>9</sup> Untiedt G., Ridder, M., Meyer, S., and Biermann, N. (2010), *Zukunft der Europäischen Strukturfonds in Nordrhein-Westfalen - Gutachten im Auftrag der Ministerin für Bundesangelegenheiten, Europa und Medien und des Ministerium für Wirtschaft, Energie, Bauen, Wohnen und Verkehr des Landes Nordrhein-Westfalen*.

assessment of the changes to cohesion policy and conclusions on the use of cohesion policy in that specific region. In addition, each case study begins with a list of the key findings and observations. Each case study constitutes a stand-alone document.

## 2.2. Bavaria

### KEY FINDINGS

- Bavaria is a **prosperous region** that experienced the crisis as a **short export-driven shock** in 2009, but staged a rapid and successful recovery.
- The region's **manufacturing focus** is offset by strong innovation performance, which most likely contributed to crisis resilience.
- The cohesion policy in Bavaria predominantly **targeted disparities within the region**, in particular the border area with the Czech Republic.
- Given that the crisis predominantly affected the border area, the regional strategy was deemed appropriate during the crisis and **no regional strategy changes** took place as a result.
- There were **no changes to the ESF and ERDF OPs** as a direct response to the crisis, with the main constraints and challenges relating to limited take-up of financing instruments or joint projects by enterprises.
- The restructuring of the ERDF-financed **Investivkredit 100 pro** financial instrument used for financing innovation is the only example identified in the study of a direct cohesion policy response to the crisis.

### 2.2.1. Context Analysis

#### 2.2.1.1. *Change in economic, social and territorial structure*

The crisis in Bavaria largely mirrored the overall impact of the crisis in Germany as a whole, with a **decline in exports followed by a fall in GDP per capita**. Using the conceptualisation of the crisis developed in the Study, Bavaria could be seen as being primarily affected by the **first phase of the crisis**, the private debt crisis. The timing of the crisis in Bavaria reflects this, with the effects primarily observed in 2008 and 2009. Bavaria followed the broader German trend and staged a broad recovery from the crisis starting in 2010.

When examining the relatively short-lasting crisis in Bavaria, it is important to keep in mind that Bavaria was a very prosperous region prior to the crisis. Its GDP per capita of over EUR 29,200 exceeded the EU average by over 25%, while at 6.85% the unemployment rate was almost 20% below the EU average. Even within a national comparison, Bavaria was an economically strong region with GDP per capita over 9% higher than the German average and an unemployment rate just over two-thirds of the German average.

Particularly important to understanding the impact of the crisis in Germany and in Bavaria specifically are the notions of **transmission channels and resilience factors**, set out in the conceptual framework of the Study. Transmission factors contribute to the impact of the crisis on regional economies, with the main transmission channels



identified in the conceptual framework including credit availability and interest rates, trade, domestic/local demand, and government finance. As mentioned above, trade was a key transmission mechanism in Germany, which can be seen in the fall in German exports as a percentage of GDP from 48.2% in 2008 to 42.9% in 2009, only to later recover to 47.6% in 2010 and 50.6% by 2011.<sup>10</sup> Examining another transmission channel, government finance, one can see that the German recovery did have its cost, with government-consolidated gross debt as a percentage of GDP increasing from 66.8% in 2008 to 82.5% in 2010<sup>11</sup> and remaining at this level in the following years.

Another element allowing a better understanding of the impact of the crisis is the concept of **resilience**. As conceptualised on the basis of the literature review conducted in the Study, resilience is defined in this context as 'the ability of a region to anticipate, prepare for, respond to, and recover from a disturbance' (Foster, 2007:14). The disturbance here includes the constraints created by the global financial crisis, including the above transmission factors.

As shown in the table below, Bavaria falls behind the German and European averages with regard to the percentage of adults with tertiary education (which could be attributed to the well-developed vocational education system), but it significantly outperforms the German and European averages when it comes to gross R&D expenditure.

**Table 2.1 : Selected resilience factors in Germany and Bavaria in 2007**

	Human capital and skills	Innovation efforts
	Adults with tertiary education	Total gross domestic expenditure on R&D
EU	100	100
Germany	107.48	167.2
Bavaria	97.71	185.80

**Source:** Author, based on Eurostat data.

Another important aspect of resilience is the **sectoral composition of the regional economy**. As set out in the conceptual framework for this Study, existing literature identifies the manufacturing and construction industries as the most cyclically sensitive sectors, followed by private service industries, with public sector services seen as being broadly unaffected by recessions.

**Error! Reference source not found.** below outlines the proportion of total **gross value added** (GVA) attributed to individual sectors or combinations of sectors. Analysing the sectoral specialisation of Germany and Bavaria yields a mixed picture. Although the share of total GVA generated in the construction sector is broadly in line with the EU as a whole, an above-average proportion of Germany's GVA has been generated in the energy and manufacturing sectors, with the figure for Bavaria also exceeding the German average. In fact, in Bavaria energy and manufacturing generates broadly the same GVA as the market services sector (financial intermediation, real estate, renting and business activities).

Although this would normally imply a relatively low regional crisis resilience, Bavaria's swift recovery from the crisis suggests that other crisis resilience factors, combined with external factors such as trade with non-EU Member States, offset the potential effect of the above-average regional specialisation in manufacturing.

<sup>10</sup> Eurostat.

<sup>11</sup> Eurostat.

**Table 2.2 : Sectoral specialisation in Germany and Bavaria in 2007**

Share of total GVA by sector	EU	Germany	Bavaria
Agriculture	2%	1%	2%
Energy & Manufacturing	22%	27%	29%
Construction	6%	4%	5%
Distribution, tourism, transport, communications	22%	18%	16%
Market services	26%	29%	29%
Non-market services	22%	21%	20%

Source: Author, based on Cambridge Econometrics data.

### 2.2.1.2. Economic, social and territorial structure of Basilicata

In order to better understand the nature of the crisis in Bavaria, it is important to examine in more detail its performance on a set of indicators corresponding to the three main dimensions of cohesion: economic, social, and territorial.

The table below outlines Bavarian performance on the key **economic cohesion** indicators.

**Table 2.3: Performance of Bavaria across selected economic cohesion indicators before the crisis and percentage change after the crisis**

	GDP per capita	Enterprise Per capita fixed capital formation	Innovation Total patent applications per capita
EU	100	-	-
Germany	115.5	100	100
Bavaria	126.05	111.41	141.53
% change	-7.18	1.24	-13.98

Source: Author, based on Eurostat data.

As can be seen in the table above, Bavaria was a **strong performer with regard to economic cohesion** indicators prior to the crisis, but, as noted before and mirroring the experience in Germany as a whole, the crisis was indeed felt, as can be seen in the decline in GDP per capita. However, the crisis appears not to have had a major impact on a number of other aspects of economic cohesion: for instance, per capita fixed capital formation actually grew over the crisis years. While the fall in the number of patent applications per capita was sizeable, the final figure after the crisis (249) still exceeded the German average (201), suggesting that Bavaria retained its competitive edge through the crisis period.

Examining the **social cohesion** indicators, Bavaria actually managed to improve its already above-average labour market performance with a fall in total and youth unemployment, as well as an increase in female employment. It also made progress with regard to social inclusion, by reducing the number of young people not in employment, education or training (NEETs). Viewed in conjunction with the fall in GDP per capita, this can be attributed to Germany-wide labour market policies, which encouraged additional flexibility during the crisis period in order to secure employment.<sup>12</sup>

<sup>12</sup> See, for instance, Krause, M. U. and Uhlig, H. (2012), Transitions in the German labor market: Structure and crisis, *Journal of Monetary Economics* 59: 64–79.



**Table 2.4 : Performance of Bavaria across selected social cohesion indicators before the crisis and percentage change after the crisis**

	Labour market			Social inclusion
	Total unemployment	Youth unemployment	Female employment	Young people aged 18-24 not in employment and not in any education and training
EU	100	100	100	100
Germany	121.19	77.07	108.11	91.44
Bavaria	81.71	55.76	113.76	71.98
% change	-0.69	-0.66	1.30	-0.85

Source: Author, based on Eurostat data.

In order to paint a broader picture of economic cohesion, it is also important to examine other indicators. One interesting finding is the fact that Bavaria has seen a minor (0.41%) fall in disposable household income, suggesting that despite strong labour-market performance, Bavarian households did experience the crisis. At the same time, regional statistics concerning the proportion of population at risk of poverty show that the figure remained broadly unchanged between 2007 and 2010, hovering around 11%,<sup>13</sup> suggesting that the impact of the crisis had not been disproportionately passed on to low-income households.

Looking at the final dimension of cohesion, namely **territorial cohesion**, the available indicators show Bavaria to have high average road accessibility in European comparison, exceeding the EU average by 75%. Despite the good performance on this indicator, it is worthwhile investigating the territorial disparities across the region as a result of the crisis, in particular since, as described below, both ERDF and ESF programmes address the less prosperous parts of Bavaria. While following the recovery from the crisis, with the GDP per capita across the region increasing by 1.32%, two NUTS 2 regions within Bavaria experienced a decline in GDP per capita (Upper Franconia and Middle Franconia), showing that even within a prosperous region that, as a whole, has weathered the crisis well, there are substantial territorial differences.

As noted above, despite the broad positive picture, **some parts of the region were affected more by the crisis**. The 2012 ERDF implementation report notes that, unlike other areas where employment rates fell but recovered later, the employment rates in both Munich and Nurnberg urban agglomerations did not show significant signs of recovery. Nevertheless, these employment rates remained the highest in the region and considerably above the average in other German competitiveness regions.<sup>14</sup>

#### **2.2.1.3. Regional strategy adopted by the region for economic, social and territorial development**

The SWOT analysis undertaken as part of the preparation for the ERDF Operational Programme for Bavaria notes that, although the economic position of the region is a strong one, there are a **number of disparities within the region**, in particular between the Munich urban agglomeration and the border regions to the east of Bavaria. As a result, the programme focuses the ERDF funding on these **weaker-performing regions ('target regions')**.

<sup>13</sup> Results of the 'Mikrozensus', IT.NRW.

<sup>14</sup> Bayerisches Staatsministerium für Wirtschaft, Infrastruktur, Verkehr und Technologie (2013), *Operationelles Programm des EFRE im Ziel „Regionale Wettbewerbsfähigkeit und Beschäftigung“ Bayern 2007-2013 - Jahresbericht 2012*.

The five priority axes are as follows:

- Innovation and knowledge-based economy;
- Promotion of competitiveness and employment of SMEs;
- Sustainable urban development;
- Risk precaution and resource protection; and
- Sustainable economic development of the border area.<sup>15</sup>

Although only the final priority axis explicitly targets the border area, the remaining priorities, although applicable to the entire region, also include a specific focus on the border area.

The motivations behind the use of the ESF in Bavaria are similar to those for the ERDF. Disparities within the region are cited as the key motivation behind the 2007-2013 ESF programme along with the rising youth unemployment. The ESF priority axes are:

- Increasing the adaptability and competitiveness of employees and enterprises;
- Improving human capital; and
- Improving access to employment and social inclusion.<sup>16</sup>

Compared to the ERDF, the focus on the border area is less explicit within the ESF programme, although the border area is also the area with lower employment, less-developed training and education markets, a higher proportion of SMEs, and a large number of younger workers moving away to urban areas. This in turn implies that the ESF measures are likely to principally target the border area.

Overall, given the explicit focus on the border area within the ERDF and, to a lesser extent, within the ESF, the initial regional strategy can be viewed as '**Catalysts for regional economic restructuring**'. This strategy is defined in the conceptual framework as a strategy focusing on a traditionally economically weaker part of a region. Although the priority axes of the ESF in Bavaria reflect a number of different regional strategies, the distribution of the funds suggests the strategy of '**improving human capital**' to be the main driving strategy for the ESF.

## **2.2.2. Cohesion policy analysis: initial strategy and changes**

### **2.2.2.1. Strategy of cohesion policy prior to the crisis**

#### **Main focus of cohesion policy in terms of spending**

The initial and revised allocation of ERDF funds in Bavaria is as follows:

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<sup>15</sup> Bayerisches Staatsministerium für Wirtschaft, Infrastruktur, Verkehr und Technologie (2011), *Operationelles Programm des EFRE im Ziel 'Regionale Wettbewerbsfähigkeit und Beschäftigung' Bayern 2007-2013*.

<sup>16</sup> Bayerisches Staatsministerium für Arbeit und Soziales, Familie und Integration (2012), *Zukunft in Bayern - Europäischer Sozialfonds Regionale Wettbewerbsfähigkeit und Beschäftigung Bayern 2007-2013*.

**Table 2.5: ERDF fund allocation**

	2007				2011			
	EU Investment	National Public Contribution	Total	%	EU Investment	National Public Contribution	Total	%
1. Innovation and knowledge-based economy	114,835,000.00	79,484,200.00	194,319,200.00	19%	121,385,000.00	100,138,936.00	221,523,936.00	22%
2. Promotion of competitiveness and employment of SMEs	173,601,881.00	95,712,000.00	269,313,881.00	27%	164,926,881.00	100,472,151.00	265,399,032.00	26%
3. Sustainable urban development	103,272,000.00	84,657,600.00	187,929,600.00	19%	103,272,000.00	84,657,600.00	187,929,600.00	18%
4. Risk precaution and resource protection	94,272,000.00	88,557,600.00	182,829,600.00	18%	96,397,000.00	90,964,100.00	187,361,100.00	18%
5. Sustainable economic development of the border area	84,317,119.00	71,491,400.00	155,808,519.00	16%	84,317,119.00	72,794,193.00	157,111,312.00	15%
Technical assistance	5,636,188.00	4,508,950.00	10,145,138.00	1%	5,636,188.00	4,508,950.00	10,145,138.00	1%
Total	575,934,188.00	424,411,750.00	1,000,345,938.00		575,934,188.00	453,535,930.00	1,029,470,118.00	

**Source:** Bayerisches Staatsministerium für Wirtschaft, Infrastruktur, Verkehr und Technologie (2011), Operationelles Programm des EFRE im Ziel 'Regionale Wettbewerbsfähigkeit und Beschäftigung' Bayern 2007-2013; Inforegio.

As can be seen in the table above, **the priority with the highest initial financial allocation was the 'promotion of competitiveness and employment of SMEs'**. The 'sustainable economic development of the border area' priority received the smallest allocation of funds, although a substantial proportion of remaining funding also targets these areas. Overall, the OP specified that 65% of the ERDF funds are to be directed at these areas.<sup>17</sup>

**The allocation of funds has changed over the course of the programme through a single programme change in 2011.** This was due to the need to reallocate funds from areas where they could not be utilised to areas requiring additional funding. This was however not attributed to the effect of the crisis.

The ESF fund allocation is shown in the table below:

**Table 2.6 : ESF fund allocation**

Priority	EU Investment	National Public Contribution	Total	%
1. Increasing the adaptability and competitiveness of employees and enterprises	44,300,000.00	1,968,889.00	46,268,889.00	9%
2. Improving human capital	152,700,000.00	110,895,202.00	263,595,202.00	52%
3. Improving access to employment and social inclusion	97,657,315.00	76,174,718.00	173,832,033.00	34%
Technical assistance	12,402,388.00	12,402,388.00	248,047,76.00	5%
Total	310,059,703.00	201,441,197.00	511500900.00	

**Source:** Bayerisches Staatsministerium für Arbeit und Soziales, Familie und Integration (2012), *Zukunft in Bayern - Europäischer Sozialfonds Regionale Wettbewerbsfähigkeit und Beschäftigung Bayern 2007-2013*.

**The key funding focus of the ESF programme has been on improving human capital, followed by the 'improving access to employment and social inclusion' axis.** A relatively small proportion of the funds (9%) has been allocated to the axis for 'increasing the adaptability and competitiveness of employees and enterprises'.

### Expected outcome of cohesion policy

The stated strategic objectives of the ERDF Operational Programme are:

- reducing inequalities in living and working conditions; and
- strengthening competitiveness, sustainable development and employment, particularly in the border area and structurally weaker regions.

In practice, the individual outcome indicators of the ERDF programme relate mainly to **job creation and job retention**, in addition to more specific outcomes relating to the third priority axis, such as buildings and areas prepared for flooding. Some of the key outcome indicators for the ESF programme include the award of qualifications or participation in lifelong learning within enterprises.

<sup>17</sup> Bayerisches Staatsministerium für Wirtschaft, Infrastruktur, Verkehr und Technologie (2011), *Operationelles Programm des EFRE im Ziel 'Regionale Wettbewerbsfähigkeit und Beschäftigung' Bayern 2007-2013*.

### 2.2.2.2. Cohesion policy during the crisis (2008 onwards)

#### Role of cohesion policy during the crisis

The crisis is identified as an important factor in all the ERDF annual implementation reports. At the time of writing the 2008 report, the Managing Authority deemed it too early to draw conclusions concerning the impact of the crisis on the programme.<sup>18</sup> In 2009, the implementation report identified a significant **impact of the crisis on unemployment rates**, with the effect being disproportionately felt in the border area. Nevertheless, the level of unemployment remained below the West German average.<sup>19</sup> The subsequent implementation reports viewed the negative impacts of the crisis as largely contained, although the crisis did have some lasting **socioeconomic impacts**: as noted above, employment rates in both Munich and Nurnberg failed to recover following the crisis.<sup>20</sup>

Overall, despite the limited impact of the crisis, the implementation reports single out the **border area as the most vulnerable with regard to the crisis**. On this basis, the Operational Programme's focus on these areas was seen as still appropriate, which in turn means that no strategic changes were deemed necessary to address the crisis.

#### Main changes in strategy and objective

As noted above, no strategic changes were made to the ERDF programme, as its focus on the economically weaker border regions was seen as appropriate. In addition, according to the Managing Authorities neither of the two programmes should be viewed as a tool for responding to the crisis, which is another reason why no changes were introduced. The region made use of some of the EERP provisions, including the **extension of the final date of eligibility of expenditure for the 2000-2006 programming period**, as well as the relaxing of state aid rules. The use of these measures did not, however, have an impact on the structure of the programmes.

### 2.2.3. Effectiveness, constraints and adaptation of cohesion policy

#### 2.2.3.1. Effectiveness of cohesion policy before and after the crisis

With the exception of a small number of specific constraints discussed below, there is **no evidence of the crisis having had a significant impact on the effectiveness of cohesion policy**, which is also confirmed by the Managing Authorities and external experts consulted. Overall, representatives of the ERDF Managing Authority believed the **main impact of the crisis was to slow down the implementation of cohesion policy**. This could be attributed to two effects: a direct one, relating to private enterprises' increasing reluctance to invest, and an indirect one, relating to the fact that the use of certain national funds for infrastructure projects took priority over ERDF funds during that period. Expert interviews identified a similar indirect effect for the ESF programme, where, for specific measures such as continuing education measures under ESF Priority Axis A, the extension of federal funding in the area had a negative effect on the take-up of ESF funding.

<sup>18</sup> Bayerisches Staatsministerium für Wirtschaft, Infrastruktur, Verkehr und Technologie (2009), *Operationelles Programm des EFRE im Ziel 'Regionale Wettbewerbsfähigkeit und Beschäftigung' Bayern 2007-2013 - Jahresbericht 2008*.

<sup>19</sup> Bayerisches Staatsministerium für Wirtschaft, Infrastruktur, Verkehr und Technologie (2010), *Operationelles Programm des EFRE im Ziel 'Regionale Wettbewerbsfähigkeit und Beschäftigung' Bayern 2007-2013 - Jahresbericht 2009*.

<sup>20</sup> Bayerisches Staatsministerium für Wirtschaft, Infrastruktur, Verkehr und Technologie (2013), *Operationelles Programm des EFRE im Ziel 'Regionale Wettbewerbsfähigkeit und Beschäftigung' Bayern 2007-2013 - Jahresbericht 2012*.

Consultation with national Managing Authorities and external experts did not identify broad constraints to cohesion policy implementation that can be linked to the crisis. Instead, individual **measure-specific constraints** were identified. The 2010 interim evaluation of the ERDF programme identified two instances of the crisis having an impact on the practical implementation of cohesion policy.

Interim evaluation of the ERDF identified one financing instrument that had not been taken up by its potential beneficiaries (industry) as a result of the crisis. The instrument in question is the ***Investivkredit 100 pro*** fund, which aimed to finance innovations as well as to strengthen the capital basis of enterprises. The instrument was initially structured as a form of 'mezzanine financing' (a form of financing classified as senior to equity but subordinated to senior collateral-backed debt and used by enterprises to fund growth); however, the crisis contributed to the instrument finding little traction within the industry. The reasons given for this are two-fold: firstly, the first wave of the crisis contributed to a **lowering of trust towards structured financial instruments**; secondly, a number of enterprises financed through the instrument were wound down during this period, resulting in more **reluctance from enterprises**. According to the evaluators, both of these factors resulted in limited take-up of the instrument. In response, the funding stream was restructured into a revised *Investivkredit 100 pro* and integrated into the existing enterprise-financing programme of the Bavarian regional development bank (*LfA Förderbank Bayern*). In addition, it was refocused to concentrate on the structurally weaker regions within Bavaria.

Another broader constraint identified in the evaluation was the fact that the **administrative procedures** associated with financing instruments such as the *Investivkredit* were too slow to react to changing economic conditions, with any changes requiring long negotiation processes.

In addition to challenges related to financing instruments, another crisis-related constraint identified in the evaluation was the **limited willingness of SMEs to participate in joint projects with regional higher education institutions**. This in turn proved challenging for the allocation of funds under the 'funding of research, competency centres and technology transfer' (Priority Axis 1).<sup>21</sup>

It is important to note that despite these specific constraints, neither the Managing Authority nor the external experts identified broader constraints to implementing cohesion policy. This in turn suggests that the constraints identified above were viewed as relatively minor within the broader context of the ERDF and ESF funding in Bavaria.

In terms of responses to the above challenges, besides the restructuring of the funding instrument into the *Investivkredit 100 pro*, there is no clear indication of other broader challenges being addressed. As noted above, **no strategic changes took place to either of the OPs**, and no changes to the management of the ERDF and ESF programmes were identified by the Managing Authorities and external experts interviewed.

### **2.2.3.2. Regional strategies adaptation**

Given the unchanged structure of the programmes, no adaptation of regional strategies took place.

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<sup>21</sup> Prognos AG (2011), *Stand und Perspektiven der EFRE Förderung in Bayern Zwischenevaluation des Operationellen Programms des EFRE im Ziel RWB Bayern 2007-2013*.

## 2.2.4. Conclusion

### KEY FINDINGS

- North Rhine-Westphalia is a region that was host to Germany's traditional **coal and steel industry** and which has faced **numerous challenges** since the industry's decline.
- The region **traditionally underperforms** compared to the rest of the country, but it nevertheless staged a relatively quick recovery from the crisis, with most of the impact being experienced primarily in 2009.
- The regional policy in the area is closely linked to the region's history and focuses on fostering **knowledge-based industries** and increasing **human capital**.
- The crisis did **not** lead to any **visible strategic changes** in cohesion policy in the region, the main changes being minor and related to improving the use of the funds.
- The crisis-related constraints related primarily to enterprises being reluctant to invest in growing their businesses, resulting in limited demand for the **NRW/EU Investitionskapital instrument**. The limited number of placements available also affected the take-up of the ESF employability measures.

In European comparison, Bavaria was not affected severely by the crisis and quickly recovered from the initial impacts. As a result, there was relatively little interaction between cohesion policy and the crisis in the region, and no strategic programme changes took place.

Returning to the individual research questions, there therefore appeared to be no major impact of the crisis on the **implementation** of cohesion policy and use of the funds. The crisis introduced some **constraints**, particularly as a result of enterprises becoming increasingly risk-averse, and actions were taken to address some of the constraints, for instance by restructuring funding instruments. However, there is little evidence that these constraints or the crisis in general had a visible impact on the **effectiveness of cohesion policy**.

Although the **regional strategies** remained unchanged, this could also be attributed to the fact that they focused on the less-developed areas of the region, which was also seen as appropriate during the crisis. Despite Bavaria being a prosperous region, regional disparities exist and the crisis has affected different parts of the region to a different extent. Some areas saw a fall in GDP per capita even after a broad recovery took place in the region, while urban centres were unable to return their unemployment rates to pre-crisis levels, despite the overall improvement in labour market conditions in the region. The fact that the initial regional strategy was aligned to these disparities already prior to the crisis could have contributed to the region's **crisis resistance**, although there is no clear evidence of such a link.



## 2.3. North Rhine-Westphalia

### 2.3.1. Context Analysis

#### 2.3.1.1. *Change in economic, social and territorial structure*

Similarly to other German regions, the crisis in North Rhine-Westphalia can be largely linked to a **decline in exports followed by a decline in GDP per capita**. Using the conceptualisation of the crisis developed in the Study, the region could be seen as being primarily affected by the **first phase of the crisis**, namely the private debt crisis

North Rhine-Westphalia's performance on key social and economic cohesion indicators prior to the crisis was a mixed one. At just over EUR 26,000, its GDP per capita prior to the crisis was 3% below the national average, although its unemployment rate of 9.46% was still lower than the national average of 10.15%.

When comparing the region to the EU as a whole, the performance was similarly mixed. Despite falling short of the average within Germany, North Rhine-Westphalia was still a **prosperous region in European comparison**, with its GDP per capita 12% above the EU average. At the same time, its unemployment rate was almost 13% higher than the EU average.

Particularly important to understanding the impact of the crisis in Germany and in North Rhine-Westphalia specifically are the notions of **transmission channels** and **resilience factors**, set out in the conceptual framework of the Study. Transmission factors contribute to the impact of the crisis on regional economies, with the main **transmission channels** identified in the conceptual framework including credit availability and interest rates, trade, domestic/local demand, and government finance. As mentioned above, **trade was a key transmission mechanism** in Germany, which can be seen in the fall in German exports as a percentage of GDP from 48.2% in 2008 to 42.9% in 2009, only to later recover to 47.6% in 2010 and 50.6% by 2011.<sup>22</sup> Examining another transmission channel, government finance, it is evident that the German recovery did have its cost, with government-consolidated gross debt as a percentage of GDP increasing from 66.8% in 2008 to 82.5% in 2010<sup>23</sup> and remaining at this level in the following years.

Another element that allows a better understanding of the impact of the crisis is the concept of **resilience**. As conceptualised on the basis of the literature review conducted in the Study, in this context resilience is defined as 'the ability of a region to anticipate, prepare for, respond to, and recover from a disturbance' (Foster, 2007:14). The disturbance here includes the constraints created by the global financial crisis, including the above transmission factors.

As shown in the table below, Germany performed above the European average in terms of **human capital and skills and innovation resilience factors**. However, for both these indicators North Rhine-Westphalia falls short of the national average, although it still outperforms the EU with regard to R&D expenditure.

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<sup>22</sup> Eurostat.

<sup>23</sup> Eurostat.



**Table 2.7 : Selected resilience factors in Germany and North Rhine-Westphalia in 2007**

	Human capital and skills	Innovation efforts
	Adults with tertiary education	Total gross domestic expenditure on R&D
EU	100	100
Germany	107.48	167.2
North Rhine-Westphalia	89.29	110.67

Source: Author, based on Eurostat data.

Another important aspect of resilience is the **sectoral composition of the regional economy**. As set out in the conceptual framework for this Study, existing literature identifies manufacturing and construction industries as the most cyclically sensitive sectors followed by private service industries, with public sector services seen as being broadly unaffected by recessions.

Table 2.8 below outlines the proportion of total gross value added (GVA) attributed to individual sectors or combinations of sectors. Analysis of the **sectoral specialisation** of Germany and North Rhine-Westphalia shows the region to broadly track the Germany-wide pattern. Both in Germany and in North Rhine-Westphalia, a higher proportion of GVA was generated in the energy and manufacturing sectors than in the EU as a whole: at 28%, the energy and manufacturing sector in North Rhine-Westphalia generates broadly the same proportion of total GVA as the market services sector (financial intermediation, real estate, renting and business activities).

The above resilience factors would suggest that the region might have **more limited resilience to crisis than other regions in Germany**. This appears to be in line with the observation of one of the experts consulted as part of the study, who noted that North Rhine-Westphalia's performance on most macroeconomic measures broadly tracks the rest of the country (excluding Convergence regions), but the absolute numbers and changes are usually lower, reflecting the slightly weaker economic position of the region. The resilience factors outlined above suggest that a similar trend can also hold for crisis resilience.

**Table 2.8: Sectoral specialisation in Germany and North Rhine-Westphalia in 2007**

Share of total GVA by sector	EU	Germany	North Rhine-Westphalia
Agriculture	2%	1%	1%
Energy & Manufacturing	22%	27%	28%
Construction	6%	4%	3%
Distribution, tourism, transport, communications	22%	18%	18%
Market services	26%	29%	28%
Non-market services	22%	21%	22%

Source: Author, based on Cambridge Econometrics data.

### **2.3.1.2. Economic, social and territorial structure of Basilicata**

In order to better understand the nature of the crisis in North Rhine-Westphalia, it is important to examine in more detail its performance on a set of indicators corresponding to the three main dimensions of cohesion: economic, social, and territorial.

The table below outlines the region's performance with regard to the key **economic cohesion** indicators.

**Table 2.9 : Performance of North Rhine-Westphalia across selected economic cohesion indicators before the crisis and percentage change after the crisis**

		Enterprise	Innovation
	GDP per capita	Per capita fixed capital formation	Total patent applications per capita
EU	100	-	-
Germany	115.5	100	100
North Rhine-Westphalia	112.01	86.26	73.36
% change	-0.39	2.01	2.92

Source: Author, based on Eurostat data.

Consistent with the observation from the previous section, prior to the crisis the region performed below the German average in terms of GDP per capita, per capita fixed capital formation, and total patent applications per capita. It is however worth noting that the crisis has resulted in a relatively minor decline in GDP per capita, and both the enterprise and innovation indicators have shown a sign of improvement.

The table below outlines the **social cohesion** indicators.

**Table 2.10: Performance of North Rhine-Westphalia across selected social cohesion indicators before the crisis and percentage change after the crisis**

	Labour market			Social inclusion
	Total unemployment rate	Youth unemployment rate	Female employment rate	Young people aged 18-24 not in employment, education or training
EU	100	100	100	100
Germany	121.19	77.07	108.11	91.44
North Rhine-Westphalia	112.90	77.64	102.41	95.44
% change	-0.70	-0.44	0.84	-0.02

Source: Author, based on Eurostat data.

As can be seen above, prior to the crisis North Rhine-Westphalia's unemployment rate was higher than the EU average, but still lower than the figure for Germany. On other labour market and social inclusion indicators, it has generally performed slightly worse than the rest of the country. It is however worth noting that all of the social cohesion indicators show an improvement following the crisis. In order to paint a broader picture of economic cohesion, it is also important to examine the impact on disposable household income. North Rhine-Westphalia has seen an overall 1% fall in disposable household income compared to the years prior to the crisis, which is a slightly steeper decline than in Germany as a whole (0.3%), suggesting a **possible trade-off between securing employment and incomes**. The increase in the proportion of people at risk of poverty in 2010 from 14.6% in 2007 to 15.4% would appear to be in line with that hypothesis, although the fact that the largest increase in the index was registered for people over 65 suggests that factors beyond the labour market may also be at play.<sup>24</sup>

<sup>24</sup> Results of the 'Mikrozensus', IT.NRW.

Looking at the final dimension of cohesion, namely **territorial cohesion**, the indicator scores shows road accessibility in North Rhine-Westphalia to be twice as high as in Europe as a whole, suggesting a potentially high level of territorial cohesion. Furthermore, examining the main performance indicators (total unemployment and GDP per capita) for individual NUTS 2 regions within North Rhine-Westphalia shows no signs of major disparities. The higher territorial cohesion can be explained by the many interconnected urban areas in the region, as well as the fact that the decline of traditional industries mainly affected urban areas, potentially reducing rural/urban disparities.

The limited impact of the crisis on the labour market in North Rhine-Westphalia can be seen in the unemployment figures for 2009. Throughout the year, there were on average 802,400 unemployed persons in the region, which constituted an increase of approximately 40,000 compared to the previous year, implying a relatively limited labour market impact. Where the crisis did have a substantial impact, and which is not reflected in the above indicators, is, as mentioned above, in the collapse of export markets: in 2009, regional exports declined by 18.5%.<sup>25</sup>

### **2.3.1.3. Regional strategy adopted by the region for economic, social and territorial development**

The analysis of strength and weaknesses conducted as part of the preparation of the ERDF Operational Programme for North Rhine-Westphalia notes that the region has an advantageous location in the centre of Europe, with strong multinational enterprises located in the region, as well as a large number of competitive SMEs. At the same time, the region is seen to lag behind the rest of the country in terms of knowledge-intensive industries and the service sector. Another weakness relates to specific **territorial disparities**, including high unemployment in the Ruhr region, as well as the need to regenerate a number of urban centres affected by structural change.<sup>26</sup>

The three main areas of action identified for the ERDF Operational Programme are therefore investment in businesses, including supporting entrepreneurs and technology-oriented businesses, fostering innovation, and investment in infrastructure. The resulting priority axes are as follows:

1. Strengthening the entrepreneurial basis;
2. Innovation and knowledge-based economy; and
3. Sustainable urban and regional development.<sup>27</sup>

The basis for the 2007-2013 ESF Operational Programme in North Rhine Westphalia includes the realisations that:

- the regional workforce is an aging one, with fewer skilled and adaptable younger workers entering the labour market;
- the region is facing a potential shortage of skilled workers;
- the educational system shows weaknesses;

<sup>25</sup> Ministerium für Wirtschaft, Energie, Industrie, Mittelstand und Handwerk (2010), *Operationelles Programm 'Regionale Wettbewerbsfähigkeit und Beschäftigung 2007-2013 (EFRE)' - Jährlicher Durchführungsbericht 2009*.

<sup>26</sup> Ministerium für Wirtschaft, Energie, Industrie, Mittelstand und Handwerk (2012), *Regionale Wettbewerbsfähigkeit und Beschäftigung 2007-2013 (EFRE) - Operationelles Programm (EFRE) für das Ziel 'Regionale Wettbewerbsfähigkeit und Beschäftigung' für Nordrhein-Westfalen nach Artikel 37 der Verordnung (EG) Nr. 1083/2006 des Rates vom 11. Juli 2006*.

<sup>27</sup> Ministerium für Wirtschaft, Energie, Industrie, Mittelstand und Handwerk (2012), *Regionale Wettbewerbsfähigkeit und Beschäftigung 2007-2013 (EFRE) - Operationelles Programm (EFRE) für das Ziel 'Regionale Wettbewerbsfähigkeit und Beschäftigung' für Nordrhein-Westfalen nach Artikel 37 der Verordnung (EG) Nr. 1083/2006 des Rates vom 11. Juli 2006*.

- skills are quickly devalued and often mismatched, with lifelong learning becoming increasingly important; and
- slow structural change necessitates adaptation and modernisation of regional businesses.

The resulting ESF priority axes are:

- Increasing the adaptability and competitiveness of employees and enterprises;
- Improving human capital; and
- Improving labour market opportunities and integration of disadvantaged people.<sup>28</sup>

Overall, drawing on the conceptual framework of the Study, the regional strategy in North Rhine-Westphalia can be characterised as '**advanced industrial development**', given that the main focus of both programmes is on innovation, corresponding skills and necessary adaptability. Like other regions following this strategy, North Rhine-Westphalia has a legacy of a traditional industry, which needs to be supplanted by an innovation-driven, knowledge-based and service-oriented economy. The ESF OP priority axes correspond to a **mixture of regional strategies**, although, as shown in the funds distribution outlined below, **improving human capital** appears to be the main priority and hence can be seen as the main ESF regional strategy.

### 2.3.2. Cohesion policy analysis: initial strategy and changes

#### 2.3.2.1. Strategy of cohesion policy prior to the crisis

##### Main focus of cohesion policy in terms of spending

The allocation of ERDF funds in North Rhine-Westphalia is as follows:

**Table 2.11 : ERDF fund allocation**

Priority	EU Investment	National Public Contribution	Total	%
1. Strengthening the entrepreneurial basis	254,186,163.00	154,186,163.00	408,372,326.00	18%
2. Innovation and knowledge-based economy	635,465,408.00	485,465,408.00	1,120,930,816.00	49%
3. Sustainable urban and regional development	381,279,245.00	361,279,245.00	742,558,490.00	32%
Technical assistance	12,500,000.00	12,500,000.00	25,000,000.00	1%
<b>Total</b>	<b>1,283,430,816.00</b>	<b>1,013,430,816.00</b>	<b>2,296,861,632.00</b>	

**Source:** Ministerium für Wirtschaft, Energie, Industrie, Mittelstand und Handwerk (2012), Regionale Wettbewerbsfähigkeit und Beschäftigung 2007-2013 (EFRE) - Operationelles Programm (EFRE) für das Ziel 'Regionale Wettbewerbsfähigkeit und Beschäftigung' für Nordrhein-Westfalen nach Artikel 37 der Verordnung (EG) Nr. 1083/2006 des Rates vom 11. Juli 2006.

<sup>28</sup> Ministerium für Arbeit, Integration und Soziales NRW (2006), *Europäischer Sozialfonds. Operationelles Programm zur Umsetzung in Nordrhein-Westfalen in der Förderphase 2007 bis 2013*.

The financial allocation shown in the table above clearly reflects the **innovation focus** of the 2007-2013 Operational Programme, with almost half of the committed EU and national public funds being allocated to the '**Innovation and knowledge-based economy**' axis. This is followed by the 'Sustainable urban and regional development' axis, while strengthening the entrepreneurial basis is a comparatively lesser focus within the funding allocation.

The ESF fund allocation is shown in the table below:

**Table 2.12: ESF fund allocation**

Priority	EU Investment	National Public Contribution	Total	%
A. Increasing the adaptability and competitiveness of employees and enterprises	191,000,000.00	39,600,000.00	230,600,000.00	23%
B. Improving human capital	337,000,000.00	183,500,000.00	520,500,000.00	53%
C. Improving labour market opportunities and integration of disadvantaged people	129,000,000.00	57,000,000.00	186,000,000.00	19%
Technical assistance	26,996,369.00	26,996,369.00	53,992,738.00	5%
Total	683,996,369.00	307,096,369.00	991,092,738.00	

**Source:** Ministerium für Arbeit, Integration und Soziales NRW (2006), Europäischer Sozialfonds. Operationelles Programm zur Umsetzung in Nordrhein-Westfalen in der Förderphase 2007 bis 2013.

The key funding focus of the ESF programme has been on **improving human capital**, which was allocated over 50% of the available funding, with the remaining two axes each allocated approximately a fifth of the funds.

### Expected outcome of cohesion policy

The expected outcomes of cohesion policy in the region reflect the strategic objectives of the OPs and the resulting priority axes. Overall, the expected outcomes include **more competitive and innovative industry, more convergence within individual areas in the region, higher participation in lifelong learning, and higher employment**. This could manifest for example through a rising number of new technology-oriented enterprises or in the number of employees in SMEs benefitting from lifelong learning.

#### 2.3.2.2. Cohesion policy during the crisis (2008 onwards)

##### Role of cohesion policy during the crisis

Cohesion policy documents acknowledged the first signs of the crisis relatively early. The annual ERDF implementation report for 2008, published the following year, noted a **decline in industrial orders** in North Rhine-Westphalia affecting in particular the automotive, chemicals, and steel sectors, and it linked this to the crisis.<sup>29</sup> By 2009, the

<sup>29</sup> Ministerium für Wirtschaft, Energie, Industrie, Mittelstand und Handwerk (2009), *Operationelles Programm 'Regionale Wettbewerbsfähigkeit und Beschäftigung 2007-2013 (EFRE)' - Jährlicher Durchführungsbericht 2008*.

scale of the crisis had become clear and so had its consequences, with regional exports falling by 18.5% as a result of reduced global demand. At the same time, as shown in the previous sections, by 2009 the crisis had not had a significant labour market impact in North Rhine-Westphalia, with the unemployment rate remaining broadly stable, but falling compared to 2008.<sup>30</sup> By 2010, there were signs of recovery with an increase in exports and a stable unemployment rate.<sup>31</sup>

This is not to say that the crisis had no impact on the structure of the labour market in the region. The 2009 ESF implementation report noted that one response to the crisis from businesses was the **shift to part-time and short-term employment**, which contributed to avoiding larger-scale unemployment. This can also be linked to the broader Germany-wide labour market policy at the time<sup>32</sup> and appears to be consistent with the observed combination of stable or improving labour market indicators, accompanied by **falling household incomes and an increasing proportion of people at risk of poverty**. Another consequence of the crisis was a decrease in the number of open vacancies on the labour market.<sup>33</sup> The 2010 ESF implementation report however recognises a broad improvement in the key indicators compared to the previous year.<sup>34</sup>

Although, as noted above, cohesion policy documents recognised the crisis and its impact, there is no indication that any steps were taken to address the crisis through major changes in cohesion policy. This could potentially be attributed to the fact that the regional strategy aimed at turning a traditional industrial core of Germany into more of a human-capital-driven, knowledge-based economy. This, in turn, is in line with the main resilience factors conceptualised in the Study. With cohesion policy already working towards improving resilience and the impact of the crisis being less severe over time, the need for cohesion policy to play a more active role in responding to the crisis also diminished.

### Main changes in strategy and objective

The key change in the ERDF Operational Programme was the 2009 proposal to use up to 10% of ERDF funds across the three priority axes to support ESF priorities. This **cross-financing** focused on measures to upgrade skills in line with the ERDF measures related to new technologies. The Commission approved the proposal in March 2010. It is important to note, however, that this particular OP change was not explicitly linked to the crisis. Another ERDF Operational Programme change, initiated in 2012, was the planned reallocation of funds from the first to the second priority axis, as well as funding additional projects in the areas of power-heat coupling and cinema digitalisation. As in the case of the 2009 changes, these changes were not designed to respond specifically to the crisis.

The ESF Operational Programme has seen a set of **changes within Priority Axis C resulting from the need to ensure a better use of committed funds**. The changes included refocusing Priority Axis C towards a selection of measures, such as measures supporting people with disabilities, jobseeker support and advice, as well as coaching.<sup>35</sup> A

<sup>30</sup> Ministerium für Wirtschaft, Energie, Industrie, Mittelstand und Handwerk (2010), *Operationelles Programm 'Regionale Wettbewerbsfähigkeit und Beschäftigung 2007-2013 (EFRE)' - Jährlicher Durchführungsbericht 2009*.

<sup>31</sup> Ministerium für Wirtschaft, Energie, Industrie, Mittelstand und Handwerk (2011), *Operationelles Programm 'Regionale Wettbewerbsfähigkeit und Beschäftigung 2007-2013 (EFRE)' - Jährlicher Durchführungsbericht 2010*.

<sup>32</sup> See for instance Krause, M. U. and Uhlig, H. (2012), Transitions in the German labor market: Structure and crisis, *Journal of Monetary Economics* 59: 64–79.

<sup>33</sup> Ministerium für Arbeit, Integration und Soziales NRW (2010), *Durchführungsbericht 2009 zum ESF-Programm Nordrhein-Westfalen 2007-2013*.

<sup>34</sup> Ministerium für Arbeit, Integration und Soziales NRW (2011), *Durchführungsbericht 2010 zum ESF-Programm Nordrhein-Westfalen 2007-2013*.

<sup>35</sup> Ministerium für Arbeit, Integration und Soziales NRW (2012), *Durchführungsbericht 2011 zum ESF-Programm Nordrhein-Westfalen 2007-2013*.



number of other OP changes were introduced, but these primarily concerned technical and organisational aspects of programme implementation, as well as updating some of the programme targets to reflect the current situation (i.e. adjusting the target number of unfilled traineeships<sup>36</sup>).

The changes outlined above were all relatively **minor realignments of funding priorities** and did not constitute strategic re-orientation of the programmes, nor were they a direct response to the crisis, which is also confirmed by the consultation with Managing Authorities and the experts. Similarly, the ERDF/ESF cross-financing introduced in 2009-2010 did not constitute a strategic response to the crisis.

### 2.3.3. Effectiveness, constraints and adaptation of cohesion policy

#### 2.3.3.1. Effectiveness of cohesion policy before and after the crisis

Although the crisis did not affect the implementation of the programme as negatively as was expected in 2009,<sup>37</sup> it did have an effect on markedly reducing the demand for the **NRW/EU Investitionskapital**, a funding instrument designed for financing SME business investment in the region. The main reason for this impact appears to be greater reluctance by enterprises to invest further in business development during the crisis, which is the type of investment that the *NRW/EU Investitionskapital* supports.

The effect of the reduced demand was primarily visible in 2009 and 2010, with the volume of committed funds falling by 25% in 2009 compared to 2008,<sup>38</sup> and by a further 23% in 2010 compared to the previous year,<sup>39</sup> with the trend showing a sign of reversal only in 2012.<sup>40</sup>

This in turn had an impact on the programme's performance with regard to its indicators. The indicators particularly affected include ones corresponding to the first priority axis, such as the number of new technology-oriented businesses, where the figure for 2007-2012 of 83 fell short of the target of 312. At the same time, no clear steps were taken to address the low demand for the *NRW/EU Investitionskapital*. Similarly, no steps appear to have been taken within the scope of the ERDF programme to address the fact that existing instruments insufficiently promoted technology-oriented businesses, although this problem has been identified in the annual implementation reports.<sup>41</sup>

With regard to the ESF programme, an expert interview identified specific challenges related to **employability measures** under Priority Axis A of the programme, due to the more limited number of placements available in enterprises. A similar effect also applied

<sup>36</sup> Ministerium für Arbeit, Integration und Soziales NRW (2013), *Durchführungsbericht 2012 zum ESF-Programm Nordrhein-Westfalen 2007-2013*.

<sup>37</sup> Ministerium für Wirtschaft, Energie, Industrie, Mittelstand und Handwerk (2009), *Operationelles Programm 'Regionale Wettbewerbsfähigkeit und Beschäftigung 2007-2013 (EFRE)' - Jährlicher Durchführungsbericht 2008*.

<sup>38</sup> Ministerium für Wirtschaft, Energie, Industrie, Mittelstand und Handwerk (2010), *Operationelles Programm 'Regionale Wettbewerbsfähigkeit und Beschäftigung 2007-2013 (EFRE)' - Jährlicher Durchführungsbericht 2009*.

<sup>39</sup> Ministerium für Wirtschaft, Energie, Industrie, Mittelstand und Handwerk (2011), *Operationelles Programm 'Regionale Wettbewerbsfähigkeit und Beschäftigung 2007-2013 (EFRE)' - Jährlicher Durchführungsbericht 2010*.

<sup>40</sup> Ministerium für Wirtschaft, Energie, Industrie, Mittelstand und Handwerk (2013), *Operationelles Programm 'Regionale Wettbewerbsfähigkeit und Beschäftigung 2007-2013 (EFRE)' - Jährlicher Durchführungsbericht 2012*.

<sup>41</sup> Ministerium für Wirtschaft, Energie, Industrie, Mittelstand und Handwerk (2013), *Operationelles Programm 'Regionale Wettbewerbsfähigkeit und Beschäftigung 2007-2013 (EFRE)' - Jährlicher Durchführungsbericht 2012*.

to labour market integration measures under Priority Axis C. However, this effect was observed in 2009 only.

Another challenge faced by the ESF programme as a result of the crisis, identified in the evaluation of the programme, is an **increased gender imbalance** among individuals benefitting from ESF-funded projects. Businesses primarily affected during the crisis had more traditionally male-dominated workforces, meaning that men were more likely to be beneficiaries of ESF-funded projects, which in turn resulted in women being unrepresented amongst programme beneficiaries.<sup>42</sup>

As noted previously, the main crisis-driven problem faced by cohesion policy in North Rhine-Westphalia appeared to be the relatively limited take-up of the financing instrument *NRW/EU Investitionskapital*, seemingly as a result of enterprises being more reluctant to invest given the increasing economic uncertainty.

This effect is, however, not the same for all types of businesses. The evaluation of the ERDF micro-financing measures noted that the crisis spurred on a number of new micro enterprises due to **individuals turning to entrepreneurship as a result of crisis-related unemployment**.<sup>43</sup> However, this had no visible impact on the effectiveness or the implementation of cohesion policy in the region as a whole.

As noted previously, one constraint in the implementation of the ESF programme related to employability projects under Priority Axis A. The underperformance of these projects is attributed to insufficient business participation as a result of the crisis.<sup>44</sup>

#### **2.3.3.2. Regional strategies adaptation**

As can be seen above, the changes in cohesion policy throughout the crisis period were minor, with no major strategic realignment. As a result, it can be concluded that the regional strategy remained unchanged in the face of the crisis.

#### **2.3.4. Conclusion**

North Rhine-Westphalia has been a traditionally underperforming region in comparison with West Germany as a whole, primarily due to its legacy of being host to the declining coal and steel industry. At the same time, although the region was affected by the crisis, the impacts were relatively limited, especially within a broader European comparison. In particular, the region saw an improvement in its labour market performance, which is important given that it has traditionally faced relatively high unemployment levels. This development could however mask other negative impacts, such as falling household incomes and an increase in the proportion of people at risk of poverty.

Returning to the individual research questions, given the relatively short duration of the crisis, the **impact of the crisis on the implementation and use of cohesion funding was limited**. The crisis appears to have created **constraints with regard to the deployment of the funds** due to limited take-up by enterprises, as was the case for the *NRW/EU Investitionskapital*. It also imposed **constraints on ESF employability measures** due to fewer enterprises offering placements in 2009. Although these

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<sup>42</sup> Fertig, M., Weimann, M. and Puxi, M. (2011), *Evaluierung der Umsetzung des ESF-Programms für Nordrhein-Westfalen in der Förderperiode 2007-2013*.

<sup>43</sup> Meyer, S. and Biermann, N. (2010), *Operationelles Programm Regionale Wettbewerbsfähigkeit und Beschäftigung 2007-2013 (EFRE) des Landes Nordrhein-Westfalen – Evaluation NRW/EU-Mikrodarlehen*.

<sup>44</sup> Fertig, M., Weimann, M. and Puxi, M. (2011), *Evaluierung der Umsetzung des ESF-Programms für Nordrhein-Westfalen in der Förderperiode 2007-2013*.



constraints had some effect on the output indicators of the programmes, there is no evidence that they affected the overall effectiveness of cohesion funding in the region.

There was no pressing need for a major restructuring of cohesion policy through wide-ranging changes to Operational Programmes, and consequently, the **changes in the programmes were relatively minor**. There are, however, individual instances where additional steps could have been taken. In particular, this could involve additional actions to improve the take-up of the *NRW/EU Investitionskapital*, or actions to provide an alternative or restructured financial instrument. Such steps could also work more actively towards ensuring that more technology-oriented enterprises are founded in the region, which would contribute to the core objectives of cohesion policy in North Rhine-Westphalia.

Overall, given the nature of the challenges faced by the region, in particular the perceived difficulties in fostering knowledge-based industries, prior to the crisis cohesion policy in North Rhine-Westphalia already had a focus on human capital, innovation, and service economy, all of which are potential aspects of crisis resilience. Therefore, as in the case of other German regions, such as Bavaria, North Rhine-Westphalia's **regional strategy could be seen as broadly appropriate** to tackle the crisis prior to experiencing it.



### **3. POLAND**

#### **3.1. Introduction**

In the investigation of the impact of cohesion policies on the Member States, Poland can be viewed as a specific example. Both the course and impact of the crisis on the Polish economy differed from those in other European countries. After the global financial crisis, visible amongst others in the form of economic growth being decelerated to 1.6% in 2009, Poland did not return to the high level of economic activity it enjoyed in the previous years. The average annual rate of GDP growth fell from 6.0% in 2006-2008, i.e. the years preceding the crisis, to 3.4% in 2010-2012, that is by nearly twofold. But even this deterioration does not undermine Poland's exceptional resistance to the effects of the crisis: the Polish GDP growth in 2010 was the third-highest in the EU, while in 2011 Poland ranked fourth among the 27 Member States. Although its GDP performed well throughout 2009, Poland suffered an increase in the unemployment rate from 7.1% in 2008 to 8.1% in 2009, and up to 9.7% in the next two years. The employment rate remained almost stable, with a slight decline from 65% in 2008 to 64.3% in 2010. Poland also stood out among Central and Eastern European countries in terms of foreign direct investments. The FDI inflow to Poland between 2006 and 2011, estimated at \$94.9 billion, was the highest in the region (Ministry of Treasury, 2013). It can be said therefore that the crisis was felt less severely in Poland than in the remaining European economies and should be viewed rather as an economic slowdown. However, as the recession trends in the global economy deepened, the crisis also gradually began to affect the Polish economy.

There are several reasons why Poland suffered relatively less acutely from the crisis in comparison to other European countries. Firstly, the direct effects of the collapse of the mortgage market in the United States mostly affected the financial markets of the developed countries, as they had unlimited access to the instruments of the US mortgage market. Financial institutions in the emerging economies such as Poland did not suffer direct losses from investments in American equities, due to a relatively lower interest in these instruments and their limited availability (Jasiński, 2013). Secondly, the Polish economy is (in comparison to other post-communist countries) relatively less dependent on export markets, having the largest internal market among all of the Central and Eastern European countries. Thirdly, the rapid weakening of the Polish zloty exchange rate in late 2008 and 2009 helped mitigate the decline in demand for Polish export goods (Nikołajczuk, 2012). Fourthly, in 2006 the government decided to reduce pension contributions and taxes. This policy was maintained by the subsequent government, which also led to an abrupt increase of the budget deficit. As a result, economic growth was largely driven by high domestic consumption. Strong internal demand and solid private consumption were typically pointed out by economists as strengths of the Polish economy, helping the country to retain its economic growth even under the difficult conditions on the international markets. All these factors, acting jointly, enabled a smooth transition through the crisis. Economists also stress an additional indirect reason for the better resistance of the Polish economy to the crisis, namely the early launch of the transformation process post 1989. Poland was the first post-socialist country that entered a phase of post-socialist recession (when the decline was the deepest), and it was also the first to step onto the path of steady growth (Gorzelać, 2010).

EU funds allowed the continuation of the investment policy in both the public and private sectors in Poland. With no EU funds available, the investment level would have been severely limited due to two reasons. Firstly, from 2008 onwards, problems with obtaining loans from commercial institutions have kept increasing. Banks became much more cautious in assessing the creditworthiness of their potential clients and the number of loans granted decreased. Secondly, in 2009, the personal income tax (PIT) rates were lowered in Poland, as a result of which the revenues of local governments from their

share in that tax decreased as well. Changes in the tax rates and the decrease of public revenues from PIT were not accompanied by any changes in the income system that would compensate local governments for the loss of a major portion of their sources of income, which greatly diminished the scope for implementing their investment projects.

The need to maintain the level of investments to be made by companies, local governments, government institutions and scientific and research institutions, as well as the implementation of non-investment projects, generated demand effects that were particularly significant during the economic slowdown. That is why cohesion policy is treated as a driver of the economy that helps counteract the effects of the economic downturn. It should also be noted that the delay in spending the funds in the 2007-2013 period (during the first two years of implementing the support programmes, only 3.4% of the allocation for that period was spent) quite paradoxically turned out to be advantageous for the Polish voivodships. Accumulation of unspent EU funds together with government activities aimed at accelerating the absorption of the funds coincided with a decline in the condition of the regional economies. This increased the occurrence of demand effects in a period when Polish regions started to experience the first consequences of the world recession.

The changes made in the implementation of cohesion policy in all of the Polish regions were to a great extent consequences of the introduction by the government of the *Stability and Development Plan – strengthening of the Polish economy in the time of the world financial crisis* in 2009. The Plan was intended to improve EU funds spending efficiency in view of the deteriorating economic outlook. Accelerated spending was intended to maintain a stable level of public and private investments and thereby strengthen the demand effects.

The case studies of Podlaskie (Chapter 1) and Lower Silesia (Chapter 2) included in this report provide further insight into the resilience factors as well as the implementation of cohesion policy during the economic slowdown in a specific country setting. Changes introduced by the Plan were adapted in a very similar way in both regions under study. All identified differences in this matter were taken into account and are described in detail in both parts of the monograph. Nevertheless, the general conclusions presented as answers to the Research Questions (RQs) are to a considerable degree common to both regions.

## 3.2. Podlaskie Voivodship

### KEY FINDINGS

- The crisis in Podlaskie Voivodship as well as in the other Polish regions was experienced primarily as an **economic downturn**, and it was postponed by two-to-three years in comparison with other European countries.
- An overview of the **resilience factors** shows a low performance of the Podlaskie region: a very **low share of manufacturing and market services in GVA**, a very **low level of innovativeness**, and (compared to the nation as a whole) an average level of human capital. The regional economy is one of the least developed in the EU and relatively closed to international markets in terms of both export and capital linkages.
- The cohesion policy funds in the slowdown period turned out to be **effective**, as they helped to **maintain the level of investments** in the private and public sectors and to implement some non-investment projects. The activities supported by these funds generated demand effects that were particularly significant during the economic slowdown.
- The impact of the economic crisis on the implementation of cohesion policy was manifested mostly by introducing measures intended to improve the **spending efficiency of the EU funds**. No significant modifications of Operational Programmes were introduced. The **Development Strategy for the 2007-2014** period was unchanged.
- Economic slowdown in the Podlaskie Voivodship had **no influence** on the **management** of the Structural Funds but has ultimately resulted (to a limited extent) in the adaptation of the regional strategy for the new programming period (2014-2020).

### 3.2.1. Context Analysis

#### 3.2.1.1. Change in economic, social and territorial structure

The Podlaskie Voivodship (*województwo podlaskie*) is one of the most peripheral regions in Poland and in the European Union. Its peripherality is manifested in both geographical and economic terms. Podlaskie is located on the eastern border of the EU; its neighbouring regions have a lower level of development, and the nature of the border with Belarus is a challenge. The region is one of the poorest in Europe - it has the lowest levels of GDP per capita and disposable income.

**Table 3.1 : Sectoral distribution of GVA in Podlaskie region in comparison to Poland and Europe, 2007 (in %)**

	Agri	Energy & manufacturing	Construction	Distribution & transport	Market services	Non - market services
<b>EU</b>	2.1	22.0	5.8	22.2	26.3	21.5
<b>Poland</b>	4.6	28.2	6.3	26.2	17.1	17.6
<b>Podlaskie</b>	11.8	21.1	5.9	24.9	13.7	22.7

**Source:** Own calculations, based on Eurostat data.

An overview of the resilience factors identified in the conceptual framework of the Study shows a mixed performance of the Podlaskie region in all three resilience measures. Podlaskie has a distinctive **economic structure**. It is an agricultural region, with a share of manufacturing and market services in GVA that is lower than the national and European averages. According to Eurostat data, in 2007 the share of agriculture in GVA was significantly higher in the region than in Poland as a whole, and higher than that in Europe (Table 3.1). Nevertheless, the agricultural sector in Podlaskie – apart from milk production – remains ineffective. The productivity of the agricultural sector is low, with the share of agriculture in GVA being significantly lower than its share in employment (9% vs. 25% in 2011). It is worth noticing that farm subsidies from the Common Agriculture Policy are seen as a stabiliser of the economic situation during the crisis – they made it possible to maintain the purchasing power of the population living in rural areas, which represents a significant proportion of the population of the region (Gorzela, 2014).

**Table 3.2 : Resilience factors in Podlaskie before the crisis (2003-2007) and level of change after the crisis (2008-2012)**

	GVA in agriculture		Adults aged 25-64 with tertiary education (in %)		Total gross domestic expenditure on R&D	
	Before the crisis	Change	Before the crisis	Change	Before the crisis	Change
<b>EU</b>	100		100		100	
<b>Poland</b>	63.8	-0.4	75.9	9.8	16.8	5.6
<b>Podlaskie</b>	119.2	-5.6	77.8	9.2	5.3	0.9

**Source:** Own calculations, based on Eurostat data.

Measures related to the 'soft aspects' of regional resilience, namely **human capital stock** and **innovation efforts**, vary. The number of adults with tertiary education in Podlaskie is on the average national level. At the same time, the total gross domestic expenditure on R&D is very low and achieves only 27% of the national average. These results are respectively lower if compared to the European average, because Poland is a lower-than-average performer in both dimensions (Table 3.2). Although the analysed relative indices improved after the crisis, Podlaskie is still characterised by a very low level of innovativeness measured by total R&D expenditure (6.2% of the EU average). The region's low innovativeness is confirmed by other available data that demonstrate a low innovativeness of enterprises and poor cooperation between science and business. These negative tendencies are intensified by migratory processes leading to a brain drain. The neighbouring Mazowieckie Voivodship and foreign destinations provide opportunities to find interesting work with good career prospects, which significantly intensifies the migration process of well-educated people.

### **3.2.1.2. Economic, social and territorial structure of Basilicata**

The main characteristics of the regional **economic structure** (SRWP, 2013; Płoszaj, 2012; EUROSTAT data) are:

- Obsolete structure of the regional economy, characterised by a high share of ineffective agriculture;
- Low labour productivity as a consequence of the lower quality of the local labour resources (education, qualifications, experience) as well as less-developed entrepreneurship;
- Low innovativeness, resulting from low R&D expenditure and its unfavourable structure, in addition to a low quality of research activities and lack of cooperation between science and business; and

- Relatively closed economy, both in terms of its capability to export and attractiveness for investors.

**Table 3.3 : Economic structure of the Podlaskie voivodship after the crisis (2010, latest available data)**

	GDP per capita (in PPS, in EUR)	Gross fixed capital formation (EUR per capita)	Service sector employment (per 1000 population)	Total labour productivity	Human resources in science and technology in total active population
<b>EU=100</b>	43.7	NA	NA	25.5	NA
<b>Poland=100</b>	73.2	77.0	2.9	71.6	93.3

**Source:** Own calculations, based on Eurostat data.

An analysis of EUROSTAT data confirmed the low innovativeness of Poland, and the Podlaskie Voivodship is ranked last among the Polish regions. The level of employment in high-tech manufacturing is generally low for Poland, and Podlaskie is well behind the national average (3.1% vs. 5.1%). Similarly, the share of employment in knowledge-intensive services – although higher – is still below the values for Poland (21.2% vs. 24.6%). The number of patents per one million inhabitants is extremely low for Poland and also for the region (3.5% and 2.1%, respectively). The only promising indicator is the share of human resources in science and technology in the total active population, which is around the average national level (27.3% vs. 28.5%), although after the crisis the position of the region slightly deteriorated in this respect.

Podlaskie is also characterised by a clean, diverse natural environment, relatively unaltered by human activity. The natural environment creates numerous development opportunities in the region, but these unique natural attributes are not reflected in large numbers of tourists visiting the region because of a lack of infrastructure and poor accessibility, as well as insufficient marketing and underdevelopment of niche types of tourism.

The **social structure** of the region is determined by a low level of economic activity. As mentioned above, Podlaskie is one of the poorest regions in Poland (and in Europe); the level of disposable income was well below the Polish average before the crisis, and the impact of the crisis was visible in the fall of this indicator to 72%.

**Table 3.4 : Social structure of the Podlaskie Voivodship before (1) and after (2) the crisis\***

	Disposable household income (per capita, in PPS, in euro)		Total unemployment (in %)		Youth unemployment (in %)		Long-term unemployment (in %)		Total employment (in %)		NEETs (in %)	
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
<b>EU =100</b>	NA	NA	147.5	92.5	162.0	105.5	192.6	87.1	90.0	94.5	95.8	71.0
<b>Poland =100</b>	86.0	72.3	81.9	94.6	88.3	93.2	86.4	109.1	106.8	102.6	83,7	79.1

\*(1) years 2003-2007; (2) years 2008-2012.

**Source:** Own calculations, based on Eurostat data.

Poland – as shown in the main report of the Study – was 'one of the countries which recorded a reduction in the unemployment rate in spite of the crisis'. The same can be said for the Podlaskie Voivodship, though to a lesser extent. However, the major reduction in the unemployment rate was due to the structural changes in the Polish economy and very substantial outmigration after joining the EU (unemployment fell from 20% in 2002 to 7.1% in 2008). Since 2009, the unemployment rate has increased slowly but steadily (see Introduction).

Podlaskie was in a relatively weak position before the crisis with regard to indicators such as the total unemployment rate (12.3%), long-term unemployment (7.2%) and youth unemployment (28.4%). The relative values of these indicators were well above the European average. Quite strikingly, the European crisis impacted the region in a positive way, with the average total unemployment rate being reduced (to 8.4% in the period after the crisis) and the relative indicators dropping below the European average. The level of employment also increased (from 57.5% to 61%), but it deteriorated slightly in relation to the average for Poland (Table 3.4). This cannot be interpreted as an improvement of the regional economy during the crisis because of the delayed effect of the crisis in the region (and in Poland). Moreover, one should also bear in mind the high migration from the region, which positively influenced registered unemployment figures. No less importantly, the nature of unemployment in Podlaskie was structural in character, a result of the failure to adapt the competences and qualifications of the workforce. The NEETs indicator (percentage of young people aged 18-24 not in employment and not in any education or training) shows that, despite some visible positive trends, the regional community was facing serious problems. This is confirmed by the high level of poverty in Podlaskie (the share of population at risk of extreme poverty was the second-highest in Poland, exceeding 11% in 2011, while in most of the regions it was lower than 5%) (GUS 2013).

The region's **territorial structure** is characterised by low transport accessibility (Rosik *et al.*, 2012). This is the result of the peripheral location but also of the underdeveloped transport infrastructure connecting the region with Poland's major city centres. The length of hard-surface roads in Podlaskie is one of the lowest in Poland (68% of the Polish average), as is the length of railway lines (58% of the national average) (Płoszaj, 2012). This feature, together with low access to and use of information and telecommunication infrastructure (Batorski, 2012), impairs the investment attractiveness of the region manifested by a significantly lower share of enterprises with foreign capital in comparison to the rest of the country (20% of the national average).

The urban network in Podlaskie is less developed compared to the other Polish regions. This is largely the result of historical urbanisation processes, which started later and were less intensive in the eastern part of Poland than in the west. The cities located in the region are not present on the maps of MEGAS (ESPON, 2005), and the number of large agglomerations is limited to the capital of the region, Białystok. The low population density and diffusion of the settlement network imply difficulties with access to public services and high costs of their provision. There are also some new positive trends, such as the growing importance of Bielsk Podlaski due to the rapidly growing construction industry.

### **3.2.1.3. Regional strategy adopted by the region for economic, social and territorial development**

The Strategy that was in force until September 2013 assumed that the region's socio-economic cohesion and competitiveness would be enhanced by creating conditions for the fuller use of its potential. The strategic objectives were drafted very broadly, as seven



goals of equal rank, viz.: (i) increase the region's attractiveness for investors, (ii) develop human resources in line with labour market needs, (iii) boost the competitiveness of local companies both in Poland and abroad, (iv) protect the natural environment, (v) develop tourism based on natural and cultural heritage, (vi) make use of the border and cross-border location of the region, and (vii) develop agriculture and create conditions for the multi-functional development of rural areas. The strategy was operationalised in the form of the NCS in regional terms, and as the Regional Operational Programme (1.2.1).

A review of strategic objectives and priorities puts this strategy in the type-1 strategy group, i.e. broad-based economic development (catch-up growth, broadly based). This opinion was confirmed by the interviews conducted in the region. Respondents emphasised that the strategic goals had to be wide-ranging owing to the region's considerable backwardness in development.

### **3.2.2. Cohesion policy analysis: initial strategy and changes**

#### **3.2.2.1. Strategy of cohesion policy prior to the crisis**

##### **Main focus of cohesion policy in terms of spending**

The total EU funds allocation provided in the National Cohesion Strategy (ROP and the remaining Operational Programmes) to Podlasie for the years 2007-13 was €2798 million, i.e. **4.4%** of the aggregate allocation for Poland. It is worth noting that, in per capita terms, this was third-highest allocation in Poland, amounting to €2339.3 (i.e. **39% more** than the national average). Podlaskie reached the third-highest position in the share of funds earmarked for the transport infrastructure (43.2% vs. 35.5%). At the same time, very low priority was given to R&D measures in this region (14.8% vs. 17.1% for Poland) as well as to competitiveness of human resources on the labour market priority axis (10% vs. 13%) (*Bilans otwarcia*, 2008:59)

The Regional Operational Programme for the Podlaskie Voivodship (ROP PV) for the years 2007-2013, approved for implementation by the European Commission in 2007, had a total budget of €825.6 million (30% NSS) for the implementation of seven priority axes. The ROP PV pursued the main objective based on developing the non-agricultural potential of the region through three detailed objectives, viz.: (i) increasing the region's attractiveness for investors, (ii) improving the competitiveness of regional companies both at home and internationally, and (iii) development of tourism focused on the region's natural and cultural heritage (ROP, 2011:65).

When analysing the size of the allocation by the categories of intervention, it should be noted that the bulk of the funds was earmarked for transport, with 32.2% of the aggregate allocation. As part of Poland's 16 ROPs, this particular area takes up the largest portion of the funds, nearly 27% of the overall allocation. In Podlaskie, this category was particularly sizeable owing to the planned regional airport, for which one-fifth of the region's total allocation was earmarked. Ultimately, this project was not implemented, and the underlying funds were reallocated to regional roads. Research and development, innovation and enterprises is the area with the second-largest EU funds allocation. With a 24% allocation, the share of funds for R&TD is at the national average level; of this, nearly 30% was earmarked for the development of R&TD infrastructure and specialised competence centres (*Bilans otwarcia*, 2008:22).

Other areas of intervention were definitely less important. The third-largest area of intervention, investments in healthcare and social infrastructure, had half the allocation as that in R&D. Several elements are noteworthy in the allocation structure. Firstly, no allocation was made for the revitalisation of urban and rural areas, probably due to the low significance of this particular priority in relation to other underdeveloped areas in the region. Secondly, the allocation for environmental protection and prevention against natural and technological hazards was lower than the country's average, which was probably associated with relatively minor potential environmental hazards owing to the poorly developed industrial sector in the region (*Bilans otwarcia*, 2008:22).

### Expected outcomes of cohesion policy

The expected outcomes of cohesion policy in the regions were outlined in the ROP VP. For the three detailed objectives being implemented, both output and product indicators were defined (Table 3.5).

**Table 3.5 : Output and product indicators for ROP VP**

Output indicators	Measure	Anticipated indicator value (2015)
1.Number of new jobs created (net)	pc	14 020
2.Area of investment sites made available	ha	70
3. Number of transport infrastructure projects, incl.:	pc	75
- road transport	pc	69
- airport construction/modernisation	pc	2
- public transport	pc	4
4. Number of beds in tourist facilities created as part of the programme	pc	2000
5. Number of online services launched	pc	8
<b>Result indicators</b>		
6. Gross new jobs created (pc) as part of the programme, incl.:	pc	4400
- for women	pc	2250
- for men	pc	2150
- in rural areas	pc	1100
7. Cost of creating one new job	EUR	152850
8. Change in GDP level as a result of the programme	%	2,88
9. Value of new foreign investments generated due to programme supports	MEUR	7.6
10. Additional investments generated due to the programme	MEUR	155
11. Number of patent-based projects	pc	20
12. Value of exports of regional companies supported by the programme	MEUR	55
13. Time savings on new and modernised roads in passenger and cargo transport	EUR/p.a.	12600000
14. Increased returns from passenger transport on routes serviced by replaced rolling stock units	EUR	18000000
15. Number of tourists visiting the region, incl.:	persons	500000
- foreign tourists	persons	100000

Source: Sprawozdanie, 2013:257.

### 3.2.2.2. Cohesion policy during the crisis (2008 onwards)

#### Role of cohesion policy during the crisis

Although the financial resources transferred to the Podlaskie region under cohesion policy amount only **2.3% of its GDP**, they represent a significant contribution to promoting regional development and alleviating the consequences of the economic slowdown (Wojtowicz, 2011). Respondents in Podlaskie definitely argued that the effects of the economic slowdown were less acutely felt in the region owing to the EU funding made available. Above all, the demand effect was observable as a result, in addition to the restructuring effect of a more long-term nature.

The dairy sector is a good illustration of technological modernisation with the use of the Structural Funds from the POIG. The construction sector is another example of enterprises that enhanced their competitive advantage in spite of economic slowdown by using the scope offered by the EU funds. Some enterprises used funds to improve their innovativeness (e.g. NORDHUS), whereas some of them built up their potential as a general contractor responsible for the realisation of investments for culture and art co-financed by EU funds (UNIBEP). The beneficiaries of ERDF also include innovative firms forming a medical cluster in the regions (e.g. CHM, Medgal) and other highly advanced enterprises (e.g. PLUM).

#### Main changes in strategy and objective (linked to EERP and others)

The economic slowdown in Podlaskie did not influence the strategy and objectives of cohesion policy. The greatest changes in the ROP took place in 2011, amongst other reasons as a response to the crisis in the EU. Firstly, the budget allocation was slightly increased by €36.3 million as compared to the ROP 2007. These additional funds included the portion allocated to the region from the National Performance Reserve (€27.6 million), additional financing from Technical Adjustment (€5.7 million) and additional funds for the economic revitalisation of Łapy Municipality (€3 million) (*Sprawozdanie*, 2012:172). All these additional funds were wholly earmarked for broadly understood support to the enterprise and investment sector, of which nearly 9% was specifically allocated to the Municipality of Łapy.

**Gmina Łapy** is a rural-urban municipality with a population of 22,000 (including 16,500 residents of the city) situated near the Białystok agglomeration. Until 2009, the local economy was based mostly on the operation of the sugar plant and the rolling stock repair plant (Zakłady Naprawcze Taboru Kolejowego, ZNTK). In 2008, as a result of the EU quota system imposed on the production of sugar, the plantation region was liquidated and production of sugar in the plant was terminated, with some 250 people made redundant. The closure of the sugar plant resulted in the collapse of the agricultural market in the region and forced farms specialising in production for the sugar plant to change their production profile. The economic situation was further aggravated by the bankruptcy of ZNTK declared by its parent company, PKP Cargo (a Polish Railways company) in 2009, which meant that another 750 people lost their jobs.

**Source:** Based on interviews and local press, e.g. Januszkiewicz, 2009.

Secondly, some shifts were made within the categories of ROP PV intervention. There was an increase in the budget allocations for renewable energy sources (by 3.8 pp.), R&D activities, innovation and enterprise (by 3.2 pp.), and tourism (by 2.1 pp.), coupled with decreased allocations to social infrastructure and environmental protection projects (by 3.2 and 2.6 pp., respectively) and, albeit to a smaller extent, to culture, transport and information society (RPO, 2007; RPO, 2011).

In the implementation of the ROP and the ESF in the region at hand, all of the arrangements stipulated in the *Stability and Development Plan* were accepted (*Plan stabilności*, 2008). With regard to the ERDF, an opportunity was created for submitting

**payment applications for the so-called 'large projects'** even before the official EC decision approving them for co-financing. Initially, the size of the allocation in the region was not sufficient to allow any such 'large projects'. However, due to the need to replace the contractor of the project 'Football stadium in north-eastern Poland with training facilities' in Białystok, the initial implementation cost grew to ca. €70.8 million, and therefore the project now qualifies for these convenient arrangements (*Sprawozdanie*, 2012:252).

Secondly, the **eligibility period** for expenditure in the 2000-2006 programmes was extended beyond the end of 2008. One of the arguments for this change was that decisions in this regard should be made in advance (as is the case in the new 2020 perspective), as it allows projects to be planned in advance and therefore creates scope for engaging in more ambitious undertakings.

Thirdly, an arrangement was introduced to **settle overheads in programmes** co-financed from the European Social Fund on a lump-sum basis. This possibility can only be applied to management, administrative and indirect costs, i.e. costs not associated with specific operations. The methodology for determining such lump sums is approved at the stage of submitting the application for co-financing.

Fourthly, the **scale of possible advance payments** for project beneficiaries was increased to up to 95% of the project value. Of all the measures taken to combat the crisis, this instrument was viewed most favourably. Initially, as part of the ROP PV, only selected measures were permitted to use the advance-based form of payments, while in all the others expenditure incurred under the project could only be reimbursed. In order to boost the absorption of funds, in 2010 all beneficiaries across all of the ROP PV measures were allowed to apply for advance payments. Pre-financing was opened to entities from both the public and private sectors. The fact that this instrument has been used on a large scale by SME beneficiaries is confirmed by the fact that the value of advance payments received by beneficiaries reached nearly PLN 80 million, with 63 beneficiaries from this sector. Another reason for the popularity of this measure was the lifting of any additional restrictions for entrepreneurs. Only one additional tool is required – a guarantee for the amount of the advance payment, to be selected from a whole gamut of guarantees proposed in the agreement.

With regard to the implementation of the ESF regional component, the following arrangements were adopted: increased access to public aid funds for entrepreneurs, vocational reintegration of people affected by the negative consequences of the economic downturn, specialised graduate and training programmes offering as much as 100% co-financing, mobility incentives, and start-up grants (up to PLN 40,000).

### **3.2.3. Effectiveness, constraints and adaptation of cohesion policy**

#### **3.2.3.1. Effectiveness of cohesion policy before and after the crisis**

The economic slowdown in Podlaskie did not bring any significant changes related to the goals and priorities of the cohesion policy. Therefore, the effectiveness of cohesion policy should be evaluated similarly for the two periods concerned, i.e. before the occurrence of negative socio-economic phenomena and after they became visible in 2010. It can be said that cohesion policy played its role, both before and during the economic slowdown was observable in the region. As a result of its operation, the level of investment was maintained, and the demand and restructuring effects were achieved. This positive evaluation of cohesion policy rests on two important premises.

First, the adopted strategy, which could be summarised as broad-based economic development, offered support to many socio-economic areas of the region's life. It could be argued that, in view of the region's economic backwardness, the attempt to address all of the region's needs via cohesion policy proved quite effective. It helped to

counteract the negative consequences of the decelerated regional development, as it allowed interventions to be made in many spheres, including those affected by the effects of the downturn.

Second, the crisis in the region assumed the form of an economic downturn. Moreover, the negative socio-economic changes became visible much later than could be expected on the basis of the economic collapse in other European regions.

### **Lessons learned from changes in cohesion policy**

#### ***Socio-economic revitalisation of the municipality of Łapy – funds allocated from ROP PV***

The Municipality (or *gmina*) of Łapy can serve as an example of an adjustment made to cohesion policy in response to the need for the region's restructuring. The compounding of many negative phenomena caused by the closure of two major local plants (the sugar plant and the railway repair plant, ZNTK) and the resulting loss of 1000 jobs in a city with a population of 16,000 was not, as claimed, a direct consequence of the global crisis. Nevertheless, the development slowdown caused by the crisis in the EU added to the already existing problems in the municipality and further aggravated the negative phenomena already in place.

In Łapy, projects were implemented as part of two measures: making the region attractive to investors (€2 million) and creating conditions for the development of innovation (€1 million). As part of these activities, investment sites were prepared on the premises of the former sugar plant (10 hectares on the site formerly serving as a tank), in addition to a business incubator that is being put together in a former kindergarten. It is too early to judge the effects of these investments as they are still underway (with completion planned for 2014) but, as the interviews demonstrated, the *gmina* has already applied for permission to locate enterprises on the investment site. Furthermore, the municipality is now preparing for the launch of the incubator, with an Enterprise Centre (*Ośrodek Przedsiębiorczości*) already established at the Municipal Office, to support potential entrepreneurs, provide advice and offer assistance in drafting grant applications, working in cooperation with the district labour office (*Powiatowy Urząd Pracy*).

The success factors include, among others, the fact that the funds were specifically earmarked for the municipality of Łapy and not the entire district (*powiat*) of Białystok. Lessons learnt from the HC OP suggest that the Municipality of Łapy lost in calls for proposals owing to the low innovation level of the submitted projects and a low level of enterprise. Secondly, the institution managing the ROP in the region played an important guidance role. The investments initially proposed for Łapy Municipality initially included a swimming pool and a community centre, but, following a thorough assessment of the likely impact of these projects, the funds were shifted to activities more likely to strengthen local economic potential.

#### ***Change of project selection criteria***

In 2011, the criteria used in project selection as part of the measure to provide investment support to enterprises were changed (*Przewodnik*, 2011). The amended criteria promote projects that create new jobs in municipalities with the poorest economic performance, as well as innovative projects.

The criterion 'jobs created in poorly developed municipalities' gave preference to projects located in poorly developed areas of the region and in the Municipality of Łapy due to its especially difficult socio-economic situation (this was the sole *gmina* to be named in the criteria). Poorly developed areas were defined as those municipalities where taxable income per capita was lower than 120% of the region's average. This criterion was

consistent with the policy aimed to counteract the crisis in the areas most adversely affected, since a municipality's own income is a measure of its economic condition.

By contrast, the prerequisite for scoring points under the criterion 'Innovation of the project' demonstrated that the proposed undertaking was innovative, by fulfilling (and documenting) from one-to-six specific conditions, such as: cooperation of the project applicant with a research institution, purchase of a patent or licence, and purchase of new machinery or equipment. This criterion could help counteract crisis phenomena, as it facilitates the concentration of funds on purposefully selected projects, thereby producing lasting and attractive jobs with a potentially significant impact on the regional economy. With this criterion fulfilled, the project application could score as many as 40 points (for a total of 100) and its likelihood of gaining support would grow considerably. Following the introduction of this criterion, over 40% of total support was awarded to projects involving the implementation of highly innovative solutions (R&D, laboratories).

### ***Training programmes for employees - ESF***

Following the interim evaluation for the HC OP, the measure addressed to employees (training programmes) was restructured at the national level. The range of training courses that can receive co-financing was limited to those required by specific employers. Following this change, employers were able to use cohesion policy instruments in line with their needs, to address their own specific problems arising from the economic downturn in the region (e.g. restructuring changes in enterprises).

### ***Financing of large innovative projects***

Initially, only innovative projects with a value under €2 million were accepted for co-financing under the ROP PV. The regional authorities sought the possibility of also including larger-value projects in the selection process after the IE OP funds had been used up. Beneficiaries were definitely interested in financing large innovative investments under the ROP (*Sprawozdanie*, 2010). This was partly due to concerns about the potential failure to beat off the competition from other regions while seeking IE OP grants, and partly because some of the projects rejected at the national level could still be valuable for the development of the regional economy.

### ***Implementation of comprehensive ESF measures by labour offices***

The experience of the Podlaskie region suggests that measures associated with supporting enterprise and self-employment should be implemented by specialised institutions, and not labour offices. Activities of this kind call for specialist knowledge and business-consulting experience, in addition to commitment on the part of the implementing entity, in view of the long-term nature of its cooperation with beneficiaries alongside other areas of operation.

Examples showing how effective such solutions can be include the activities of the 'Podlasie Foundation for Regional Development' (*Podlaska Fundacja Rozwoju Regionalnego, PFRR*), which has been engaged in such activities on a much greater scale than stipulated by the HC OP documents. For instance, the Foundation made a double pre-selection of the potential beneficiaries (with an initial uptake of 460 instead of 120 people). Of the 60 start-ups established under the programme in 2008, 58 are still viable today, and they continue to cooperate with the Foundation in other areas.

### **Impact of crisis on funds management and expenditure**

There were no changes in the management of the Structural Funds. The impact of the crisis on expenditure under cohesion policy was multi-faceted. Firstly, the crisis reduced the costs of the planned investments; many projects in the region were completed at well below the estimated costs (e.g. the construction cost of one of the roads was only



50% of the estimate). This allowed for considerable savings, which made it possible to complete more projects than were initially planned under a given measure. In Podlaskie, this situation could mainly be observed in road infrastructure projects.

Secondly, the crisis significantly increased the interest in ESF funding instead of applying for ERDF grants. This was due to the difficult situation of the local governments owing to the economic slowdown. The ESF requires a lower contribution from beneficiaries, and this contribution does not have to be financial in character; this was the reason why the disbursement of funds under the regional HC OP component was accelerated.

### **3.2.3.2. Main constraints affecting cohesion policy implementation**

The main constraints affecting cohesion policy implementation related to the financial situation of the beneficiaries, primarily enterprises and local government entities. Their deteriorating financial standing was manifested by a reduced number of grant agreements and a lack of interest in calls for proposals due to the lack of the required own contribution. The problems that some beneficiaries encountered with ensuring their own contribution were first noted in 2010. In consequence, this made applying for ROP PV funds more difficult and extended the time needed for signing the agreements (AIR, 2010:240; AIR, 2011:101). Forty per cent of enterprises supported under the ROP failed to achieve their economic objectives despite effective project completion (output indicators were achieved, but result indicators were not). Most of them would attribute this failure to the economic downturn. Government revenue from the local government sector per capita in 2009-2011 fell from PLN 1,717 to PLN 1,575. Due to similar problems experienced by all the regions in the period concerned, the volume of local government revenues remained at a level of 75% compared to the national average (MCC, 2013).

Some specific difficulties in the implementation of cohesion policy instruments were also noticed in Łapy Municipality. Those who lost their jobs following the closure of the sugar plant and the railway plant, ZNTK, found themselves in two different situations. The sugar plant employees were remunerated until the very end of the plant's operation and received substantial severance pay upon its closure. By contrast, problems with the operation and restructuring of ZNTK were of a long-term nature; its employees received salaries late and in small sums. That is why their financial situation after the plant's liquidation was worse than that of people who had been 'welfare clientele for years'. Implementation of cohesion policy addressing crisis phenomena was more difficult due to the specific features of the local community, particularly its low mobility (unwillingness to work outside of Łapy), low level of entrepreneurship, lack of self-employment tradition (employees were accustomed to working in two large enterprises), low level of qualifications (the jobs available required similar vocational qualifications, e.g. welder, but at a higher level of competence than that offered by employees), and the negative impact of welfare benefits on the motivation of the unemployed to seek work.

Many arrangements to simplify the process of applying for co-financing and settlement of projects have been put in place. For example:

- Moving the obligation to submit mandatory appendices concerning de minimis assistance (up to 40 pages in length) from the application stage to the stage of signing the agreement by the beneficiaries;
- Amending the annual plans on account of the increased number of calls for proposals for entrepreneurs; and
- Creating scope to waive sanctions if the financial and economic results anticipated in the project had not been achieved as a consequence of the economic slowdown.

### 3.2.3.3. Regional strategies adaptation

Economic slowdown in the Podlaskie region did not result in regional strategy adaptation in the years 2007 to 2012, but it did ultimately result (to a limited extent) in regional strategy adaptation for the 2020 perspective (PVDS, 2013). The negative influence of the economic slowdown observed since 2011 in the Podlaskie region was one of the determinants of the 2014-2020 strategy change, apart from: (i) the substantial experience achieved in the two programming periods, (ii) the European Commission guidelines regarding cohesion policy for the 2014-2020 period, and (iii) the transformation of the region's economy. The new strategy was designed to be more focused on precisely selected economic goals. As one of the interviewees (RPO WP) put it: *there is no culture for culture itself, there is no tourism for tourism, all aims are entirely subordinated to economic ones. Even if we talk about roads and sewage systems, all of it serves economic aims. (...) If we allow a road to be built, it should lead to an investment area.*

## 3.3. Lower Silesia Voivodship

### KEY FINDINGS

- The crisis in Lower Silesia, as in the other Polish regions, was experienced more as an **economic downturn**, and was postponed by two-to-three years in comparison to other European countries.
- The analysis of resilience factors showed the **good socio-economic situation** of the region in relation to the country but highlighted its significant backwardness in comparison to the EU. The economic structure of Lower Silesia is characterised by a **high share of industry in GVA** (higher than the average for Poland and for the EU) and a low share of the agricultural sector. The region demonstrated moderate levels of innovation and human capital.
- The cohesion policy funds in the slowdown period turned out to be effective, as they helped to **maintain the level of investment** in the private and public sectors, and to implement some non-investment projects. The activities supported by these funds generated demand effects, which were particularly significant during the economic slowdown.
- The impact of the economic crisis on the implementation of cohesion policy was manifested mostly by introducing measures intended to improve **the spending efficiency of EU funds**. No significant modifications were introduced to either the Development Strategy or the Operational Programmes.
- Economic slowdown in Lower Silesia had **no influence on the management** of the Structural Funds or on the adaptation of the regional strategy.

### 3.3.1. Context Analysis

#### 3.3.1.1. Change in economic, social and territorial structure

The Lower Silesian Voivodship (*województwo dolnośląskie*) lies in the south west of Poland; it borders Germany in the west and the Czech Republic in the south. The region is strategically located in Poland and Europe, at the intersection of centuries-old transport routes leading east to west and north to south. The capital of the region is Wrocław, a city located close to the capitals of the neighbouring European countries (Development



Strategy of the Lower Silesian Voivodeship 2020, 2013). This means that the city and its region are conveniently located in the European economic space (WBU, 2011).

An overview of the resilience factors identified in the conceptual framework of the Study shows a moderate performance of the Lower Silesia region in all three resilience measures. The **economic structure** of Lower Silesia is characterised by a major role of industry in the generation of gross domestic product and a highly diversified industrial base. The Lower Silesian Voivodeship is one of the most industrialised regions in Poland. The share of industry in the generation of gross value added in the region not only exceeds the average for Poland as a whole (28.2%) but also the average for the European Union (22%). The majority of people employed in Lower Silesia work in industry. The region is to a large extent still shaped by deeply rooted and well-established traditional industries like mining (Büttner and Heidenreich, 2005). The major regional industrial activities concentrate on the extraction of copper and silver ores, lignite, paving and building stone, fire-resistant clay and natural gas. This points to the significant dependence of the region's economic condition on external demand and export conditions. By contrast, the share of the market and non-market services sector, indicators of a modern economic structure, in the generation of gross value added in Lower Silesia is close to the average for Poland (33% vs. 34.7%), but differs from the share of this sector in the EU countries, which is almost 50%. A positive aspect of the region's economic structure is the share of the agricultural sector in the gross value added of the whole voivodeship, which is slightly higher than that of the EU (2.1%), and lower than that of Poland as a whole (4.6%).

**Table 3.6 : Sectoral distribution of GVA in the Lower Silesia region in comparison with Poland and Europe, 2007 (percentage)**

	Agri	Energy & manufacturing	Construction	Distribution & transport	Market services	Non - market services
EU	2.1	22.0	5.8	22.2	26.3	21.5
Poland	4.6	28.2	6.3	26.2	17.1	17.6
Lower Silesia	2.5	35.6	6.1	22.7	15.7	17.3

**Source:** Own calculations, based on Eurostat data.

Measures related to the 'soft aspects' of regional resilience, namely human **capital stock** and **innovation efforts**, despite some positive trends, cannot be expected to sustain the improvement of the region's condition in the long-term. The number of adults with tertiary education in Lower Silesia is slightly lower than the national average (95 vs. Poland=100). However, a positive trend can be observed. In recent years, a steady increase in the share of people with a higher education was recorded (from 15.2% to 17.1%), in parallel to a decreasing share of persons who completed education at no more than secondary level (from 18.5% to 16.7%). However, in analysing this data, the specific nature of the development of higher education in the region (as in the rest of the country) should be taken into account. Starting from 1990, there was a significant increase in the number of higher education institutions and, as a result, access to tertiary education was greatly improved, especially for people from smaller towns. Nevertheless, the quality of education in many of these institutions is extremely low, which is reflected in the indicators of graduate employability. Therefore, this resilience factor should be interpreted with caution.

Although the potential for enhancing innovation in Lower Silesia is evaluated as significant in the strategic documents, the total gross domestic expenditure on R&D in the region is 4.2 pp. lower than the average for Poland. Besides, during the economic downturn the spending on R&D rose at a similar rate to the national one.

The most significant barriers hindering the development of R&D in the region include: insufficient cooperation between scientific and economic entities and a lack of interest by companies in cooperation with research and scientific institutions; the low number of scientific establishments that can offer enterprises the possibility to obtain licences or know-how; the low level of SME expenditure on investment and research and development activities; and poor communication and cooperation between enterprises, R&D entities, and regional and central authorities.

**Table 3.7 : Resilience factors in Lower Silesia before the crisis (2003-2007) and the level of change after the crisis (2008-2012)**

	Adults aged 25-64 with tertiary education (in %)		Total gross domestic expenditure on R&D	
	Before the crisis	Change	Before the crisis	Change
EU	100		100	
Poland	75.9	9.8	16.8	5.6
Lower Silesia	76.8	4.7	12.6	4.6

Source: Own calculations, based on Eurostat data.

### 3.3.1.2. Economic, social and territorial structure of Basilicata

The main characteristics of the regional **economic structure** (DSLSV, 2013; ROP DV 2007; Zaleski, 2011; Kwieciński *et al.*, 2010; EUROSTAT data), are:

- Favourable geographic location: close to the German and Czech Republic borders
- Relatively well-developed infrastructure: network of roads with a density ratio above the national average and a high concentration of important transport routes to Poland and Europe
- Significant value of foreign investments: Lower Silesia in one of the regions with the highest FDIs, and the number of newly established enterprises with foreign shareholdings is growing faster here than in other parts of the country
- The existence of several key industrial activities concentrated on the extraction of copper and silver ores, lignite, paving and building stone, fire-resistant clay and natural gas
- Openness of the economy, reflected in the high level of exports and imports; a significant role in the high level of exports (apart from the production of key industrial companies) is played by the factories of foreign investors located in the region.

**Table 3.8 : Economic structure of Lower Silesia after the crisis (2010, latest available data)**

	GDP per capita (in PPS, in EUR)	Gross fixed capital formation (EUR per capita)	Service sector employment (per 1000 population)	Total labour productivity	Human resources in science and technology in total active population
EU=100	65.5	NA	0.4	39.8	NA
Poland=100	109.6	108.5	7.3	111.9	100.9

Source: Own calculations, based on Eurostat data.

An analysis of Eurostat data confirms the good socio-economic situation of the region in relation to the country at large, but its significant backwardness in comparison to the EU countries. The value of gross domestic product (GDP) per capita remains higher than the national average – before the crisis it was 5 pp. above the average, while after 2008 this gap rose by another 5 pp. However, a comparison of Lower Silesia in terms of the value of GDP per capita (65.5% of the EU27 average) in relation to other European regions indicates its distant position. Nevertheless, it must be stressed that the region managed to reduce this gap by over 10 pp. compared to the pre-crisis period. At present, the Lower Silesia Voivodship ranks among the leading Polish regions in terms of exports and imports. The dynamics of exports in the years 2008 to 2011 were one of the highest in Poland and amounted to 24.8%. Analyses of the destinations of Lower Silesia's exports indicate a strong prevalence of EU countries, to which about 90% of the total exports of the region is directed. The most important trading partner is Germany, with a 53% share in the total exports of the region.

In the period analysed, positive trends were observed in all the indicators related to economic cohesion. In terms of the development of an innovative economy, the region recorded an increase in the number of patent applications: the number of patent applications per capita rose from 3.4 to 8.7, which is 2.8 pp. above the national average. Similarly, there was an increase in human resources in science and technology in the total active population (from 29.6 to 34.5%). There are no data for the EU, but it can be assumed that the region was lagging behind the leading European regions in innovation. The future advantage of the region may be based on labour productivity that exceeds the national average, although in this area Lower Silesia still compares negatively with the European level. Employment in the service sector (per 1000 population) is also dramatically low in comparison to the European average. This is a result of the above-mentioned predominance of the production sector in the region's economy.

The **social structure** of the region is characterised by a high level of economic activity and a relatively high GDP in comparison to other Polish regions (10 pp. above the average). However, the economic structure discussed above has a major share of GVA of large companies in the regional economy. This may explain the decrease in disposable household income (Table 3.9). The extreme poverty rate in the region of Lower Silesia did not exceed 5% in 2012 (GUS, 2013).

**Table 3.9 : Social structure of Lower Silesia before (1) and after (2) the crisis\***

	Disposable household income (per capita, in PPS, in EUR)		Total unemployment (in %)		Youth unemployment (in %)		Long-term unemployment (in %)		Total employment (in %)		NEETs (in %)	
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
EU =100	na	na	237.3	114.5	212.7	120.2	278.3	97.6	79.3	89.2	118.6	99.0
Poland =100	110.5	93.3	131.8	117.0	115.9	106.2	124.8	114.5	94.2	96.9	103.7	110.3

\* (1) years 2003-2007; (2) years 2008-2012.

Source: Own calculations, based on Eurostat data.

Poland – as shown in the main report of the Study – was one of the countries that noted a reduction in unemployment in spite of the crisis when the two periods of 2003-2007 (1) and 2008-2012 (2) are considered. Lower Silesia is no exception here. There was a decrease of 15 pp. in the total unemployment rate and 10 pp. in the long-term unemployment rate compared to the pre-crisis period (2003-2007). Nonetheless, we must take into account the fact that the level of total unemployment before the crisis was

well above the national average and amounted to 20% (the youth unemployment rate in the same period was 37% and exceeded the average for Poland by 5 pp.). In terms of long-term unemployment, the decrease from 10% to 3.5% ranks Lower Silesia below the European average, which is 3.6%. Positive trends can also be observed in the rate of employment, which moved closer to both the national and the European averages, even though in the latter case the value of the indicator increased, which was due to the deterioration of conditions on the labour markets in most EU countries. The reasons for improvement in the employment rate are twofold. First, we cannot deny that the economy of the region, at the time when the European countries plunged into the crisis, coped very well. Lower Silesia, characterised by a high degree of openness to external markets, benefited from the depreciation of the Polish zloty and from an increased demand for copper to expand its exports. Second, the region experienced a decline in the population, which resulted not only from the negative balance of population growth, but also from increased migration (to other voivodships and abroad). Over the past few years, the negative migration balance of those who decided not to come back has been ca. 2500 a year. All these facts show that the positive trends in the labour market should not be treated as sustainable. This assumption is corroborated by the data on changes in the NEETs indicator. The percentage of young people aged 18-24 not in employment and not in any education and training (NEETs), although down to 15.9%, is nevertheless higher than the national average, which is 14.3%.

It should be also take into consideration that – in spite of the above-mentioned positive trends in indicators calculated for before (2003-2007) and after (2008-2012) the crisis period – analysis of year-to-year data shows that the unemployment rate rose from 10% in 2008 to 12.8% in 2009, 13.1 in 2010, and then after a slight drop in 2011 achieved a level of 13.5% in 2012 (Central Statistical Office).

The **territorial structure** of the region is diversified. The regional settlement network includes cities, towns and villages of differing status, functional structures, levels of socio-economic development, development potential, etc. The region is strongly dominated by Wrocław, not only owing to the city's high concentration of human potential and its role in the settlement system, but also because of a high concentration of fixed assets and service assets as well as regional (often cross-regional) management, science and research, IT and logistics functions. Due to the region's settlement structure, which is moderately polycentric with the off-centre location of the Wrocław urban agglomeration, it is difficult to achieve a spatially balanced development of the voivodship. This is because the ever-increasing distance between the region's capital city and other parts of the region is starting to be felt. The relatively low level of territorial cohesion is visible in the diversified accessibility of counties (*powiaty*), cities and municipalities (*gminy*) (ROP DV 2007).

Lower Silesia is unique for its high level of urbanisation. In 2009, the region's towns and cities contained 70% of the population (Poland – 61%). The level of urbanisation ranks the region second in the country (GUS data). Lower Silesia is also characterised by vast areas struggling with structural problems, as the economic changes in the last decade of the 20th century led to the liquidation of many industrial sites, and many military areas were left by the army.

The region is characterised by a dense network of roads that provide connections with the neighbouring regions, both Polish and European, along two main axes: north-south and east-west. The length of motorways is growing systematically though moderately (before the crisis there were 150 km of motorways vs. 192 km afterwards). However, it should be noted that the road network (except for the newly built motorways) is heavily

depreciated (*Development Strategy of Lower Silesia*). There is no doubt that the territorial cohesion of Lower Silesia was improved by the construction of the Wrocław Motorway Ring Road. Also, the rail network offering internal and external connections is well developed. However, the number of active lines in recent years has markedly decreased, which has had a huge impact on the inner and outer accessibility of the region and restricts its access to some labour markets, thereby exacerbating social cohesion even further (Zaleski *et al.*, 2011).

### **3.3.1.3. Regional strategy adopted by the region for economic, social and territorial development**

The general objectives of the strategy, adopted by the region in 2005 and binding by the end of February 2013, were to ensure an improvement of the living standards of the Lower Silesia inhabitants and improvement of the competitiveness of the region in respecting the principles of sustainable development. The strategic objectives were divided into three areas. The first, **economic** area, focused on the implementation of the objective defined as building a competitive and innovative economy in Lower Silesia. The second area referred to a **territorial objective**, which included increasing the territorial and infrastructural cohesion of the region and its integration with European growth areas. The latter area was connected with the implementation of the **social objective**, defined as developing social solidarity and civic attitudes embracing creativity and openness to the world.

The strategy was based on the assumption of strengthening the broadly defined social and economic potential of the region through measures undertaken in many areas and dimensions, which means that the document should be classified as a type-1 strategy document, i.e. broad-based economic development (catch-up growth, broadly based). Respondents paid attention to the fact that the adoption of such broadly defined strategic objectives by the authors resulted from the numerous needs of the region and an intention to fully use the EU funds in the forthcoming 2007-2013 perspective. The implementation of the strategic objectives was largely to be based on the funds transferred to the region under cohesion policy. This approach was characteristic for all the strategies adopted by the authorities of the Polish regions at that time. Importantly, the second period of EU funds implementation in Poland was in fact the first period in which the regions were given autonomy in the management and implementation of the funds.

The objectives adopted in the strategy were operationalised and translated into specific priorities and measures in the ROP.

## **3.3.2. Cohesion policy analysis: initial strategy and changes**

### **3.3.2.1. Strategy of cohesion policy prior to the crisis**

#### **Main focus of cohesion policy in terms of spending**

According to the National Cohesion Strategy, the size of the allocation granted to Lower Silesia for implementing ROP projects and other operational projects in 2007-2013 was €5,708.7 million, that is **6.41%** of the entire allocation for Poland. The value of the allocation per capita was €1,980.6 million, which amounted to **84.8%** of the national average. The analysis of the allocation of funds in terms of the main areas of cohesion policy intervention shows that the amounts earmarked for project implementation in the majority of areas in the Lower Silesia Voivodship were similar to the national average. The two exceptions were the following areas (*Bilans otwarcia*, 2008:59):

- research and development in technology, innovation and enterprise, as well as transport, where the allocation was higher than the average by 6 pp., which

ranked the Lower Silesia Voivodship as number one among all the Polish regions; and

- transport, where the allocation was lower than the national average by 7 pp., which made the Lower Silesia Voivodship the last but two among the voivodships with the lowest planned capital expenditure in this area.

The total budget for the 10 specific priority axes in the Regional Operational Programme for the Lower Silesia Voivodship for the years 2007-2013, approved for implementation by the European Commission in 2007, was €1,561.1 million. The main objective of the ROP LSV was to increase the living standards of the Lower Silesia inhabitants and to improve the competitiveness of the region in respecting the principles of sustainable development. The analysis of the allocation size in terms of intervention categories revealed that the most funds were allocated to R&D in technology, innovation and enterprise, i.e. 26% of the entire allocation. The second area with the highest budget allocated for support was transport. However, in comparison to other regions, the share of the resources earmarked for projects in transport infrastructure in relation to the entire allocation was the lowest in the whole country and accounted for 17%. In Poland, out of 16 Regional Operational Programmes, this was the category with the highest allocation, i.e. almost 27% of the entire budget.

The reasons for such a decision were twofold: on the one hand, the relatively well-developed transport infrastructure resulting from historical conditions and, on the other hand, from earlier, very intensive investments in this field, co-financed from EU funds in 2004-2006. Not much less money was allocated for investments in healthcare and social infrastructure. Lower Silesia had the highest allocation in this category of all the Polish regions, accounting for ca. 15% of the total funds. Slightly lower allocations were earmarked for environmental investments and for prevention and combating natural and technological hazards, as well as for the development of an information society. Less than 10% of the allocation was reserved for projects involving revitalisation of urban and rural areas, tourism, culture and the power industry (*Bilans otwarcia*, 2008:22).

### Expected outcomes of cohesion policy

The expected outcomes of cohesion policy in the regions were outlined in the ROP LSV. For the three detailed objectives being implemented, both output and product indicators were defined (Table 3.10).

**Table 3.10 : Output and result indicators for ROP LSV**

No.	Indicator	Units of measurement	Assumed value of the indicator in 2015
Main objective: Improvement of the living standards of Lower Silesia inhabitants and enhancing the competitiveness of the region while respecting the principles of sustainable development			
1	Impact of the programme on the GDP level in Lower Silesia Voivodship	%	0.7
2	Number of jobs created (gross) of which:	FTEs	8370
2a	Women	FTEs	4185
2b	Men	FTEs	4185
3	Number of jobs created (net)	pcs.	4440
Detailed objective: Increase of business activity based on knowledge and innovativeness			
Output indicators			
1	Number of projects concerning cooperation between companies and research institutions	pcs.	90
Result indicators			
2	Number of jobs created in R&D, of which:	FTE	80
2a	Women	FTE	40
2b	Men	FTE	40



3	Additional investments induced in SMEs	MEUR	160
Detailed objective: Development of infrastructure for improving the quality of environment, investment conditions and business activity			
Output indicators			
1	Number of projects concerning improvement of transport connections, accessibility of investment areas and tourist attractions	pcs.	25
Result indicators			
	Amount of sewage treated as a result of project implementation	m3	1440000
3	Number of persons protected against floods as a result of project implementation	persons	140000
Detailed objective: Improvement of the living standards of the inhabitants and enhancing the competitiveness of the region through modernisation and expansion of social infrastructure			
Result indicators			
1	Number of students of engineering and technology, mathematics (including IT and natural sciences) benefiting from the project outcomes	persons	12000
2	Number of healthcare institutions reporting to the regional (voivodship) government covered by consolidation or consolidation processes due to programme implementation	pcs.	4
3	Number of persons inhabiting areas covered by revitalisation	persons	216000

Source: Sprawozdanie, 2013:Załącznik 1).

### 3.3.2.2. Cohesion policy during the crisis (2008 onwards)

#### Role of cohesion policy during the crisis

Although the financial resources transferred to the Lower Silesia region under cohesion policy amounted to only **0.8% of its GDP**, they represented a significant contribution to promoting development and alleviating the consequences of the economic slowdown (Wojtowicz, 2011). Respondents confirmed the fact that, without EU funds, the investment opportunities of the entities operating in Lower Silesia would be extremely limited. In their opinion, the crucial thing was to provide funds for investing in innovative projects which, as a rule, are exposed to a higher risk of failure and which, without ensuring co-financing offered under the cohesion policy funds, would be limited, delayed or suspended.

#### Main changes in strategy and objective (linked to EERP and others)

As respondents stressed, the adopted strategic objectives and the corresponding priorities and measures of the Lower Silesia ROP are of a long-term nature and outline the directions to be followed irrespective of any current economic downturn. No one expects the strategy to resolve the immediate problems, but rather to provide a complex approach to the issue of strengthening development potential. It can be said, therefore, that the Lower Silesia Voivodship has witnessed no significant changes relating to the strategic objectives and priorities of the ROP interventions.

In the implementation of the ROP in the region at hand, several arrangements stipulated in the **Stability and development plan** were implemented (*Plan stabilności*, 2008).

The eligibility period for expenditure in the 2004-2006 programmes was extended beyond the end of 2008. In the respondents' opinion, it was indeed a very efficient mechanism for speeding up the spending of cohesion policy funds. However, the effectiveness would have been even greater if information on this extension had been

communicated to the region before 2009: 'Wroclaw University of Technology had a good project, but there was a risk that they wouldn't finish the implementation before 2015, so they withdrew their application.'

Another change was **the extension of the list of beneficiaries eligible for advance payment** of the projects. The scale of possible advance payments for project beneficiaries amounts to 95% of the project value. Pre-financing was introduced gradually – first for local government entities, afterwards for entrepreneurs and NGOs.

The Implementing Authority **changed the requirements for the result indicators** (in particular the 'new job created' indicator) that need to be met by beneficiaries. Problems in meeting this obligation increased within companies particularly affected by the crisis (e.g. with export-oriented production). The Implementing Authority states that, in exceptional circumstances, it does not have to return the funds granted to it, even if the project does not achieve the results assumed.

Another change was the increased allocation to measures providing grants for private sector entities. For example, instead of the planned launch of 15% of the pool for grants for innovative investments under the OP Innovative Economy, another 30% were made available to beneficiaries. In the Lower Silesia region, the total allocation for the year 2009 increased from the planned €320 million to €462 million (grant allocation for companies rose three times, and for local governments two times).

In the regional component of the HC OP, arrangements derived from the measures provided by the Stability and Development plan included: changed rules of granting public aid – increased access to public aid funds for entrepreneurs; 'rapid response' packages relating to vocational reintegration of people affected by the negative consequences of the economic downturn; specialised graduate and training programmes offering as much as 100% co-financing, relocation (mobility) bonuses and incentives; and start-up grants – with support of up to PLN 40,000.

The extra funds obtained by the region increased the total ROP allocation by €27.0 million to a level of €1,240.2 million, with €15,754,748 coming from the National Performance Reserve and €11.3 million from Technical Adjustment. Nearly all (99%) of the additional funds were allocated to the implementation of ROP Priority 3, Transport, while the remaining funds (€0.3 million) were allocated to the implementation of the project eliminating the consequences of floods under Priority 9. Moreover, the funds were reallocated among the priorities. To increase the resources earmarked for transport projects, funds originally allocated for the implementation of Priority 1, Enterprises and Innovation (€12.0 million), and Priority 10, Technical Assistance (€6.5 million), were shifted. As pointed out by one of the respondents, increased outlays on transport infrastructure projects were driven by the as-yet-unsatisfied needs in the sphere of urban road network and transport development.

In addition, under Priority 5, the Power Industry, a new Measure 5.4 was established – Increasing energy efficiency. The value of the allocation for this measure amounted to €2.3 million and the resources were transferred from Measure 5.2, Electric energy distribution (ROP LSV, 2007; ROP LSV, 2011).

### **3.3.3. Effectiveness, constraints and adaptation of cohesion policy**

#### **3.3.3.1. Effectiveness of cohesion policy before and after the crisis**

As one respondent stated, the availability of cohesion policy funds eased the negative effects of the economic downturn, because unemployment did not rise as significantly as it would have done in the absence of EU funds. Beneficiaries who failed to reach the previously planned target for the 'new job creation' indicator often pointed out that,



thanks to the grant, they were able to maintain the level of employment in the company in such difficult times.

As in the case of the Podlaskie region, the economic slowdown in Lower Silesia did not bring any significant changes related to the goals and priorities of cohesion policy. Therefore, the effectiveness of cohesion policy should be evaluated similarly for the two periods concerned, i.e. before the occurrence of negative socio-economic phenomena and after they became visible in 2010. Both before and during the economic slowdown in the region, cohesion policy was effective in maintaining investment levels and achieving demand and restructuring effects. Once again, this outcome results from two key factors.

First, the broad-based economic development strategy offered support to many socio-economic areas of the region's life. In view of the region's economic backwardness, the attempt to address all of the region's needs via cohesion policy proved quite effective. It helped to counteract the negative consequences of the decelerated development in the region, as it allowed interventions to be made in many spheres, including those affected by the effects of the downturn. Second, the crisis in the region assumed the form of an economic downturn, and the negative socio-economic changes appeared later than might have been predicted from the experience of other European regions.

## **Lessons learnt from changes in cohesion policy**

### ***Complementarity of VET projects***

In Lower Silesia, as in the whole of Poland, there is a mismatch between the education received by university graduates and school leavers and the needs of the labour market. This problem becomes especially significant in the period of an economic slowdown, characterised by job redundancies. Projects aimed at modernising the general and vocational education system are being implemented in the Lower Silesia Voivodship. Despite the separation of programmes implemented with financial support from the ERDF and the ESF and various institutions implementing the programmes, a high level of complementarity of the two types of projects, hard and soft, has been achieved. Both projects help improve the quality of vocational education in the region. The first project, co-financed within the HC OP, offers support for development programmes for all public vocational schools in the voivodship (i.e. about 275) through funding various types of classes. The second project, entitled 'Modernisation of vocational education and training in Lower Silesia', assumes the establishment of industry training centres in seven industries and nine districts (*powiats*) and the provision of additional specialist equipment for conducting classes in the centres. In consequence, the undertaken activities optimise the use of the modernised teaching and training facilities through implementation of projects supporting the development of teaching programmes and strengthening their cooperation with employers.

### ***Rapid-response path***

Within the HC OP, comprehensive support is offered in the region to persons threatened with redundancy or laid off by employers. In view of the increase in group redundancies since 2009, the region decided to withdraw grants for competition-based projects in this area. In return, a 'rapid response' systemic project was implemented, which allowed for the fast launch of support and was more flexible than competition-based projects. Additionally, the project was implemented using a 'stand-by' scheme, i.e. the activities were undertaken at the moment of receiving information about the need to provide support to employees of specific companies that were planning or undergoing a downsizing process. Unlike in other projects implemented under the same category in other voivodships, the project did not identify in advance any type or scope of proposed training (e.g. training in specific occupations or in specific *powiats*). It ensured a large degree of flexibility and full alignment with the needs existing at a given time. In

addition, the list of potential beneficiaries was extended to include large enterprises negatively affected by the consequences of the crisis.

The assumed employability indicator for persons covered by the project was exceeded by 5 percentage points and reached 60%.

### ***Systemic approach to support social economy***

A system of sub-regional support centres for social economy was a form of good practice implemented under the HC OP. Social economy provides employment opportunities for people threatened with social exclusion. Initiatives supporting social economy consisted in establishing four sub-regional centres responsible for activities undertaken in the respective areas. This allowed for a clear-cut division of competence and greater accountability of the centres for the results achieved. In this way, the possibilities for setting up small, territorially dispersed support centres for the development of social economy, operating only in their immediate vicinity, were reduced. It is worth mentioning that the solution introduced in Lower Silesia has been disseminated in a number of other voivodships.

### ***Withdrawal from information and promotion activities***

In the face of the deteriorating condition of the regional economy, increasing unemployment and the increasing scale of related negative social phenomena, as of 2010, the institution managing the regional HC OP component has strictly reduced the funds earmarked for information and promotion campaigns.

### ***Training failing to match employers' needs***

In the face of the economic slowdown, open training projects, to be attended by interested people who could, on their own initiative, contact training companies implementing projects co-financed under the HC OP, proved to be hardly effective. This kind of training did not satisfactorily match the needs of participants, as was the case with the closed-training formula, customised to the needs of a given employer and its employees. With the deteriorating conditions of many companies and the need to step up efforts on the part of their employees, sending employees to a training programme was a major problem for employers.

Moreover, in their applications, institutions applying for grants for the provision of open training programmes often proposed to address the disadvantaged groups in the labour market. What motivated them was a wish to score extra points during the project evaluation. It often happened that, having signed a grant agreement, such companies faced serious problems with recruiting participants for the training, and they were unable to develop training curricula that would cater to the special needs of these groups. Both problems resulted from their lack of experience in offering training and in working with people from disadvantaged groups in the labour market.

### **Impact of crisis on funds management and expenditure**

There were no changes in fund management due to the crisis. The impact of the crisis on expenditure under cohesion policy was reflected in the reduced costs of planned investments, as many projects in the region were completed at well below the estimated costs. This allowed considerable savings to be made and in effect to the completion of more projects than were initially planned under a given measure.

#### ***3.3.3.2. Main constraints affecting cohesion policy implementation***

In the case of the implementation of projects co-financed by EFRD from 2010 onwards, some problems began to appear. Firstly, deterioration in the financial condition of

beneficiaries and potential beneficiaries was observed. This resulted in a decrease in the number of entities interested in benefiting from EU funding and an increase in the number of frequent rescissions and cancellations of agreements. The ratio of the number of terminated contracts for funding to the number of signed contracts amounted to 7.26%. The reason for withdrawal from agreement-signing was mostly a problem in obtaining credit to cover own contributions. However, the decrease in the number of entities interested in benefiting from EU funding and the increase in the number of unsigned or terminated contracts has not significantly influenced the implementation of the ROP. The level of interest in obtaining grants (although reduced) is sufficient to ensure that all the EU funds will be absorbed up to 2015.

Secondly, problems have appeared with work contractors within the realisation of larger investments. This was due to the complicated process of project settlement (based on the principle of reimbursement of costs), which resulted in frequent delays in the payment of entitlements. Construction-sector firms began to lose solvency and had difficulties with the current payments for their subcontractors. In some cases, they went bankrupt. This kind of situation resulted in the prolongation of projects but did not severely threaten the investments.

Thirdly, the number of projects that did not achieve the assumed target values in certain indicators increased. In particular, this problem applied to the job-creation indicator in firms that were awarded a grant. Currently, the ROP has achieved only 40% of the target job-creation indicator.

In the implementation of projects co-financed by the ESF, the barriers that appeared were linked to the decline in interest in open training – employers were reluctant to send their employees for training. In times of economic slowdown, employees are expected to devote their time to intensified work. Another constraint was the low efficiency of measures targeted at the unemployed, resulting largely from the relatively high level of social security.

Many arrangements to simplify the process of applying for co-financing and settlement of projects have been put in place. For example:

- Amending the annual plans, owing to the increased number of calls for proposals for entrepreneurs; and
- Scope to waive sanctions if the financial and economic results anticipated in the project have not been achieved as a consequence of the economic slowdown.

### **3.3.3.3. *Regional strategies adaptation***

Economic slowdown in the region did not result in regional strategy adaptation in the years 2007 to 2012. Not until 2013 was a new strategic document adopted in the region: 2020 development strategy for the Lower Silesia voivodship. Despite the fact that, in the preface of the document, the voivodship Marshal stresses that 'Undoubtedly, difficult times are coming, as a consequence of the global crisis', the adopted goals do not relate to the effects or threats that arose due to the global crisis. The document focuses on strengthening socio-economic development based on identified potential and taking into account the weaknesses and limitations of Lower Silesia in the long term. Compared to the previous strategy, the new one takes into account the specific spatial differentiation of socio-economic development in the region. The new approach is based on the identification of partially overlapping areas with uniform development issues for which the strategy proposes diverse actions and instruments appropriate to the identified needs and challenges.

### 3.4. Conclusion

The **impact of the economic crisis on the implementation of cohesion policy** manifested in both regions mostly by introducing measures intended to improve the spending efficiency of EU funds. Accelerated spending was intended to maintain a stable level of public and private investment and thereby strengthen the demand effects in view of the deteriorating economic outlook. As a result, in the implementation of the ROPs and of the regional components of the HC OP, all of the arrangements stipulated in the Stability and Development plan were adopted. As far as the ROP is concerned, Podlaskie Voivodship introduced all the arrangements proposed by the government, while in Lower Silesia the list of arrangements was limited (e.g. the possibility for submitting payment applications within the so-called 'large projects' was not implemented, as there were no large projects being realised at that time). The greatest changes in the ROP occurred only in 2011, when the crisis was manifested in the regions. Nevertheless, the scale of the changes was still not significant and the changes had no strategic character. This results from two facts. First, the process of introducing changes is lengthy and time consuming; and second, the level of cohesion policy and its implementation is relatively highly centralised, particularly with regard to the ESF.

The economic slowdown in Lower Silesia and Podlaskie did not bring any significant changes related to the goals and priorities of cohesion policy. Therefore, the **effectiveness of cohesion policy** should be evaluated similarly before and after the crisis. It can be said that cohesion policy played its role in both periods – the level of investment was maintained, and the demand and restructuring effects were achieved. This positive evaluation of cohesion policy rests on two important premises. First, the strategies adopted in both regions, which could be summarised as broad-based economic development, offered support to many socio-economic areas of the regions' life. It could be argued that, in view of the regions' economic backwardness, the attempt to address all of the regions' needs via cohesion policy proved quite effective. It helped to counteract the negative consequences of the decelerated development in the region, as it allowed interventions to be made in many spheres, including those affected by the effects of the downturn. Second, the crisis in both regions assumed the form of an economic downturn, and the negative socio-economic changes became visible much later than would be expected on the basis of the economic collapse in other European regions.

Moreover, it can be surmised that the general effectiveness of cohesion policy (not related to counteracting the negative consequences of the crisis) is increasing. This is the effect of a more calculated expenditure of funds in the conditions of an economic downturn and in view of the worsening financial situation of the beneficiaries. But also, this is the effect of the beneficiaries' learning process, something that would have taken place even if they had been operating in a period of economic prosperity.

The main **constraints affecting cohesion policy implementation** in both the analysed regions related to the financial situation of the beneficiaries, primarily enterprises and local government entities. Their deteriorating financial standing was manifested by a reduced number of grant agreements and a lack of interest in calls for proposals due to an inability to find the required own contribution.

Additionally, the Podlaskie case study revealed that implementation of cohesion policy addressing crisis phenomena in *gmina* Łapy was more difficult due to the specific features of the local community. In particular, the local community was characterised by low mobility, low level of entrepreneurship, lack of a self-employment tradition and a low

level of qualifications. Moreover, there was a negative impact of welfare benefits on the motivation of the unemployed to seek work.

Economic slowdown in Podlaskie and Lower Silesia had no influence on the **management of Structural Funds** or on the **regional strategy**. However, in the less developed region – Podlaskie – economic recession ultimately resulted (to a limited extent) in the revision of the regional strategy for the new programming period. The new strategy was designed to be more focused on precisely selected economic goals. It is difficult to separate the influence of different factors on the final shape of the regional strategy, nevertheless unfavourable global conditions, the financial crisis among them, comprised one of them.

The strategy adopted by both regions under study assumed broad-based support to the economy. This proved to be a good and **effective solution in terms of counteracting the crisis**, as it enabled both the public and private sectors to sustain their investments. Investments were crucial in the period of economic downturn, as they generated wider demand effects. In consequence, the benefits of the implemented projects were felt not only by the direct beneficiaries of the EU funds. Moreover, the measures intended to strengthen human resources development, together with the support provided to people threatened with redundancy or laid off, proved to be particularly appropriate, given the deterioration in the financial condition of many companies, reflected in the increased lay-offs.



## 4. BULGARIA

### 4.1. Introduction

#### 4.1.1. Country context analysis

The impact of the economic and financial crisis on Bulgaria and its regions has been mixed. Bulgaria has an open economy, linked to the European Union and the Eurozone through the **currency board system**<sup>45</sup> and dependence on investment flows with third countries (IMF, 2014; Bartlett and Monastiriotis, 2010; CEAOEF, 2012). The **transmission mechanism** of the crisis has followed 'communicating vessels' logic, and the crisis was channelled through the external and real sectors (Interview CSD, 2014; CoM, 2012). In this respect, the transmission of the crisis was in line with the expectations of the framework, given the initial low level of development of the country and the export structure.

The impact of the crisis was felt to a different degree across several dimensions:

- **External sector** – due to the country's dependence on the performance of its international trading partners, data shows a drop in exports and FDI as well as in the flow of remittances from the Bulgarians residing abroad (CoM, 2012);<sup>46</sup>
- **Financial sector** – the Bulgarian index SOFIX began falling in 2007, decreasing by a total of 87% over 16 months (Totev and Sariiski, 2013); banks remained relatively stable due to 'financial immaturity' of the capital market as well as higher capital adequacy requirements than the rest of the EU, but consumer confidence and access to credit were affected (Totev and Sariiski, 2013:65; CoM, 2012);
- **Real sector** – output contracted especially across key sectors such as 'construction, metallurgy, mechanical engineering, chemical and textile industries' (FES, 2014:1);
- **Hidden economy**<sup>47</sup> – the size of the informal economy in Bulgaria has importance for assessing the effect of the crisis;<sup>48</sup> CSD's Hidden Economy Index<sup>49</sup> 2013 results show that 'the share of the hidden economy in Bulgaria has increased in 2013 among both businesses and the population', largely due to high levels of unemployment, slow economic recovery and poverty (CSD, 2013:1);
- **Labour market** – the effect on the labour market has been notable, with unemployment sharply increasing in 2010 and 2011 after an initial lag due to the expectation that the EU would recover promptly from the crisis (CoM, 2012:6); unequal effect on the labour market with significant differences between North and South Bulgaria.

Within this context, the present report focuses on two regions of Bulgaria, the South Central Planning Region (SC, *Ujen centralen rajon za planirane*) and the North West Planning Region (NW, *Severozapaden rajon za planirane*), which are both among the

<sup>45</sup> On the limited fiscal response in the situation of currency board, see: IMF (2014), *Bulgaria's EU Funds Absorption: Maximizing the Potential!* Prepared by Paliova, I. and Lybek, T.

<sup>46</sup> For a thorough analysis of remittances and their importance to the Bulgaria economy, see *Open Society Institute – Sofia, 2010*.

<sup>47</sup> Also known as 'grey and black', 'underground', 'illegal', or 'unrecorded' (CSD).

<sup>48</sup> So far, the government does not have an official measure of the hidden economy, but some estimates point to 20% of GDP (EC, Europe2020, 2011 data).

<sup>49</sup> Combines four components: size of the hidden economy, hidden employment, hidden turnover and hidden redistribution.



poorest EU regions. The two cases aim to respond to the research questions on the effect of the **implementation and effectiveness of cohesion policy** (RQ3-RQ5) and the **adaptations of cohesion policy initiated by the crisis** (RQ6-RQ7)

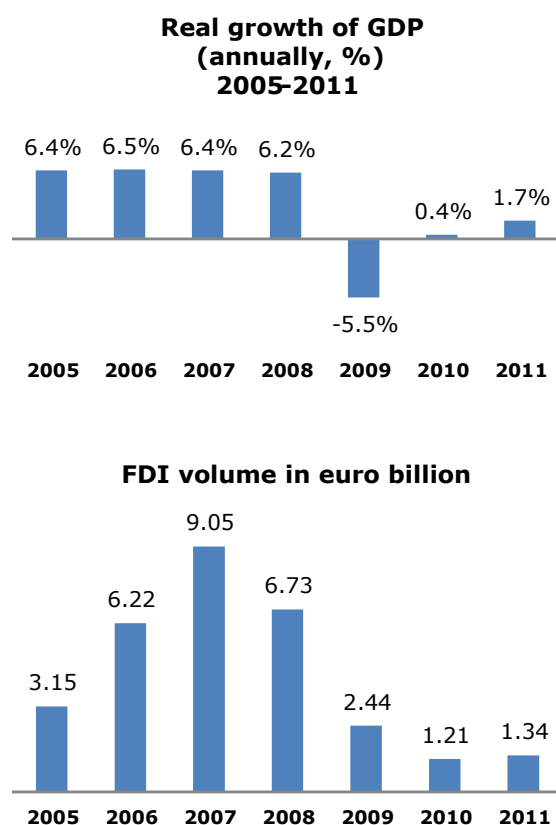
The research team uses the example of Bulgaria and two of its regions to emphasise the **territorial dimension of cohesion**. To this end, it includes observations on the Greece–Bulgaria cross-border cooperation programme (GR-BG CBC) and the Romania–Bulgaria cross-border cooperation programme (RO-BG CBC). In terms of comparison, the GR-BG CBC includes one of the countries affected substantially by the crisis, Greece, while the RO-BG CBC includes two of the EU's 'newest' Member States. The cross-border cooperation programmes are the primary means to pursue the **objectives of territorial cohesion in the EU and are the only territorially-focused programmes in Bulgaria**. The earlier analysis suggests that the CBC framework is less likely to adapt to cyclical challenges in comparison to the Structural Funds, which are sectorally allocated. The three characteristics of the cross-border cooperation programmes which feature in the assessment include:

- **Fewer resources** are available to CBC programmes in contrast to total resources allocated to Structural Funds in Bulgaria;
- **Centralised systems and competitive** principles for the allocation of resources are not tailored to the specific/local challenges;
- **CBC priorities focus on enhancing the relations** between the local populations living in the border regions and they have to be assessed against this background.

Further elements to consider in the assessment of the impact of the crisis on regions in Bulgaria include: **Bulgarian regional policy**<sup>50</sup> and **the role of municipalities**. Even though **regional planning** is associated with the NUTS 2 level, the Regional Development Councils have limited functions in design and delivery of policy, apart from monitoring (Interview CoM, 2013; Interview NA, 2013). Previous research shows that 'while the central (NUTS 1) and municipal (LAU 1) levels are autonomous (self-governed), in the two intermediate tiers officials are directly appointed by the State and their function is merely to promote the policies of the central authority' (Monastiriotis, 2008:18). The interaction of the five levels – State, planning region, district, municipality and cross-border – has a strong impact on the governance, implementation and monitoring of cohesion policy and represents the complexity of understanding the effect of the crisis on the territorial dimension.

Moreover, the **municipal policy (LAU 1)** is an interesting subject for further analysis, underlined by a report authored by the Institute for Market Economy, which reviews the

**Figure 4.1 : GDP growth and FDI dynamics 2005-2011**



Source: Strategic Report of Bulgaria, 2012.

<sup>50</sup> Bulgaria has 6 planning regions (*rajoni za planirane*), 28 districts (*oblasti*), and 264 municipalities (*obshtini*).



impact of the crisis on the municipalities and their ability to respond (2013). The assessment illustrates that, after enjoying a period of increased revenues and transfers from the central budget after Bulgaria's accession to the EU post-2007, municipal budgets experienced a shock in 2009-2010 when revenue decreased sharply and budgets had to be consolidated within a short timeframe (IME, 2013). The reasons for the strong impact of the crisis on some municipalities include the lack of a buffer on the municipal level, such as the State fiscal reserve, and the limited sources of own revenue (IME, 2013).<sup>51</sup>

#### 4.1.2. Role of cohesion policy during the crisis

The assessment of the role of cohesion policy during the crisis on a regional level and in the cross-border area is ambiguous. Interviews with authorities and external stakeholders suggest that on all levels, i.e. national, regional and municipal, over the 2009-2012 period the major part of the investment towards employment, creating new job opportunities and investments in basic infrastructure was accomplished through cohesion policy funding (CoM, 2012:43; EEN, 2012; Interview NA, 2013).

On the **national level**, evaluations point to the positive effect of cohesion policy with regard to the overall development of the country (CoM, 2012:11). The simulation model developed specifically for the assessment of Structural Funds in Bulgaria, SIBILA,<sup>52</sup> has been recognised as a valuable tool to measure the effect of EU SCFs on the Bulgarian GDP, employment and income. The model compares a baseline scenario (without EU funds) and the alternative (including the EU Structural Instruments). According to the model, the effect of absorbed resources is substantial (as of the end of 2012; CoM, 2013:47; CoM, 2013: Annex 3). Structural Funds in the country.

**Table 4.1** illustrates the impact of OPs on GDP in percentage points over five years and illustrates the cumulative medium-term effect of the implementation of Structural Funds in the country.

**Table 4.1: Impact of mainstream OPs on GDP (%)**

Operational Programmes	% increase in GDP attributed to EU SCFs					
	2010	2011	2012	2013	2014	2015
All OP	0.5%	1.6%	3.0%	4.9%	7.1%	9.3%
Competitiveness	0.2%	0.4%	0.6%	0.8%	1.1%	1.3%
Environment	0.0%	0.2%	0.3%	0.6%	1.1%	1.6%
Human resources development	0.1%	0.3%	0.7%	1.2%	1.7%	2.3%
Administrative capacity	0.0%	0.1%	0.1%	0.1%	0.2%	0.2%
Regional development	0.1%	0.3%	0.5%	0.8%	1.2%	1.5%
Technical assistance	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%
Transport	0.0%	0.2%	0.6%	1.1%	1.5%	1.8%

**Source:** Council of Ministers, Appendix 1, 2013.

<sup>51</sup> The consolidation in the municipal budgets has primarily been reflected in the shrinking of investment in fixed assets, which was compensated by the increased use of the EU SCFs (IME, 2013:35). Moreover, on the municipal level, tax revenue aside, European funds have become a greater source of revenue than the own resources of the municipality (IME, 2013). These observations have also been supported by the interviews with the Managing and National Authorities, who emphasise the role of EU funds for investments during the crisis (Interviews NA and MA, 2013). Even though a review of municipalities is beyond the scope of this report, it has to be noted that they have been very dependent both on government transfers and EU funds due to the State and local tax systems which concentrate a large percentage of the tax collection at the central level.

<sup>52</sup> The Simulation (model) of Bulgaria's Investment in Long-term Advance. <http://www.eufunds.bg/bg/page/872>

On a **regional level**, in 2011 when SIBILA was developed the team was not given the task of assessing regional effects (SIBILA Team, 2013).<sup>53</sup> The need to perform such an assessment emerged in the 2012-2013 period, when the team supported the implementation of the model by the administration of the Council of Ministers.<sup>54</sup> The conclusion highlights that: 'in less developed regions, where the employed-population ratio is lower than the national average, the funds from the Structural Instruments have a stronger influence on generating employment than in the country as a whole' (CoM, 2012:20).

#### 4.1.3. Main changes in strategy and objective

Similarly to the observations with regard to the role of cohesion policy, those on the changes in strategy and objectives show a mixed picture. Overall, in Bulgaria there have not been changes in the core objectives of the programmes, but modifications have been made in order to facilitate access to resources and improve the absorption of funding (EEN, 2012).

Centrally, **five sectoral Operational Programmes**<sup>55</sup> outline the use of SCFs across the country. Since the OPs do not define the regional strategies, the place to look for the strategic direction is the Regional Development Plans (RDPs). The RDPs outline what has to be achieved with the public and EU funds in the region, and therefore they can serve as an indication of the initial strategy and its changes. At the same time, the update of the Regional Development Plans in 2011 was not driven by the implications of the crisis, and it was **not an adaptation to the socio-economic environment** *per se*. The interim evaluations and the updated RDPs confirmed the relevance of the programmes' vision and objectives. Thus, the update of the plans was necessary due to the institutional, legislative and statistical changes that directly impact on the implementation of the Plans and the allocation of funds. The modifications echoed the following developments (Interim Evaluation, 2010:35-36<sup>56</sup>):

- Bulgarian membership of the EU from 1 January 2007;
- Revision of the Regional Development Act (2008) and allocation of responsibilities for RDA monitoring to Regional Development Councils;
- Reiterating Strategic direction of Europe 2020 and Green Book on Territorial Cohesion and other key EU documents;
- Inclusion of all financial resources in financial planning: national and EC, including cross-border due to the fact that the original RDPs included only ERDF spending;
- Change the territorial scope of the both regions in line with Eurostat methodologies<sup>57</sup>.

Moreover, the updated Plans aligned regional priorities with the National Regional Development Strategy (NRDS) and the final versions of the sectoral Operational Programmes, without which the documents would have remained largely irrelevant. The

<sup>53</sup> Correspondence with SIBILA project team coordinator, December 2012.

<sup>54</sup> For this purpose, the team conducted an analysis based on panel regression models at the levels of municipality, district and planning region to estimate the impact of the SCFs on key macroeconomic indicators. The panel covered the 2008-2010 period, encompassing 264 Bulgarian municipalities, and was statistically significant at 1% (CoM, 2012:20).

<sup>55</sup> OPRD – Operational Programme Regional Development; OPC – Operational Programme Development of Competitiveness of Bulgarian Economy; OPHR – Operational Programme Human Resources; OPT – Operational Programme Transport; OPE – Operational Programme Environment; OPAC – Operational Programme Administrative Capacity; OPTA – Operational Programme Technical Assistance.

<sup>56</sup> All the documents on the Regional Development Plans are available at: <http://www.strategy.bg/StrategicDocuments/View.aspx?lang=bq-BG&Id=405>

<sup>57</sup> The modifications decreased the number of districts in the SC region, removing Stara Zagora and increased the number of districts in the NW region by two additions (Lovech and Pleven).

lack of refocusing of funds is also due to a perception that the economic condition of the regions is stable relative to the impact of the crisis elsewhere in the EU and in Bulgaria's neighborhood (RDP, 2011:4). It can be argued that even if changes in the RDPs were made, the mechanism through which such change is communicated to the central level is largely absent. Thus any modifications would not have necessarily triggered a further allocation of funding to the area in question.

Other key changes occurring in relation to cohesion policy implementation and their limitations are reviewed below. Firstly, a number of changes were introduced by the national authorities as a result of the EERP. As the Expert Evaluation Network report on Bulgaria illustrates, the government implemented measures in response to the crisis to support people and companies through 'job opportunities, financial re-allocations and new approaches, such as the JEREMIE and JESSICA financial instruments' (2012:7). More precisely, the measures adopted, proposed by the EC in the European Economic Recovery Plan (CoM, 2012:43-44), include:

- Increase in the size of the funds advanced to public beneficiaries for the implementation of projects of up to 35% of the value of the grant provided from European and national co-financing under the capital-intensive programmes: OPRD, OPT and OPE (CoM, 2012:Annex 9);
- Amendments to the five OPs (OPE, OPT, OPRD, OPHRD and OPC) in order to respond to the challenges of the financial and economic crisis and to accelerate the absorption of funds with an accent on energy-saving and energy-efficiency technologies, access to financing, and projects that have received approval but no finance due to lack of resources (CoM, 2012:point 3.a of Annex II);
- Introduction and strengthening of the implementation of financial instruments such as the JESSICA and JEREMIE initiatives;
- Reduced administrative burden, strengthened administrative capacity of the beneficiaries and the institutions responsible for the management and implementation of OPs, and where possible simplification of existing procedures.

In this regard, the link to the **municipal level** is highlighted, since the adaptation of mainstream priorities has been utilised by the municipalities. They have benefited from *inter alia* the adaptation of the priorities under the OPRD as listed below:

- Financial resource allocation to schemes under PA 1 'Sustainable and integrated urban development' and PA 4 'Local development and cooperation' 'for financing of ready replacement project proposals which have successfully passed the assessment but which have not received funding', specific focus on energy-efficiency measures in the municipal educational infrastructure and small-scale measures for prevention against floods (CoM, 2012:Annex 9-5);
- Creation of schemes within existing measures for the improvement of the urban environment: 1.4 'Improvement of Physical Environment and Risk Prevention', scheme 'Green and accessible urban environment' (CoM, 2012:Annex 9-6).

Existing data also suggest that the Fund for Local Authorities and Governments (FLAG) set up in 2007 has been 'well accepted and actively used by the municipalities in Bulgaria' (EEN, 2011:24; Interview NA, 2013). Its goal is to provide financing in support of the absorption of funds across all programmes (EEN, 2011). Anecdotal evidence from interviewees suggests that the Fund has been a valuable tool to assist local authorities in the context of decreased private and public investments (Interview Geratliev, 2013; Interview NA, 2013). At the same time, the **centralised governance system and competitive allocation** of CSFs in Bulgaria have limited the ability of the changes to target regional and municipal issues (Interview CoM, 2013). Moreover, the efforts of the

central government have been mainly targeted at improving the absorption of the funds (Interview CITU Vratsa, 2014; Interview NA, 2013).

Some of the measures taken at the national level to counteract the crisis are relevant to the CBC programme and the two selected regions. The transmission channel of the crisis in Bulgaria essentially limited beneficiaries' access to credit as well as their ability to co-finance projects (CoM, 2012:40). On a sub-national level, the space for manoeuvre to implement changes is limited. Evidence suggests that: (i) the **CBC framework** was not appropriate to reply to the challenges of the crisis due to the limited resources and the continued relevance of its objectives; (ii) the **regional authorities** do not have the necessary tools and are constrained in their ability to respond to the crisis, while (iii) the **municipal level**, due to its relative autonomy and 'proximity' to the challenges, could be seen as the most appropriate level to respond to the crisis (Interviews, 2013-2014).

#### 4.1.4. Examples of lessons learned from two regions

So far, the Study has shown that in Bulgaria the absorption of funds is on-going, and data on the role of cohesion policy during the crisis are unconvincing, especially on a regional level. However, due to the fact that this is the first programming period for Bulgaria, many lessons have been learned. The 2007-2013 period was perceived as a 'learning-by-doing' period by all the stakeholders interviewed. Nevertheless, the lessons learned cannot be specifically attributed to the impact of the crisis. Below are some examples of lessons which can lead to improvements in the resilience of the regions:<sup>58</sup>

- Concentrate the available resources and link the diverse strategies: focusing the resources on fewer but targeted problems and actions, and clearly linking the programme with Europe 2020 and the Regional Development Strategies. A stronger alignment of the Regional Strategy to the OPs and available resources would also ameliorate the targeting of regional needs and the prioritisation of problems.
- Involve the local and regional authorities: to be achieved through linking the Integrated Urban Rehabilitation and Development Plans (IURDPs) at the NUTS 3 level and strengthening the involvement of local authorities in the policy-making process. There is a need for further decentralisation in order to bring the bodies responsible for programming and implementation closer together (Interview CITU, 2014; Interview MA JTS, 2013).
- Improve the evaluation criteria and the indicators used across programmes: this reflects the IMF recommendation to develop 'clear and measurable objectives and priorities for the next program period, allowing implementation of integrated projects' (2014:9); availability of up-to-date information about the implementation of the programme and SMART<sup>59</sup> indicators to measure the performance under the individual priorities would strengthen the delivery of the programme and allow for the timely response to the changes in the context.
- Develop evaluation methodologies to measure the effectiveness of EU funds on a sub-national level: implement analysis of the effectiveness of cohesion policy which spans beyond absorption rates (IMF, 2014:9).

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<sup>58</sup> For a full review of lessons learned on a national level, please see the Strategic Report of the Republic of Bulgaria for 2012 and Analysis and Evaluation of the Progress towards Achieving the Goals and Priorities of the National Strategic Reference Framework (NSRF); with regard to the individual OPs and the CBC, see the Annual Implementation Reports for 2012.

<sup>59</sup> SMART refers to indicators that are specific, measurable, attainable, relevant and time-bound.

#### 4.1.5. Effectiveness of cohesion policy

The assessment of the effectiveness of cohesion policy has been constrained by the fact that the absorption of resources is still on-going at the time of writing. The evaluation suffers from scarce data availability and difficulty on the side of the stakeholders to define the effect of the crisis and the role of cohesion policy. Interviews with external stakeholders underline the difficulty in evaluating effectiveness of cohesion policy. The reason for this difficulty is twofold, on one hand essentially due to administrative capacity, while on the other hand due to the time horizon of policies.

Vis-à-vis evaluation capacity, the drawback is that the responsible authorities have assessed the effectiveness of the implementation of funds predominantly through the monitoring of **absorption rates** (at national, CBC and regional levels) with the accent on process-oriented activities (CoM, 2012; Interview CSD, 2014). Since this was the first programming period for the Bulgarian authorities, they are still gaining experience in OP evaluation (EEN, 2012; Interview CSD, 2014). Initially, the absorption rate of the SCFs in Bulgaria was very low due to the cumbersome procedures, administrative burdens and limited preparedness, but in 2010 'absorption accelerated, reflecting the high priority assigned by the government to improve absorption, including by appointing a special minister for EU funds' (IMF, 2014:7). On a central level, this represents improved effectiveness of cohesion policy after the crisis, but it is not a result of changes in the strategy at national or sub-national levels. In essence, the effectiveness of cohesion policy was not evaluated before the start of the crisis. The interim evaluation of the objectives of the Regional Development Plans provides no information on the available resource of the programme due to the absence of a financial plan that covers all OPs as well as the modified territorial coverage of the region (MRDPW, 2010). Moreover, the interim evaluations underscore the absence of clearly defined indicators with baseline and target values linked to the priorities.

#### 4.1.6. Constraints of cohesion policy

After discussing the limitations to comparing the effectiveness of cohesion policy before and after the crisis, this part of the report summarises the key constraints on the implementation of the programme on the levels discussed: national, regional, and territorial cooperation. The constraints reviewed link to the conceptual framework and, especially, to the perception of administrative capacity as a resilience factor in coping with cyclical challenges. The constraints resulted predominantly from the limited experience of the management of SCFs in Bulgaria.<sup>60</sup> The limitations on cohesion policy delivery were not triggered by the crisis and, as a result, the responses focused on improving the management and audit system, setting up an adequate institutional framework, simplifying the regulatory framework and ensuring the optimality of resources spent (CEAOEF, 2012).<sup>61</sup>

On the territorial cooperation level, some of the practices that decreased effectiveness during the crisis relate to the essence of cross-border relations and the difficulties created from multi-country involvement. The existing national limitations were exposed at the cross-border level with limited harmonisation in the rules and procedures across programmes and countries, lengthy formal processes, lack of joint capacity, and lack of coordination (Interviews, 2013-2014). In this light, the major issue with the implementation of the GR-BG and RO-BG programmes was the high administrative burden and little capacity to cope with complicated procedures for the management and control of the CBC programmes (Interview 2, 2013). These issues can be noticed in (i) the insufficient staffing levels and high workload of employees, especially in the smaller

<sup>60</sup> The majority of constraints experienced nationally have been discussed in detail in the EEN evaluations (2011, 2012) and the Strategic Report (2012).

<sup>61</sup> The measures introduced to overcome management, institutional and legal constraints have been outlined in detail in the Report on the Management of the EU Funds in the Republic of Bulgaria (2012) and the Strategic Report (2012).

and poorer local authorities in the two regions; (ii) the limited experience of the beneficiaries in the management, control and reporting of investment projects related to being the first planning region; and (iii) the lack of resources for training, and poor material and technical support (Interviews, 2013-2014).

The information on the regional level is insufficient to assess the measures taken to overcome the constraints. A number of changes in the management of the Structural Funds were introduced centrally to ease the absorption of EU funds. The changes in management applicable to the CBC area and regional levels include decreasing the documentation burden and increasing the information available in the form of guidance, information centres and transparency. The information centres opened at NUTS 3 level and the territorial cooperation area have become an important tool for awareness-raising regarding the benefits of cohesion policy, open calls for proposals and general guidance to beneficiaries (Interviews NA, MA, JTC, 2013; CEAOEF, 2012).

#### **4.1.7. Structure of the report**

Following the introduction, this report presents two examples from the North West and South Central planning regions. These cases reiterate the findings presented on Bulgaria and provide illustrations of the impact of the crisis on economic, social and territorial cohesion. Each case study is divided into four sections. Section 1 highlights the position of the region within a national and EU context and links the case study to the literature review (Chapter 4) and overall quantitative analysis (Chapter 5). Section 2 aims to understand whether the crisis had an impact on the implementation of cohesion policy and the use of funds in the CBC area and the region, and Section 3 assesses whether there is any evidence for changes in the effectiveness of cohesion policy. Section 3 also looks into the constraints, triggered by the crisis, that affected the implementation of the policies. Section 4 provides an overview of the research questions and aims to set the scene for the next programming period.



## 4.2. North West Planning Region

### KEY FINDINGS

- The findings for the North West region are in line with the conceptual framework presented, and the data show a **low level of resilience** with regard to GDP per capita (lowest in the EU), investment in innovation and R&D, and human capital as indicated by the percentage of adults with tertiary education.
- The **impact** of the **economic and financial crisis** on the implementation and use of cohesion policy in the North West region has been mixed. The low starting level means, on the one hand, a stronger impact of the crisis and a lack of financing, and on the other hand, little exposure of the region to the crisis in financial markets. The impact of the crisis on a regional level is difficult to assess due to the weak link between regional strategic documents and the five sectoral Operational Programmes over the 2007-2013 programming period.
- Concerning the **effectiveness of cohesion policy** before and after the crisis, and the changes in this aspect, the information available on the regional level is not sufficient to give a clear response. Authorities tend to use the absorption rate as a benchmark, which has picked up nationally after 2010. Moreover, the Regional Development Plan of 2005 does not provide sufficient financial and management benchmarks for a comprehensive comparison.
- The implementation and management of the national and regional programmes were hampered by **multiple constraints** during this first period, mostly resulting from the limited experience with cohesion policy.
- As a result of the crisis, the **regional strategy** has retained its focus on broad-based economic development, building on internal resources to strengthen the resilience of the region.

### 4.2.1. Context Analysis

This particular case study aims to respond to the research questions of the project on the effect of the implementation and effectiveness of cohesion policy and the adaptations of cohesion policy as revealed by programmes within the 2007-2013 Convergence and European Territorial Cooperation (ETC) objective.<sup>62</sup> The study of the NW region focuses on one of three types of ETC programmes, namely the cross-border cooperation programmes (CBC) along the internal EU borders,<sup>63</sup> exploring the evolution of CBC goals and strategy during the crisis. The rationale behind this is that these types of programmes are the primary means of pursuing the objectives of territorial cohesion in the EU, and they have been complementary to the sectoral ones.

Geographically, the case study makes references to the CBC eligible area, located in the northern part of Bulgaria and the southern part of Romania along the national borders. The area consists of seven Romanian counties and eight Bulgarian districts, four belonging to the North West Planning Region of Bulgaria.<sup>64</sup> This section of the report

<sup>62</sup> Formerly the INTERREG Community Initiative.

<sup>63</sup> Total ERDF contribution to the 53 cross-border cooperation programmes equals €5.6 billion (DG Regio website, 2014).

<sup>64</sup> The fifth district that belongs to the region but not the programme is Oblast Lovech. Other eligible areas include: Counties Mehedinti, Dolj and Olt, the Oltenia South West Development Region of Romania; Counties Teleorman, Giurgiu and Calarasi, the Muntenia South Development Region of Romania; County

highlights the position of the NW region against the performance of the country and aims to illustrate the impact of the crisis on the NW region and the area covered by the RO-BG CBC programme.

#### 4.2.1.1. *Change in economic, social and territorial structure*

The manifestation of the crisis in the NW region has mirrored the impact of the crisis in Bulgaria and has added to the mixed picture. The transmission of the crisis in the NW is in line with earlier findings, since the region has been affected mainly through the credit availability and interest rates channel as well as the lack of external demand (RDP, 2013). In 2010, the decline in government revenues led to the tightening in public procurement spending across the country (EEN, 2012). Since the local economy is dominated by sectors that have a relatively high need for capital, credit availability has affected businesses of all sizes.

The analysis of data from the region illustrates **low resilience** due to its unpreparedness for the crisis and limited scope for response. The low resilience hypothesis is supported by the dimensions introduced in the conceptual framework<sup>65</sup> of this report, emphasised by the slow recovery and unfavourable conditions for people and businesses.

The NW region has long been the poorest region in the EU with GDP per capita significantly below the EU average.<sup>66</sup> The **regional gross value added** (GVA) has been the lowest among the Bulgarian regions since 2005. In 2007, the shares of agriculture, manufacturing and distribution, tourism, transport and communication services were 16%, 26% and 17% respectively. With regard to **sectoral sensitivities**, the energy and manufacturing sector generated a higher GVA than any other sector, exposing the region to the lack of capital in the manufacturing sector triggered by the crisis. As previewed by the framework, the manufacturing share declined in favour of agriculture as a result of the crisis (comparing 2003-2007 and 2008-2012). The share of agriculture in GVA has been almost two times the levels for the country and significantly higher than that in Europe (see Table 4.2).

**Table 4.2 : Sectoral specialisation in Bulgaria and the North West region in 2007**

Share of total GVA by sector	Agriculture	Energy & Manufacturing	Construct	Distribution, tourism, transport, comms	Market services	Non-market services
EU	2%	22%	6%	22%	26%	22%
Bulgaria	9%	22%	5%	27%	21%	16%
NW region	16%	26%	3%	17%	19%	19%

**Source:** Author, based on Cambridge Econometrics data.

In addition to the high share of agriculture, the indicators display a low intensity of economic activity and a lack of private and public investment in **innovation and research and development**, as illustrated in Table 4.3. The limited expenditure on R&D reflects the poor infrastructure in the region, the low level of human capital and the weak link between the education sector and the labour market (MRDPW, 2010). These factors leave the North West region very exposed to external shocks.

Constanta, the South East Development Region of Romania; Districts Veliko Tarnovo, Ruse and Silistra, the North Central Planning Region of Bulgaria; District Dobrich, the North East Planning Region of Bulgaria.

<sup>65</sup> The conceptual framework defined the main transmission channels of the crisis as credit availability and interest rates, trade, domestic/local demand, and government finance.

<sup>66</sup> In 2007, GDP per capita was 27% of the EU average at current market prices (MRDPW, 2013).



**Table 4.3 : Selected dimensions in Bulgaria and the North West before the crisis**

	Human capital and skills	Innovation efforts
	Adults aged 25-64 with tertiary education (%)	Total gross domestic expenditure on R&D (%)
EU	100	100
Bulgaria	96.37	9.77
NW region	78.66	1.92

Source: Author, based on Eurostat data.

The region is also the worst performer vis-à-vis **tertiary educational attainment**. The reason for the low performance vis-à-vis human capital and skills is twofold. First of all, the NW region is experiencing strong demographic decline triggered by low birth rates and the negative migration balance. The NW is also the country's least-populated region, and its population has been decreasing in the past ten years, currently at 11.3% of the total population of the country (as of 31.12.2012; NSI, 2013). The demographic decline is witnessed on a national level, but the decline in the working-age population is more pronounced in the NW than other parts of the country (Interview CCI Vidin, 2014). On the other hand, the region has only one institution that provides university-level education. This has proven insufficient to generate the high-skilled employees needed in a competitive economy, creating a mismatch between the skills that the labour market needs and those that the education sector develops. Despite the limited time horizon reviewed, overall the assessment of the available indicators underscores low resilience of the NW.

#### **4.2.1.2. Economic, social and territorial structure of Basilicata**

The main socio-economic indicators lag behind the values for other regions in Bulgaria and in the EU and signal a catch-up process that has been slowed by the crisis. **Economic inequalities** are pronounced between the NW region and the South West (SW, *Yugozapaden*). The SW and namely the capital city, Sofia, concentrate the innovative and education activities, with little spillover effects to the North West which borders it to the north, and the proximity to the capital has not mitigated the wide disparity.

Before the crisis, the NW region was affected by a process of industrial restructuring and closure of large enterprises 'in industries such as machinery, mining iron and uranium ores, processing and the canning industry' (MRDPW, 2005:43). Moreover, the closure of reactors in the Nuclear Power Plant (NPP) 'Kozlodui' had implications not only for the immediate district (Vratsa) but for the region as a whole through the channel of services, transport and logistics (MRDPW, 2005). The review of these restructuring processes is beyond the scope of this Study but has been widely perceived as one of the stumbling blocks to the development of an effective regional policy (Monastiriotes, 2008 & 2010). The slow restructuring, the peripherality of the region and the low accessibility have resulted in the lowest amount of FDI among all the Bulgarian regions, recording only 2.4% of total FDI for the country (RIM, 2013; Territorial analysis, 2014:22). The reason for the limited investment largely lies in the poor infrastructure of the region, low accessibility and insufficient levels of highly skilled workers (Interview CCI Vidin, 2014). As highlighted with regard to resilience factors and reiterated in Table 4.4, the NW has been and remains the region with the lowest GDP among Bulgarian and EU regions.

**Table 4.4 : Performance of NW over two periods 2003-2007 and 2008-2012**

	GDP per capita current market prices	
Periods	2003-2007	2008-2012
Bulgaria	100	100
NW Region	61.83	74.66

Source: Author, based on Eurostat data.

With regard to **social inequalities**, the levels of unemployment are persistently high and above the EU average.

**Table 4.5 : Population at risk of poverty or social exclusion in the NW<sup>67</sup>**

Survey year	2008	2009	2010	2011	2012
Income ref year	2007	2008	2009	2010	2011
Total 1000 persons	469.7	452.7	462.7	454.8	417.3
% of population	50.5	49.4	51.3	51.2	49.7

Source: Author, based on National Statistical Institute data.

The unfavourable demographic profile and the low economic activity have kept poverty levels in the region persistently high, with more than half of the population identified as being at risk of poverty and social exclusion (NSI, 2012). The young people not in education, employment or training (NEET)<sup>68</sup> is almost three times the EU average, while the working-age population (15-64) has shown substantial decline, decreasing by 4.7% between 2007 and 2010. Unemployment worsened significantly in 2010 and 2011, since initially many enterprises reacted by reducing the working hours and cutting real wages rather than laying people off, which occurred later (CoM, 2012; Interview, CITU Vratsa, 2013).

**Table 4.6 : Social inequalities**

	Labour market						Social inclusion	
	Total employment		Youth employment		Female employment		Young people aged 18-24	NEET
	2003/07	2008/12	2003/07	2008/12	2003/07	2008/12	2003/07	2008/12
EU	100							
Bulgaria	90.35	94.02	62.00	67.80	94.97	97.75	189.01	156.93
NW	81.79	86.06	51.03	58.44	86.65	90.95	270.60	250.31

Source: Author, based on Eurostat data.

Similarly to other Bulgarian regions, the North West is characterised by **wide intra-regional disparities** (MRDPW, 2013; EEN, 2012; Monastiriotis, 2008). The most recent **territorial** review within the preparation of the Regional Development Plan 2014-2020 identifies two sub-regions: one characterised by low rates of economic growth and limited development potential (Vidin, Montana, Vratsa) and one with a better performance and a higher allocation of development factors (Pleven and Lovech) (MRDPW, 2013:16).

Vis-à-vis the **territorial dimension**, despite the two Trans-European Networks (TENs) corridors that pass through the region, the transport infrastructure remains very poor

<sup>67</sup> Based on the annual Survey on Income and Living Conditions (EU-SILC) NSI definition: combined indicator for regular monitoring of countries' progress in implementing the national targets is calculated using data from the survey of income and living conditions (EU-SILC). The indicator includes at-risk-of-poverty rate, severe material deprivation rate, and the rate of people living in households with low work intensity.

<sup>68</sup> Not in employment and not in any education or training.

(MRDPW, 2005:8; NSI, 2013). From the table below, it can be seen that the North West region accounts for only 17.3% of the national road network, with an especially low coverage of motorways (NSI, 2012).

**Table 4.7 : NW Regional road network (% of country total)**

	Regional road network (%)				
	Total road network	Motorway	Category I	Category II	Category III <sup>69</sup>
Bulgaria	100%	100%	100%	100%	100%
North West	17.3%	1.3%	2.5%	2.3%	3.7%

**Source:** Author, based on National Statistical Institute, 31.12.2012 last update.

Overall, the eligible area under the CBC programme is characterised by low resilience and **high economic, social and territorial inequality** vis-à-vis the capital region and the EU.<sup>70</sup> The next section looks at the strategy pursued to tackle these challenges.

#### **4.2.1.3. Regional strategy adopted by the region for economic, social and territorial development**

The Regional Development Plan for the North West (2005), which outlines the medium-term objectives and priorities in accordance with the National Strategy for Regional Development and sectoral policies, was updated in 2008 to reflect the changes in the legislative framework. As described in the Introduction, the reason for this lies predominantly in the new Bulgarian membership of the EU, the revised Regional Development Act (2008) and the redesigned levels for implementation of regional policy (especially NUTS 1 and NUTS 2). A comparison of the two versions of the RDP shows the inclusion of a wide number of medium-to-long-term growth topics such as infrastructure, economic development and competitiveness, organised along three strategic goals (MRDPW, 2008:66; Appendix 1). The two versions are indicative of a similar strategy. In addition to priorities outlined in the RDP, the RO-BG CBC programme supports activities along the same dimensions: accessibility, economic development, environment and well-being. When combined, these goals put the region in **the type-1 strategy group, i.e. broad-based economic development (catch-up broadly based)** in line with the share of ERDF financing. Concerning the role of the ESF in the NW region and the CBC area, the focus is on **increasing the adaptability of workers and firms, enterprises and entrepreneurs**, i.e. supporting those in employment. The North West region also pursues a **partnership strategy** integrated in the territorial cooperation principles and the implementation of joint programming. In this dimension of the strategy, the emphases are placed on improving the wellbeing of the local population, improving relations among people, and building long-lasting relations.

<sup>69</sup> Roads and road connections by crossroads and junctions.

<sup>70</sup> A specific example of the deteriorated situation of the region is illustrated by the declining share of manufacturing in national and regional GVA. As noted above, the energy and manufacturing sector has the largest stake in the North West region. In 2010, the sector employed 590,000 people or 10.4 per cent of total national employment in the industry (MRDPW, 2012:12). The crisis decreased the regional contribution to the country total for industry from 9.2% to 8.1% between 2007 and 2010 (MRDPW, 2012:12). The largest decline in GVA contribution occurred in the performance of Pleven and Lovech, two of the 'better-off' districts before the crisis (MRDPW, 2012:12). In Pleven, the share of GVA decreased from 2.7% to 1.8% between 2007 and 2010 due to the low resilience of the regional industry to the economic shock triggered by the crisis (MRDPW, 2012:12). The processing industry, in particular, employs 10% of the people in the sector.

## **4.2.2. Cohesion policy analysis: initial strategy and changes**

### **4.2.2.1. *Strategy of cohesion policy prior to the crisis***

#### **Main focus of cohesion policy in terms of spending**

Further to the review of the economic, social and territorial inequalities that define the North West, this section aims to assess the impact of the crisis on the delivery and implementation of cohesion policy in the region and the CBC eligible area. The task is achieved through looking at the main objectives of the RDP and the CBC programme before the crisis, observing whether changes have been introduced and whether these were triggered by the crisis. The section refers to the additional measures taken on the central level which have direct or indirect effects on the region selected.

The actualisation of the RDP echoed the legislative, institutional and statistical developments described in the Introduction. The initial RDP provided very limited financial data – data were indicative and only covered ERDF. The 2011 update was instrumental in outlining the financial allocation by source and target of the SCFs in the region. The funding needs by priority in the updated RDP clearly reflect the broad-based development target of the region (MRDPW Updated RDP, 2011). The data still fall short of serving as a detailed financial plan, since they show the resources needed to fulfil commitments under the National Strategic Framework. Table 4.8 displays the 2011-2013 financial data and serves as a guide for defining the focus in terms of spending.

The allocation of resources also mirrors the strategy behind the CBC territorial programme and financing. The aim of the programme is to 'put in place the conditions for cooperation for developing cross-border strategic concepts, and provide ground for investment interventions aimed at minimising the border obstacles and at resolving issues of common concern' (RO-BG CBC, 2012:17). The challenges that need to be tackled to enhance the area's attractiveness and make it a better place for living outlined in the CBC programme include: diversifying the economic activities in the border areas, increasing accessibility to labour and linking areas of opportunity, and improving services related to culture, heritage and health (RO-BG CBC, 2012). Table 4.9 summarises the priorities and the respective ERDF shares.

**Table 4.8 : Assessment of resources needed (in euro)**

In euro, rounded	ERFD	ESF	CF	National co-financing	Total	OP % of total
<b>Bulgaria</b>	1,672,383,768	618,552,902	1,184,466,063	702,095,352	4,177,498,084	
<b>North West</b>	197,341,285	72,989,242	139,766,995	82,847,252	492,944,773	
<b>OPRD<sup>71</sup></b>	83,802,463	-	-	14,788,670	98,591,133	<b>20%</b>
<b>OPDCBE</b>	60,824,369	-	-	10,733,712	71,558,081	<b>15%</b>
<b>OPHR</b>	-	63,527,674	-	11,210,766	74,738,440	<b>15%</b>
<b>OPT</b>	22,707,764	-	76,871,847	23,335,278	122,914,889	<b>25%</b>
<b>OPE</b>	27,033,053	-	62,895,148	20,584,378	110,512,578	<b>22%</b>
<b>OPAC</b>	-	9,461,569	-	1,669,689	11,131,257	<b>2%</b>
<b>OPTA</b>	2,973,636	-	-	524,759	3,498,395	<b>1%</b>
<b>Financial source % of total</b>	<b>40%</b>	<b>15%</b>	<b>28%</b>	<b>17%</b>		

**Source:** Author, based on the Updated Regional Development Plan, 2011.

**Table 4.9 : Priorities of the CBC programme**

Priorities	Key Areas of Intervention	ERDF budget share <sup>72</sup>
PA 1: <b>Accessibility:</b> Improved mobility and access to transport, information and communication infrastructure in the cross-border area	Cross-border mobility; Efficient regular exchange of information and data	37%
PA 2: <b>Environment:</b> Sustainable use and protection of natural resources and environment and promotion of efficient risk management in the cross-border area	Protection and use of natural assets, and joint management; Preventative actions and emergency response	35%
PA 3: <b>Economic and Social Development:</b> Economic development and social cohesion by joint identification and enhancement of the area's comparative advantages	Business cooperation and regional identity; Cooperation on human resources development; People-to-people cooperation.	22%
PA 4: <b>Technical Assistance</b>	-	6%
<b>Total</b>		<b>100%</b>

**Source:** Romania-Bulgaria CBC, 2007:78-80.

<sup>71</sup> See page 6 for abbreviations.

<sup>72</sup> The RO-BG CBC Programme is financed by public (State and local budgets) and private sources and is co-financed by the European Regional Development Fund (ERDF) (RO-BG CBC, 2012:6). Under the Regulation, between 84.82% and 84.46% of the budget of the approved projects is co-financed by the ERDF, 13% by national co-financing (for Bulgarian beneficiaries – MRDPW's budget), and a minimum of 2.18% to 2.54% through the beneficiaries' own financial contributions (CEAOEF, 2012:112).

Table 4.8 and Table 4.9 display the complementarity between the spending of sectoral and territorial programmes in the North West region. Similarly to the strategic goals in the RDP, the CBC priorities channel resources towards a mix between improving mobility and accessibility, protection of the environment, and support for the socio-economic development in a broad-based strategy reflecting the low level of economic development of the area of territorial cooperation.

### Expected outcome of cohesion policy

The expected outcome of cohesion policy in the North West region is to support the development of a 'European region characterised by dynamic and sustainable economic growth, enhanced employment, improved quality of life, developed infrastructure and protected environment' (MRDPW, 2011:64).

The desired results accentuate the three dimensions of cohesion – economic, social and territorial – coherent with the National Regional Development Strategy (2012). The NRDS indicators towards smart, sustainable and inclusive growth and in pursuit of Europe 2020 are set the targets in the table below and serve as a better guide for the programmes objectives than the ones includes in the NDP (2012:167). The disadvantages of using the indicators in the updated RDP are the lack clear definitions, operationalisation and benchmarks.

**Table 4.10 : Contribution to Europe 2020: Baseline and targets**

	Europe 2020 Strategy Headline Indicators	BG	Baseline NW 2009/ 2010	Target NWR 2020
1	Employment coefficient of the population aged 20-64	<b>76.0%</b>	63.1%	72.0%
2	Investments in research and development (% of GDP)	<b>1.5%</b>	0.2%	0.5%
3	20/20/20 objectives with regard to climate/energy:			
	• CO <sub>2</sub> emissions reduction	-	-	-
	• Share of RES in final energy consumption	<b>16.0%</b>	-	16%
	• Improving energy efficiency	<b>25.0%</b>	-	25.0%
4	Reducing dropout rate to:	<b>11.0%</b>	17.2%	12.0%
	Increasing the share of people 30-34 with HE	<b>36.0%</b>	22.0%	35.0%
5	Reducing the share of people below the poverty line	<b>16.0%</b>	-	11.0%

**Source:** National Regional Development Strategy, 2012: 167.

The performance of the NW region with regard to the Europe 2020 Strategy Headline Indicators reiterates the broad-based needs of the region and the evidence that, starting from a very low level of development, the region needs significant restructuring and diversification to be able to achieve convergence. Table 4.10 also reveals that following current programming and spending, in 2020 the data for the NW will still be well below the EU average and often below the BG average. Therefore, the estimated results point to persistent economic, social and territorial inequalities that cannot be treated with the existing strategy, and accordingly a leap forward is needed.

On the level of the cross-border area, estimated outcomes in the summary values listed on DG Regio's fiche point to the potential contribution of territorial cooperation to regional development and to recovery from the crisis through the following key instruments: access to ICT facilities, development of joint management systems for environmental protection, awareness raising, and cross-border training courses.<sup>73</sup> At the

<sup>73</sup> See more detailed information on indicators, EC, 2014.

same time, the ETC objective achieved through CBC funding is the continuation and creation of partnerships, which is a key element of any evaluation of results. During the interviews, the Managing Authority of the CBC programme expressed the view that without the current CBC, co-financed by the ERDF, and its predecessor, the PHARE CBC, there would have been no active cooperation or incentive for joint activities between the two countries (Interviews RO MA, 2013). The reasons for this step beyond the natural barrier include the difference in the language spoken on each side of the river, little historical cooperation outside the European programmes, the lack of an overall strategy for the development of the region in both countries, and the very low level of development of the border areas.

#### **4.2.2.2. Cohesion policy during the crisis (2008 onwards)**

##### **Role of cohesion policy during the crisis**

The existing evidence on the role of cohesion policy during the crisis was reviewed in the light of the national context in the Introduction. On a regional level, stakeholders found it difficult to define the role of cohesion policy and expressed mixed observations. While most assessed cohesion policy as very important in a national context as a substitute for government investment, some individuals were of the opinion that it had no tangible effect on the level of the North West region (Interview CITU Vidin, 2013). The MA of the RO-BG CBC programme described the response of cohesion policy to the crisis as limited (Interview RO-BG MA, 2013). Awareness-raising campaigns and support activities were perceived by the MA as the positive face of cohesion policy among beneficiaries (Interview RO-BG MA, 2013).

Given the earlier observations, the role of cohesion policy must be evaluated further on the regional level to include the different sources of funding used and projects delivered. Overall, as of March 2014,<sup>74</sup> the region scores lowest in terms of the resources absorbed (€614,084,000, 7.6% of country total) and beneficiaries involved (495, 9% of country total) (UMIS, 2014). In terms of total value of contracts per capita, the region is second last, only ahead of the North East Planning Region.

##### **Main changes in strategy and objectives**

With regard to adaptation, anecdotal evidence and discussions with stakeholders point to the fact that reallocations within OPs and priorities have not been based on evaluations of the needs but on monitoring data and the slow absorption of funds (Interview CITU Vratsa; Interview CSD, 2014). Currently, there are no data on how the benefits of the new funding instruments and ERDF-funded measures introduced on the national level have been translated to the regions, and this would be the subject of further evaluations.<sup>75</sup> Other measures aimed at improving coordination and implementation were driven by the experience gained in the process of programme delivery. The conceptual framework identified the ability of national and regional authorities to prepare and respond to the crisis as a resilience factor. In the case of Bulgaria, due to the fact that 2007-2013 was the first period of implementation of cohesion policy, the administration has been building its resilience.

<sup>74</sup> Unified management information system for the EU Structural Instruments in Bulgaria, information was last updated on 17.03.2014. <http://umispublic.government.bg/prPlanningRegions.aspx?pr=4>

<sup>75</sup> One of the ERDF-funded measures to be reviewed is the Funded Risk Sharing Product (FRSP) under the JEREMIE initiative, where the European Investment Fund (EIF) and the Financial Intermediary divide the risk on each SME loan financed by the facility (EEN, 2012:6). A similarly interesting assessment beyond the scope of this study is the importance of the Indicative Annual Work Programmes of OPRD and OPDCBE in 2012 (nearly €260 million) towards energy-efficiency procedures in a regional context (EEN, 2012:8).



Concerning the CBC area, the interviewees suggested that the main responses of the Managing and National Authorities were not formal (i.e. substantial redesign of the Programme, moving of resources or introduction of new measures), but they related to lessons learned and practices that will be embedded in the next programming period and to new thinking by the two authorities responsible for directing the CBC region (Interviews NA, MA, JTS, 2013; Interview Geratliev, 2013).

The immediate risks previewed by the Managing and National Authorities in 2009 focused on the difficulties faced by the beneficiaries, especially with regard to financing and co-financing on-going activities. Even though the potential effects of the crisis were anticipated, the role that cohesion policy could play in counteracting them was limited due to the characteristics of territorial programming. Some of the reasons for the limited changes are summarised in the table below.

**Table 4.11 : Territorial cooperation and flexibility**

Early project selection and <b>early commitment</b> of the resources of the programme	The role of cohesion policy at the start of the crisis was limited, since a large percentage of the project proposals were submitted before the crisis was felt in the area (Interviews MA, JTS, 2013). The CBC programme was under implementation, and the main challenge was to keep the resource flow to the beneficiaries on a project level to continue the implementation (Interviews MA, JTS, 2013). The main role of the crisis at this point was to create a 'shock' for the management system – cumbersome bureaucratic procedures from above proved even more ineffective in a crisis. The need for resources to reach the beneficiaries created a challenge to the system for the procedures to be simplified and guidance clarified.
<b>Financial allocation</b> to CBC area not sufficient to respond to cyclical challenges (Interview MA, JTS, 2013; Interview CITU Vratsa)	The resources allocated to the CBC programme for the 2007-2013 period was €255 million (ERDF – €213.4 million; public and private national co-financing – €41.7 million). This represents roughly 6% of the total financial allocation to Bulgaria and covers 16 districts and counties across Bulgaria and Romania. Given the low performance of the region, the CBC programme's limited budget has not been able to influence the socio-economic performance of the area substantially, and the interviews confirmed that the initial strategy behind the Programme has been too ambitious and too dispersed.

**Source:** Interviews with stakeholder; Interview 2 Maria Duzova; Interview MA.

On the regional level, the changes in the Regional Development Plan between 2005 and 2010 were mainly due to institutional and legislative considerations rather than responses to the effects of the crisis (see page **Error! Bookmark not defined.**). Moreover, evidence of change in the objectives of the region during the crisis is limited. This is largely due to the weak link between the original regional plan for the NW and the financial allocation under Convergence and ETC objectives for the country. The actualisation of the RDP improved the link of the Plan with other strategic documents such as the NRDS and Bulgaria's contribution to Europe 2020, but the effect has primarily been coherence on paper. The actualisation has not been tied to additional

funding. Overall, the main changes that occurred on the national level and the CBC-programming level were aimed at improving absorption of funds.

### **4.2.3. Effectiveness, constraints and adaptation of cohesion policy<sup>76</sup>**

Further to the changes identified, this section of the Study is concerned with the effectiveness of cohesion policy before and after the crisis. The goal is to establish whether the changes implemented centrally were transferred to improve the effectiveness of cohesion policy implementation.

#### **4.2.3.1. Effectiveness of cohesion policy before and after the crisis**

This Study has outlined the limited capacity of national, regional, cross-border and local strategies to respond to the crisis. Essentially, the deterioration of indicators of the development of the North West region was not matched by additional resources, while the CBC had few resources and little flexibility to target cyclical challenges (see page 92).

Interviews with the chambers of commerce and industry and external stakeholders underlined the difficulty in evaluating the effectiveness of cohesion policy. The reason for this difficulty is twofold: on one hand, essentially due to evaluation capacity, while on the other hand, due to time horizon for policies to make an impact. Vis-à-vis evaluation capacity, the authorities responsible have assessed the effectiveness of implementation predominantly through an evaluation of absorption rates of EU funds, as illustrated in the Introduction.

A good illustration is provided by the interim evaluation (IE) of the Regional Development Plan. The IE has three key limitations:

- it does not report on progress towards achieving financial goals, since the RDP itself lacks a financial plan;
- the OP coverage has changed by the addition of two relatively better-off regions due to statistical purposes; and
- the IE lacks clearly defined indicators, with baseline and target values, which could link to the priorities, outputs, and results.

At the same time, the text of the IE reiterates the relevance of the overall strategy and priorities of the programme for the context as well as the projects implemented under each strategic goal. With regard to the projects started under each priority, the evaluation reports as follows: slow take-up of funds for development of competitiveness and strengthening the local economy (Strategic goal 1); 'potential for satisfactory implementation' of projects on the environment, accessibility and transport (Strategic goal 2); and 'strong potential for satisfactory implementation' of measures supporting regional development and local initiatives (Strategic goal 3).

These examples suggest progress towards improving the capacity of regional and local administrations to implement and deliver progress with the SCFs. The Regional Development Plan for 2014-2020 confirms the uptake of absorption of funds and signals a positive impact on the territorial cohesion of the region, through the implementation of projects mostly targeting the improvement of transport and technical infrastructure and the protection of the environment. The broad-based strategy of the North West region emphasises the medium-to-long-term engines of growth such as technological

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<sup>76</sup> This section is heavily constrained by the fact that the analysis focuses on events, trends and changes that are evolving at the time of writing. Thus, scarce data availability and impossibility on the side of the stakeholders to provide definitive answers on 'what has worked and what has not' in cohesion policy during the crisis make this section more geared towards description than analysis.

modernisation, infrastructure and human capital (CoM, 2012), which further limits the discussion of the effectiveness of cohesion policy at the current stage.

#### **4.2.3.2. *Main constraints affecting cohesion policy implementation***

Some of the constraints experienced nationally have already been discussed in detail in the country introduction, EEN evaluations (2011, 2012) and the Strategic Reports (2012).<sup>77</sup> The constraints resulted primarily from the limited experience in the management of the SCFs in Bulgaria and decline in public procurement. Additional challenges to cohesion policy implementation exist in the delivery of funding. Under both the Convergence and ETC objectives, the allocations of EU resources among local/municipal authorities follow a competitive principle. The areas that have access to high-skilled employees and administrative capacity have an advantage in applying for funds, while the poorest municipal and local authorities have difficulties in accessing financing (Interview NA, 2013).

On the territorial cooperation level, some of the barriers to the delivery during the crisis related to the essence of cross-border relations and the difficulties created from multi-country involvement. The existing national limitations have been exposed at the cross-border level with limited harmonisation in the rules and procedures across programmes and countries, lengthy formal processes, lack of joint capacity, and lack of coordination. These issues are not a direct effect of the crisis but are further underscored with the decrease of adequate financial and human resources for cohesion policy management.

Turning to the experience of the RO-BG CBC, external constraints came from the European Commission and the cumbersome processes related to the management of the CBC programme. Stakeholders explained that procedures were not flexible and could not be simplified sufficiently to assist the beneficiaries (Interview MA, JTS, 2013). Financial reimbursements by the EC were slowed down on a number of occasions and the national authorities had to step in and provide advances and payments (Interview MA, JTS, 2013). The issues discussed also underline the limited flexibility which the regional and CBC authorities had to accommodate the challenges.

#### **4.2.3.3. *Regional strategies adaptation***

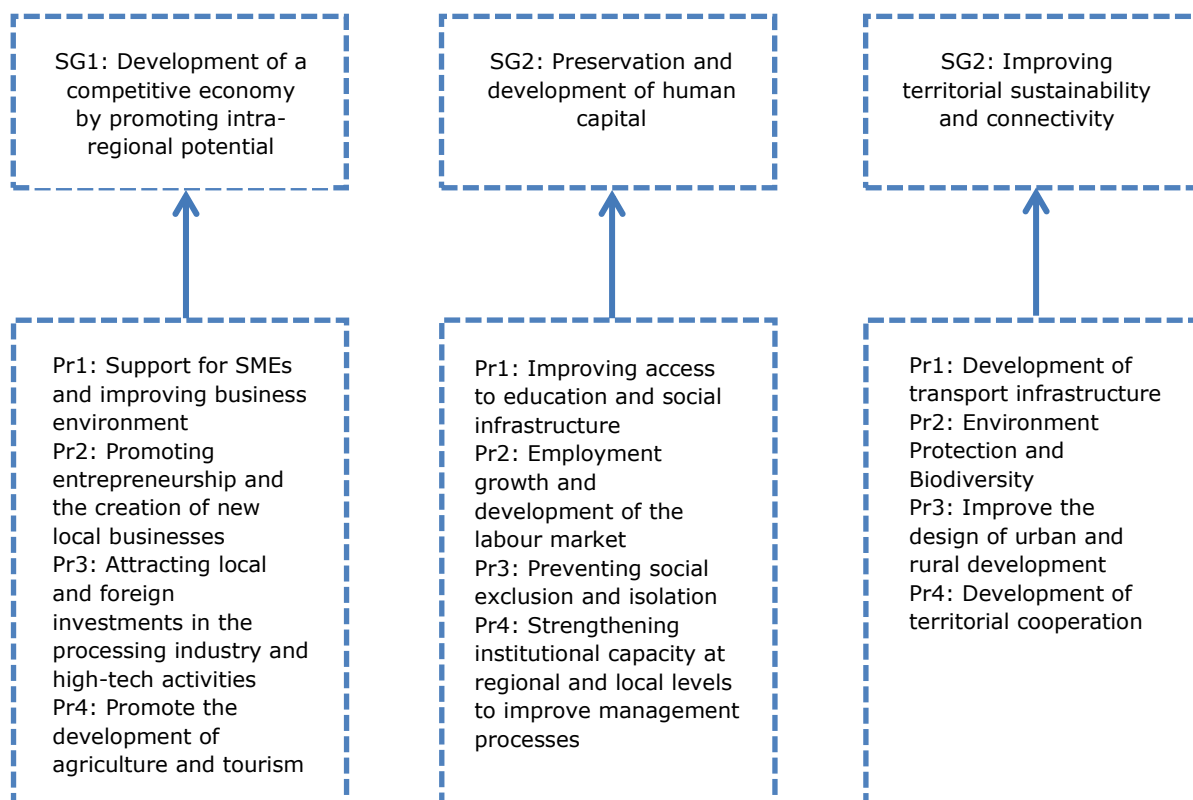
The evidence collected suggests that overall the core priorities of the ERDF-financing in Bulgaria and the Romania–Bulgaria cross-border cooperation programming have not been affected by the economic crisis and have largely stayed unchanged (Interviews MA, NA, 2013; EEN, 2012). The 2011 modifications of the Regional Development Plan were introduced in order to reflect Bulgaria's accession to the EU and to align the vast number of priorities in the original RDP to the European frameworks and Bulgarian regional policy. The central government has continuously modified and adapted institutional, management and implementation processes to make access to the SCFs more flexible and to increase the absorption of financial resources. Even though the evidence is limited since implementation is on-going, studies suggest that the government has been able to achieve its goal to speed up the absorption of funds during the crisis (CoM, 2012; CEOEF, 2012; EEN, 2012).

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<sup>77</sup> The constraints in the implementation of cohesion policy 'include the improvement of the process of verification of spent funds and the speeding up of reimbursements to beneficiaries; the lack or the insufficiency of co-financing by the beneficiaries; the high administrative burden of overly formal procedures; the lack of clear prioritisation of certain sectors and/or regions; insufficient collaboration with the beneficiaries, aimed at increasing their capacity; duplicate activities and processes; the high complexity and long completion time of large infrastructure projects (especially within OPT); and lack of sufficiently detailed overall assessment of the achievements and impact of the programmes within the current programming period' (EEN, 2012: 4).

In the case of Bulgaria and the Romania-Bulgaria territorial cooperation, the preparation for the 2014-2020 programming period can be used as an indication of a change in the national and regional strategies. On a national level, the strategic framework for the development of Bulgaria's regions up to 2020 accentuates the wide intra- and inter-regional disparities as well as the need to target the specific challenges experienced by the lagging regions (MRDPW, 2012)<sup>78</sup>. The priorities emphasise a list of measures towards 'stimulating the regional economies through diversification of output and support for entrepreneurship, enhancing the opportunities for the young people, developing sustainable tourism, improving ICT accessibility, protecting the environment and biodiversity, strengthening urban and rural development and developing cross-border cooperation' (MRDPW NRDS, 2012: 1). In the next programming period, these priorities are aimed at the North West, North Central and South Central regions of Bulgaria, since they have been identified as least developed as measured by the GDP per capita data (MRDPW NRDS, 2012, 1). Thus in the next programming period these three regions will receive 53.5% of the available resources (MRDPW NRDS, 2012). On the regional level, the Regional Development Plan 2014-2020 incorporates the priorities of the NRDS<sup>79</sup> to shape the strategic objectives in Figure 4.2. From the priorities overall, it can be seen that the region will continue to pursue a **broad-based development strategy** emphasising internal resources and capabilities to build resilience.

**Figure 4.2 : Regional objectives 2014-2020**



**Source:** Regional Development Plan 2014-2020, Draft.

<sup>78</sup> For more information, see summary document of the NRDS and regional priorities provided by Interview MRDPW, 2013.

<sup>79</sup> NRDS Priorities for North West: Stronger link to the Danube Strategy; Explicit focus on young people; Stimulating the local business environment; Innovation and resource efficiency; Sustainable tourism; Stronger connectivity; Energy efficiency and improved technical capacity; Environment and biodiversity; CBC Area.

#### 4.2.4. Conclusion

The brief case study looked at the impact of the economic crisis on the social, economic and territorial cohesion of the North West region. The review of the North West region was supplemented, on one hand, with a review of the implementation of cohesion policy on a national level (due to regional policy in Bulgaria), and on the other hand, it forms one of two case studies which explicitly focus on territorial cooperation and the ability of the cross-border cooperation framework to respond to cyclical shocks. Overall, the study underlined the importance of 2007-2013 being the **first programming period** for Bulgaria and Romania as its partner in the Romania-Bulgaria cross-border cooperation programme. In the review of the impact of the crisis, an assessment of the causality of the changes introduced is limited by this same fact – many adjustments in the delivery of the programme were made as a result of a 'learning-by-doing' process rather than the result of the crisis. The lessons learned have been numerous and the national authorities, where possible under the framework, made amendments to incorporate them into current practices.

In addition to this being the first programming period, the study emphasised the low level of economic development of the country, the CBC area and the region. When reviewing the impact of the crisis, this is not irrelevant. Firstly, Bulgaria has been strongly connected to the rest of the EU and the Eurozone as well as through the 'communicating vessels' dynamic, where the low growth of Bulgaria's trading partners directly results in low growth. Secondly, the effect of the crisis has been limited to an extent due to the immaturity of its financial sector. Lastly, the impact has been extended because of the lack of capacity of the country to bounce back easily due to long-term effects on employment and poverty levels.

The impact of the **economic and financial crisis on the implementation and use of cohesion policy** in the North West region has been mixed (**RQ3**). The crisis in the North West region was transmitted through the manufacturing sector, which experienced the largest decline as well as through a sharp drop in government spending on procurement. The North West region has been characterised by low levels of economic activity before the crisis, low levels of employment across all groups, and demographic decline with potential consequences for the entire local economy. The analysis of resilience factors shows that the North West has very low levels of resilience with regard to GDP per capita (lowest in the EU), investment in innovation and R&D, and human capital as indicated by the percentage of adults with tertiary education. The low starting level means, on one hand, stronger impact of the crisis and lack of financing, but, on the other hand, little exposure of the region to the crisis in financial markets. The impact of the crisis on a regional level is difficult to assess due to the **weak link between strategic documents and Operational Programmes**. The crisis in the North West has strong similarities with the dynamics in the CBC area, which hints at the need for a territorially integrated approach. Furthermore, administrative capacity in the country, region and CBC area has contributed to low resilience but, as reiterated, that should be largely attributed to 2007-2013 being the first experience with cohesion policy.

Concerning the **effectiveness of cohesion policy before and after the crisis and the changes in this aspect (RQ4)**, the information available on the regional level is not sufficient to give a clear response. First of all, evaluations conducted and approaches to effectiveness in the evaluation practices give limited conclusions. Effectiveness has been assessed primarily by looking at the absorption rates of the EU SCFs. Second, on a regional level the original Regional Development Plan which can be used as the pre-crisis benchmark does not provide enough financial or management data to be used for the comparison. Last but not least, the difficulty in the effectiveness of cohesion policy lies in

the overall regional strategy which is targeted at the medium-to-long term, and thus a longer timeframe is necessary.

The implementation and management of the national and regional programmes have been hampered by **multiple constraints** during this first period (**RQ5**). As underlined above, it is difficult to assess the causality between the crisis and the existing constraints, especially on a regional level. The main constraint has been the availability of financial resources for beneficiaries, but not enough evidence exists to assess the effect of national measures on the regional level. From the information available, the **regional strategy has remained the broad-based economic development** of the region building on internal resources to strengthen the resilience of the region (**RQ6**). The vision and strategic goals for the next programming period emphasise the low starting point of the region and the 'catching-up' it has to do with the South West region and the EU.

With regard to territorial cooperation, the programme has not been able to provide the necessary framework for the regions to cope with even the highest priority issues that stem from the character of the regions – low accessibility, poor connectivity and peripherality. The programme is complementary to the sectoral programmes in the two countries, but stronger links between measures and the strategic focus have been identified as necessary. The on-going debate about the shape of Bulgaria's regional policy widely impacts on the tools available to regional authorities to respond to the challenges brought about by the crisis.



### 4.3. South Central Planning Region

#### KEY FINDINGS

- The case study on the South Central region explicitly reviews the importance of **multi-level governance** and emphasises the impact of the crisis on territorial cohesion. In order to assess the effect of the crisis on the **territorial dimension**, the study draws on the Greece-Bulgaria Cross-Border Cooperation programme.
- The 2007-2013 programming period was the **first** for Bulgaria following the accession of the country to the EU. In 2007, the country was ill-prepared in terms of administrative capacity and experience, and the uptake of Structural and Cohesion Funds was slow. When the crisis hit Bulgaria in 2008, the central government, the regions and the municipalities were similarly unprepared to react swiftly to the changes in the socio-economic context.
- The **impact** of the **economic and financial crisis** on the South Central region was mixed. Relative to the average EU levels, the region is still among the poorest, but has remained stable in terms of economic development. On the sub-regional level, wider discrepancies exist, especially with regard to the **impact on the labour market** and the ability of employment rates to bounce back to pre-crisis levels.
- The ability of the authorities to react to the crisis using cohesion policy varies across levels of government, but overall the strategy and priorities of all sectoral and territorial programmes **remain unchanged**. The use of EU funds as a tool for delivering investment has been recognised at the municipal level, due to the restricted capacity of municipalities to generate own revenue.
- Concerning the **effectiveness of cohesion policy** before and after the crisis, the information available on the regional level is not sufficient to give a clear answer. The reason for this is threefold: measures target development of growth factors in the medium-to-long term; limited linkage between the priorities in the Regional Development Plan and the resources available in sectoral OPs; and a general approach to measure effectiveness according to absorption rates.
- The implementation and management of the national and regional programmes have been hampered by **multiple constraints** during this first programming period. The causality between the crisis and the existing constraints especially on a regional level is not clear.
- As a result of the crisis, the **regional strategy** has remained focused on the broad-based economic development of the region, building on internal resources to strengthen the resilience of the region.

#### 4.3.1. Context Analysis

This case study explores the South Central region in an attempt to understand the evolution of programmes falling within the Convergence and European Territorial Cooperation objectives during the crisis. The rationale behind this is that CBC programmes in the 2007-2013 programming period are the primary means of pursuing the **objectives of territorial cohesion in the EU and the only territorially focused ones in Bulgaria**.

Geographically, the case study refers to the CBC eligible area: in Greece, it consists of the Region of Eastern Macedonia-Thrace and the Region of Central Macedonia, and in Bulgaria the South West Planning Region and the South Central Planning Regions. The



districts that belong to the South Central region include Smolyan, Kardjali and Haskovo (GR-BG CBC, 2007). The two cities that belong to the SC region but not the CBC area are Plovdiv and Pazardjik. The part of the SC region that belongs to the eligible area of the CBC programme is a periphery, and it is characterised by a very low level of economic development (GR-BG CBC, 2007).

The case study reviewed the challenges of assessing the territorial dimension, including the limited available literature and empirical work on the effect of the crisis on the development patterns in border areas. The work was also challenging due to the insufficient evidence from evaluations of the programmes, especially with regard to effectiveness. *A priori* the research expected that programmes that cover border areas and neighbourly cooperation would be likely to react less to the crisis than sectoral ones, due to their limited size and the limited tools available. This section of the report highlights the position of the SC region against the performance of the country, and it aims to illustrate the impact of the crisis on the SC region and the area covered by the GR-BG CBC programme.

#### **4.3.1.1. Change in economic, social and territorial structure**

The findings from the SC region confirm the hypothesis set by the conceptual framework guiding this research. They reiterate the importance of the key transmission channels, i.e. credit availability and interest rates, trade, domestic/local demand, and government finance. In particular, the SC region was affected by the lack of investment resources at the central level, constrained credit availability and decline in domestic demand.

Overall, the crisis affected the South Central region through the credit channel due to the more conservative credit policy of financial institutions – limited access to credit as well as increased interest rates – which in some cases has been applied to existing creditors (Interview CITU, 2014). The sectors and branches affected were metallurgy, construction and production of construction materials, mining of metal ores and the clothing industry (Interview CITU, 2014). The strongest effect was experienced by the labour market, with unemployment increasing across all districts due to the shrinking of the output of enterprises (MRDPW, 2011). This observation supports the hypothesis of the **resilience** framework that jobs in poorer regions may be more dependent on demand from outside the region, as the low disposable income of the population does not support a self-sustaining dynamic of income growth. Resilience is also grounded in the ability of the administration to recognise the challenges of the crisis and to use the appropriate tools to mitigate the effect. The report on the South Central region shows that in this regard the resilience of the region is **very low**.<sup>80</sup> The SC region, similarly to other Bulgarian regions, was ill-equipped to face the crisis. Compared to the rest of the EU, the region was one of the worst performers with GDP per capita at PPS in 2007 at **28 per cent of the EU average**, just above the value for the North West region. It also lagged behind most EU regions in terms of quality of infrastructure, innovation investment and human capital (illustrated by Table 4.12). In 2007, the region had a level of adults with tertiary education well below the EU average, signifying limited access to highly skilled workers. The SC region is characterised by a very large share of agriculture in the gross value-added of the country, contributing 21.58% in 2009, and lower value-added in services than both industry and agriculture, which make it less vulnerable to shocks in the financial sector (RDA, 2011:9). This limited integration of the region meant that the crisis exacerbated existing challenges but did not create new ones, especially in the financial sector.

The strongest pressure occurred within the intra-regional differences, especially between the district Plovdiv and the other districts. **Plovdiv** was among the five best-performing districts in the country before 2008, and the effect of the crisis was not as pronounced as

<sup>80</sup> For further information on the preparedness of Bulgaria for EU membership, see IMF, 2014.

in other districts in the country (IME, 2013). The analysis of the resilience factors in the case of SC can be better illustrated at the district level, where Plovdiv was most resilient due to the higher economic performance measured by GDP per capita and investment in tangible fixed assets, higher levels of highly-skilled individuals, and relatively well-developed infrastructure (IME, 2013). For example, in 2008 Plovdiv contributed 6.93% of the national GDP, while the districts Kardjali and Smolqn had shares of 1.21% and 1.28% respectively (Updated RDP, 2011).

**Table 4.12 : Regional GVA and district contribution in 2011**

Region/ District	Share (%) of GVA of the South Central region in economic sectors (NSI definitions)			GVA of the SC region (%)
	Agriculture	Industry	Services	
South Central	100.0	100.0	100.0	100.0
Kardjali	21.34	5.63	8.32	8.65
Pazardjik	18.88	27.36	14.99	20.16
Plovdiv	31.26	50.48	52.30	49.39
Smolqn	10.13	6.74	8.33	7.91
Haskovo	18.38	9.80	16.07	13.90

**Source:** Updated Regional Development Plan, 2011.

The intra-regional discrepancies have been one of the challenges for cohesion policy in the country, and they also explain the mixed impact of the crisis on the SC region. Overall, it was ill-equipped to face the effects, especially vis-à-vis the labour market, which is the concern of the next sub-section.

**Table 4.13 : Sectoral specialisation in Bulgaria and the South Central region in 2007**

Share of total GVA by sector	Agriculture	Energy & manufacturing	Construction	Distribution, tourism, transport, communications	Market services	Non-market services
EU	2%	22%	6%	22%	26%	22%
Bulgaria	9%	22%	5%	27%	21%	16%
<b>SC region</b>	<b>14%</b>	<b>26%</b>	<b>4%</b>	<b>22%</b>	<b>17%</b>	<b>16%</b>

Source: Author, based on Cambridge Econometrics data.

**Table 4.14: Selected resilience factors in Bulgaria and the South Central region before the crisis in 2007**

	Human capital and skills	Innovation efforts
	Adults aged 25-64 with tertiary education (in %)	Total gross domestic expenditure on R&D
EU	100	100
Bulgaria	96.37	9.77
SC region	71.40	2.50

Source: Author, based on Eurostat data.

#### 4.3.1.2. Economic, social and territorial structure of Basilicata

The **economic profile** of the South Central region exhibits similar features to the cross-border area as a whole. It is characterised by:

- Five large cities, led by Plovdiv, which have driven the economic development of the region and GDP growth over the past decade (Table 4.15). GDP per capita was well below the country average, but Plovdiv was among the few regions that **increased output** during the crisis (IME, 2013);
- Wide disparities in the level of FDI among the districts with Plovdiv leading with approximately €1,118,325,300 in 2010 in comparison to Haskovo with €66,708,900; moreover, in 2010 the levels of FDI dropped further in Haskovo and Smolqn while increasing in the other regions (MRDPW, 2011);
- Insufficiently developed transport and technical infrastructure, as well as wide differences in quality and access to services among the districts; and
- Significant environmental and energy infrastructure challenges, indicated by the highest percentage of wastewater transportation (MRDPW, 2011:50).

Overall in economic terms, large inequalities exist along two dimensions: centre-periphery and urban-rural. The region shows strong potential for development of the tourism sector, growth in non-financial market services, and creation of industrial and business zones, but this is highly conditional on its ability to attract investment.

**Table 4.15 : Performance of NUTS 2 and 3 regions**

NUTS 2 and NUTS 3	GDP (million euro) 2007	GDP (million euro) 2008	GDP (million euro) 2009
Bulgaria	30,694.15	35,340.45	34,844.02
South Central	4,458.17	4,985.86	4,891.61
Kardjali	349.50	429.68	402.19
Pazardjik	812.89	903.82	801.47
Plovdiv	2,077.94	2,449.48	2,613.39
Smolqn	345.83	453.95	399.64
Haskovo	613.48	748.94	674.99

**Source:** Author, based on the Regional Development Plan 2014-2020 (2013).

With regard to **social inequalities**, the region benefits from high population levels – 20.1% of the population of the country in 2011, second only to the South West region. At the same time, compared to the North regions of Bulgaria and the North West region reviewed, the demographic decline is less pronounced, especially in Kardjali. **Social inequalities** have been persistently wide and the trend has deteriorated during the economic crisis. In 2010, the region experienced a sharp increase in the unemployment and decreasing employment rate across all districts with the district of Smolyan reaching the highest level in the region, 19.3% (MRDPW, 2011:3).

Concerning social dynamics and the high unemployment rate (especially youth unemployment), analysis has shown that there is a **skills mismatch** problem, where discrepancies exist between the skills of the people with tertiary education and the requirements of the regional economy (IME, 2013; MRDPW, 2011). Moreover, the main factors influencing the risk of poverty in the region are the low economic activity, low participation in the labour market, and low disposable income, which have further decreased during the crisis (NSI, 2011:1).

**Table 4.16: Population at risk of poverty or social exclusion in the SC region<sup>81</sup>**

Survey year	2008	2009	2010	2011	2012
Income ref year	2007	2008	2009	2010	2011
Total 1000 persons	755.0	757.5	838.5	876,8	881.8
% of population	35.7	35.9	39.7	41.4	41.3

Source: Author, based on National Statistical Institute data.

For the CBC eligible area in particular, the social challenges are more significant due to depopulation, where there is a trend of migration especially of youth towards larger metropolitan centres in search for job opportunities. Data for Haskovo and Smolyan Districts show a tendency towards the ageing of the population and very high youth unemployment.<sup>82</sup> The **territorial profile** of the region is also very diverse. The area covered by the CBC programme is characterised by low mobility and accessibility, poor road and railway infrastructure, and limited broadband penetration (MRDPW, 2011). The South Central region, for example, has the highest share of population that have never used the internet, equal to 58% (MRDPW, 2011:45). The need to improve accessibility and connectivity through rehabilitation and reconstruction of road and rail infrastructure was also emphasised in the common projects between Bulgaria and Greece during the PHARE programmes.

On the other hand, the territorial structure provides substantial opportunities for development. As outlined in the National Regional Development Strategy, the 'region has clearly defined **urban development axes** of importance to Bulgaria along Pan-European transport corridor 4 (connecting Sofia, Plovdiv, Haskovo, and Svilengrad) and Pan-European transport corridor 9 (connecting Rousse, Veliko Tarnovo, Stara Zagora, Haskovo, and Kardjali)' (2012:32). A more thorough review of the cross-border area shared by Greece and Bulgaria shows a high endowment of mountain ranges, rivers and forests with strong potential for alternative tourism (such as agro-touristic infrastructure) (GR-BG CBC, 2007:19). The economic, social and territorial structure of the region underlines the uniqueness of the region and the cross-border area and the challenges it presents to policy-makers due to increased intra-regional disparities and unbalanced growth. The availability of tools to target these issues is explored in the next section.

#### **4.3.1.3. Regional strategy adopted by the region for economic, social and territorial development**

After presenting the regional profile of the South Central region, this section of the report gives an overview of its development strategy, assessing the intervention logic of the Operational Programmes (OPs)<sup>83</sup> in accordance with the conceptual framework. In the case of the SC region, the strategic direction is encompassed in the Regional Development Plan (RDP), which provides the framework for targeting public and EU funds as reviewed in the Introduction. Similarly to the NW region, the original RDP was adopted in 2005 and was updated in 2011 to account for Bulgaria's accession to the EU, amendments to the geographical coverage of the region,<sup>84</sup> and alignment with national and European legislative and institutional documents. At the time of the modifications, the economic crisis had made its initial impact on the region, and the SWOT analysis assessed that the vision and strategic goals of the RDA were still relevant and consistent with the socio-economic profile of the region. The strategy defined in the original RDA

<sup>81</sup> Based on the annual Survey on Income and Living Conditions (EU-SILC) NSI definition: combined indicator for regular monitoring of countries' progress in implementing the national targets is calculated using data from the survey of income and living conditions (EU-SILC). The indicator includes at-risk-of-poverty rate, severe material deprivation rate and rate of people living in households with low work intensity.

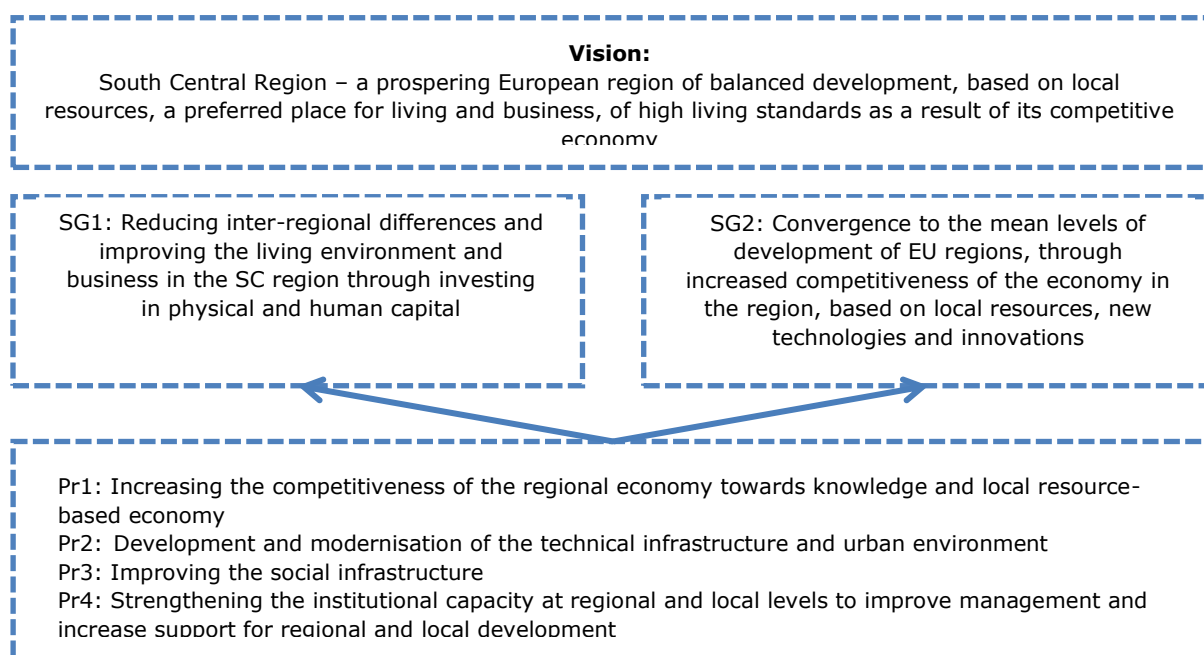
<sup>82</sup> The demographic characteristics have been summarised in the OP as 'ageing population, abandonment of rural areas in favour of big towns, urbanization' (GR-BG CBC, 2007: 24).

<sup>83</sup> In Bulgaria, the financing under mainstream OPs is sectorally organised.

<sup>84</sup> Stara Zagora was removed from the South Central region during the redefinition of regional coverage in line with Eurostat's methodology.

and confirmed by the update to respond to these challenges puts the region in the **type-1 strategy group, i.e. broad-based economic development (catch-up broadly based)**. Figure 4.3 illustrates the goal to accelerate convergence of the regional levels of development and performance to the EU average through improving transport and technical infrastructure, increasing competitiveness of the local businesses, and protecting the environment in line with improving efficiency, among other measures.

**Figure 4.3 : Strategic framework Regional Development Plan (2011)**



**Source:** Regional Development Plan, 2011; Translation.

With regard to the role of the ESF in the SC region and the CBC area, the focus is on increasing **the adaptability of workers and firms, enterprises and entrepreneurs**, i.e. supporting those in employment, as well as **strengthening the institutional capacity at the regional and local levels** (SG1, Priority 4).

The Greek-Bulgarian Cross-Border Cooperation programme's strategy is complementary to the regional strategy and also emphasises the catch-up development of the peripheral region through increasing the competitiveness of the border area economies and improving accessibility and mobility. The territorial cooperation strategy relies on improved **partnership and cooperation** in responding to common challenges, which adds a third element to the strategy of the SC region. The CBC strategy is also aimed at creating synergies and exploring the potential of the border area vis-à-vis the development of tourism as a specific focus.

#### **4.3.2. Cohesion policy analysis: initial strategy and changes**

##### **4.3.2.1. Strategy of cohesion policy prior to the crisis**

Further to the review of the economic, social and territorial inequalities that define the SC region, this section attempts to assess the impact of the crisis on the delivery and implementation of cohesion policy in the region and the CBC eligible area. The task is performed by looking at the main objectives of the RDP and the CBC programme before the crisis, observing whether changes have been introduced, and identifying whether they were triggered by the crisis. The section also outlines any additional measures taken on the central level with direct or indirect effects on the region selected.

## Main focus of cohesion policy in terms of spending

As seen in the Introduction, all Operational Programmes in Bulgaria for the 2007-2013 period are developed on a central level, and there is no regional dimension in terms of goals and expected results or the distribution of OP funds by NUTS 2 region (RDA, 2011). The original development plan for the SC region made an attempt to identify the potential resources that would be needed to fulfil the objectives, but it had a major weakness in the fact that it included only financing under the ERDF. It did not account for national co-financing, ESF, Cohesion Fund, and cross-border resources. Accordingly, that is why for the purposes of study the updated financial planning of 2011 is shown in Table 4.18, which covers only the second period of the implementation of the Plan (2011-2013). The results in the table support the strategy outlined previously, namely a **broad-based development** in order to 'catch up' with the average EU levels.

Due to the challenges facing the region in terms of low quality of technical and transport infrastructure, poor energy efficiency performance and serious weaknesses in the water management sector, the ERDF is the main tool used. The largest shares in relative terms are in the OPT at 25%, the OPE at 22.5% and the OPRD at 20.1% (MRDPW, 2010). The ERDF also finances the implementation of the Greece-Bulgaria cross-border cooperation budget under Objective 3. The total budget composed of the ERDF and national contribution for 2007-2013 is €130,277,598. The total financing consists of 85% ERDF funding and 15% national contribution (GR-BG CBC, 2007:90). The allocation between the three Priority Axes and Technical Assistance are shown in Table 4.17.

From the allocations, it can be seen that the CBC programme contributes funding along the themes of the mainstream funding. Despite its relatively small budget (7.8% of the total for Bulgaria), stakeholders recognised its added value in supporting the most pressing infrastructural issues, those not financed by other programmes but which clearly improve the development and tourism potential of the region (Interview NA, MA, 2013). Table 4.17 and Table 4.18 display the complementarity between the spending of sectoral and territorial programmes in the South Central region.



**Table 4.17 : Priorities of the CBC programme**

Priorities	Objectives	Funding (% , Total)
Priority Axis 1: Quality of Life	Environmental Resources; Cultural Resources; Health and Social Welfare Issues;	46% €59,927,695
Priority Axis 2: Accessibility	Road & Railway Network; Cross-Border Facilities;	24% € 31,266,624
Priority Axis 3: Competitiveness and Human Resources	Support and Valorisation of Human Resources; Entrepreneurship and Coping with Restructuring; Cooperation among knowledge and education-related organisations;	24% € 31,266,624
Priority Axis 4: Technical Assistance	Core Programme Management; Project Generation.	6% €7,816,655

**Source:** Author, based on GR–BG Cross-Border Cooperation programme.

**Table 4.18: Assessment of resources needed (in euro) 2011-2013**

In euro, rounded	ERFD	ESF	CF	National co-financing	Total	OP % of total
<b>Bulgaria</b>	1,672,383,768	618,552,902	1,184,466,063	702,095,352	4,177,498,084	
<b>North West</b>	337,821,521	124,947,686	239,262,145	136,820,260	838,851,612	
<b>OPRD<sup>85</sup></b>	143,458,454	-	-	25,316,198	168,774,652	20%
<b>OPDCBE</b>	104,123,072	-	-	13,371,658	117,494,730	14%
<b>OPHR</b>	-	108,750,764	-	19,191,311	127,942,075	15%
<b>OPT</b>	38,872,613	-	131 594,180	39,946,832	210,413,624	25%
<b>OPE</b>	46,276,921	-	107 667,965	35,237,664	189,182,550	23%
<b>OPAC</b>	-	16,196,922	-	2,858,280	19,055,203	2%
<b>OPTA</b>	5,090,461	-	-	898,317	5,988,778	1%
<b>Financial source % of total</b>	40%	15%	29%	16%		

**Source:** Author, based on the Updated Regional Development Plan, 2011.

<sup>85</sup> For abbreviations, see page 6.

## Expected outcome of cohesion policy

The desired outcome of cohesion policy is represented in Figure 4.3. In summary, it concentrates on decreasing intra-regional disparities and catching up with the rest of the EU. The original RDA did not operationalise these priorities with well-defined indicators and therefore, this Study cannot conclude on expected outcomes with certainty based on the initial design. However, the RDA of 2011 made an attempt to rectify the issue and provided a number of indicators grouped by priority and referring to the National Strategic Reference Framework and Europe 2020. A number of selected indicators are outlined in Table 4.19. The indicators cover the contribution of the ERDF, ESF and Cohesion Fund and emphasise the development potential of the South Central region, focusing on infrastructure, innovation, and development of tourism and human resources. The measures have been designed to give feedback on progress in the development and rehabilitation of the social, educational, health and tourism infrastructure in the SC region identified as top priority under the SWOT analysis.

In parallel, the expected outcome of the cross-border programme is 'to promote the cross-border area by **ensuring regional cohesion and enhancing competitiveness**' (GR-BG CBC, 2007:57). This strategic goal underlines the characteristics of the districts encompassed by the programme as well as the wide disparities in the level of development within the eligible area. The expected outcome has a concrete territorial aspect reflecting the structure of the area. The two specific objectives that support the broad-based development strategy are:

- Specific Objective A: Strengthening the Attractiveness of the Area by Upgrading the Quality of Life & Improving Accessibility Structures;
- Specific Objective B: Enhancing Competitiveness via Entrepreneurship, Networks of Cooperation and Human Resources.

The benchmark used to assess progress against these objectives is the increased number of joint partnerships or networks developed within the respective axes.

**Table 4.19: Indicators in Regional Development Plan 2011-2013**

Priority focus	Type of indicator according to RDA	Indicators (selected)
Programme overall	Impact	Increase in GDP per capita, GVA, Employment levels – in line with Europe 2020
1: Competitiveness towards knowledge and local resource-based economy	Output	Increased FDI in EUR
	Result	Revenue from overnight stay in the region (million BGN) and accommodation facilities on the territory of the region (number); Clusters created on the territory of the region
2: Technical infrastructure and urban environment	Output	Landfills for local waste (number)
	Result	Created or renovated roads (% of the road network completed); Population with access to systems for waste management (% of total population)
3: Social infrastructure	Output	Renovated health, educational and social institutions (number)
	Result	Population with access to improved social, educational and health infrastructure (number); Students drop-out rate in schools (% of students)

4: Institutional capacity for regional and local development	Output	Projects and initiatives for cross-border, transnational and international cooperation (number)
	Result	Increased contracts signed under the OPs (number)

**Source:** *Regional Development Plan, 2011.*

#### **4.3.2.2. Cohesion policy during the crisis (2008 onwards)**

The Introduction explored the role of cohesion policy during the crisis on a national level and its implications for the sub-national level. It underlined a few points worth mentioning here:

- The role of cohesion policy is to be further evaluated on the regional level, combining different sources of funding used and projects delivered. As of March 2014,<sup>86</sup> the region is second in the number of contracts signed (1555, 18% of country total), the resources absorbed (€1,489,282,000, 18.4% of country total) and beneficiaries involved (855, 16% of country total) (UMIS, 2014). Looking at the total value of contracts per capita, the region is third behind the South West and the South East Planning Regions.
- The assessment of the underlying problems that the programmes address has shown the relevance of the measures taken and the persistency of existing socio-economic issues across the country and the SC region.
- The Simulation (model) of Bulgaria's Investment in Long-term Advance, SIBILA, is the best tool developed so far to evaluate the role of cohesion policy, and its use in the analysis of effects on a sub-national level should be further explored.
- Existing data show that during the crisis the role of EU funds was noticeable in municipal budgets and investment activity.

With regard to the last point, the 2013 report of the Institute for Market Economics observed that the constrained municipal budgets almost entirely removed the investment potential of the municipalities, and the EU funds directed for capital expenditure 'dominated the investment activity' (IME, 2013:36). The positive aspect of this use of EU funds is in their targeting to 'achieve concrete results and soften the impact of the crisis', but the assessment also emphasised the negative aspect – strong dependence on EU funds at the local level (IME, 2013:36). This is confirmed in the mid-term evaluation of the implementation of the OPRD (2011), which also supported the conclusion that '[a]s a result of the economic crisis, OPRD became the main source of funding investment for municipalities' (KPMG, 2011:6). The evaluation also recognised the difficulty of adjusting policy to the increased intra- and inter-regional disparities (KPMG, 2011).

#### **Main changes in strategy and objective**

The ability of the authorities to react to the crisis using cohesion policy varied across levels of government, but overall the strategy and priorities of all the sectoral and territorial programmes remain unchanged.

As a result of the crisis, the regional strategy has remained the broad-based economic development of the region, building on internal resources to strengthen the resilience of the region. Even though there have been no changes in the core objectives, modifications have been made in order to facilitate access to resources and improve the absorption of funding (EEN, 2012). These modifications are mostly in line with the EERP, i.e. increased

<sup>86</sup> Unified management information system for the EU structural instruments in Bulgaria, information is updated on: 17.03.2014. <http://umispublic.government.bg/prPlanningRegions.aspx?pr=4>

size in the funds advanced to public beneficiaries for the implementation of projects of up to 35% of the value of the grant provided from European and national co-financing; accelerate the absorption of funds with an accent on energy-saving and energy-efficiency technologies, access to financing and projects that have received approval but no finance due to lack of resources; and reduced administrative burden and, where possible, simplification of existing procedures.

Similarly, during the crisis the CBC programme was not changed overall, but there were minor adjustments. The adjustment resulted from the return of unused IPA Greece-Turkey cross-border funding for 2010-2013 to the GR-BG CBC programme (AIR, 2010:3). The change led to the modification in financial implementation, increasing the budget to transfer €132,273,032 to Axis 1: Quality of life (AIR, 2010:3; EC, 2012:2).<sup>87</sup>

According to the interviews conducted with the MA and JRS for the programme, cohesion policy during the crisis resulted in strengthened partnerships in the cross-border area, but further impacts in the medium term will be due to the investment in important growth factors such as infrastructure and transport, technological modernisation, and human capital (Interviews GR JMS, 2013). The latter point is also supported by the strategic documents, which suggest that the role of cohesion policy will be more noticeable in the medium-to-long term.

### **4.3.3. Effectiveness, constraints and adaptation of cohesion policy<sup>88</sup>**

#### **4.3.3.1. Effectiveness of cohesion policy before and after the crisis**

Further to what was discussed earlier, the broad-based strategy of the South Central region emphasises medium-to-long term engines of growth such as technological modernisation, infrastructure and human capital (CoM, 2012). The deterioration of the economic and social indicators of the SC region was not matched by additional resources, while the CBC had few resources and little flexibility to target cyclical challenges (see Introduction). The discussion of the effectiveness of cohesion policy at the current stage is limited to the uptake of funds.

The measurement of the effectiveness of cohesion policy has been the absorption rates on the regional and national levels. Against this benchmark, the South Central region has performed well, converging to the South East in terms of value of contracts per capita and second behind the South West in terms of contracts and beneficiaries. Beyond the numbers in the unified management system, the personal opinions of stakeholders on the effectiveness of cohesion policy in the regions described were negative or neutral. The reasoning behind the assessment points to the fact that the EU funds were not planned on the regional level, and they were not reallocated with regard to the current needs in the region (Interview CITU, 2014). The example given is the high rate of unemployment throughout the entire region and the absence of a tool to allocate more resources to employment-support measures (Interview CITU, 2014).

Concerning the CBC area, two distinct opinions exist and both relate to operational effectiveness:

- Interviewees from the NA and the CoM declared that the crisis could not impact on effectiveness due to the complex procedural and legislative framework within which the CBC programme operates (Interview CoM, 2013; Interview MA, 2013);

<sup>87</sup> ERDF: 117, 887, 607 EUR; National contribution: 20, 803, 696 EUR; PA 1: 58, 090, 190 EUR (85%); PA 2: 26, 567, 630 EUR; PA 3: 26, 567, 630 EUR; PA 4: 6, 644, 157 EUR.

<sup>88</sup> This section is heavily constrained by the fact that the analysis focuses on events, trends and changes that are evolving at the time of writing. Thus, scarce data availability and the inability of the stakeholders to provide definitive answers on 'what has worked and what has not worked' in cohesion policy during the crisis make this section more geared towards description than analysis.

- The crisis had a positive impact on implementation effectiveness through the streamlining of procedures, the result-oriented approach to calls for proposals, and simplification of mechanisms (Interview MA, 2013).

Observations on the calls for proposals by the Joint Technical Secretariat aligned with the perspective that cohesion policy has improved its effectiveness in the region. One example is the tendency for projects to become more targeted, cost-effective and of higher quality in the second and third calls than the first one. This also holds true for the partnerships formed – based on the experience from the first round of financing, the proposals include better-formulated partner relations and interaction and more focused projects with less ambitious but thought-through budgets (Interview MA, 2013).

#### ***4.3.3.2. Main constraints affecting cohesion policy implementation***

Whereas the Introduction chapter presented some of the key constraints identified, the table below summarises the issues and their nature (external or internal), and it explores whether a response by the regional authority was possible. Since the RDP and the CBC programme were not formally changed, the responses included the practical arrangements in the management and implementation of the Structural Funds. Even though there is agreement that the CBC programme has supported municipalities by compensating for their lack of revenue and ability to generate own resources, the implementation and management of the national and regional programmes were hampered by multiple constraints during this first programming period. From the issues discussed below, it can be seen that the constraints are strongly interlinked and that the level of the municipality is the most appropriate to target the constraints.

**Table 4.20 : Constraints and space for regional response**

Main constraints	Type	Channels of impact	Is Regional response possible / what response?
Delay of the payment of EU Contribution (AIR, 2012; Interview GR JTS, 2013)	External Financial	The 3 <sup>rd</sup> payment of EU contribution was delayed, causing a financial gap and delaying implementation by Bulgarian beneficiaries. For example, under Axis 2 Accessibility, projects faced problems with the pre-financing of the activities since they did not have bridge financing provided on the national level as the Greek partners did (Interview NA, 2013; AIR, 2012:53).	The National Authority (MRDPW) secured advances from the Ministry of Finance and coordinated closely with the MA to offer full assistance to the beneficiaries affected.
Centralised bureaucracies and regional policy (Interview GR JTS, 2013; Monastiriotes, 2008)	Internal Structural	Programming of cohesion policy is distanced from the areas of implementation. Difficulty in responding to specifically local challenges. Bulgaria's regional policy characterised by a focus on a few urban areas, wide economic disparities and a severed link between regional and local policy-making (Monastiriotes, 2008:1).	The RDA (2008) introduced mechanisms for stronger coordination between the planning region and the central level through the Regional Development Councils. The complex CBC programmes benefited from the simplification of the procedures, reduced administrative burden and strengthened capacity of beneficiaries, but the regions still do not have the flexibility to accommodate policies for the environment.
Wide intra- and inter-regional imbalances (EEN, 2012; Monastiriotes, 2008)	Internal Structural	Around 75% of disparities intra-NUTS 3, very wide differences between top performing district centres and others valid for the SC region (Plovdiv versus Kardjali) and the CBC area (Blagoevgrad versus the Kardjali). This significantly impacts on how prepared districts are to absorb the resources.	These constraints on cohesion policy implementation should be resolved on the national level. Intra-regional disparities are a priority in the RDP for the South Central region for 2014-2020, which aims at 'balanced development of the territory of the region, smoothing intra-regional disparities, strengthening the city-region connection, overcoming peripherality, territorial accessibility and connectivity, through the use of cross-border, inter-regional and transnational cooperation' (MRDPW, 2013:122).
Limited administrative capacity of the municipalities (LAU 1) and regional authorities (NUTS 2) (Interview NA, 2013; Monastiriotes, 2008)	Internal Capacity	Since the process favours authorities with stronger capacity, the ones that lack this are left worse off. The municipalities that are also regional centres, as well as those with previous PHARE experience, have greater capacity to bid and implement projects – Smolq, Haskovo, Kardjali.	Similarly to the above, the MA and NA support beneficiaries in practice. In the longer term, the solution is the strengthening of the Regional Implementing Bodies and municipal administrations, strengthening the administrative capacity by launching initiatives aimed at supporting the local authorities in preparing and implementing projects.
Programme design and implementation favour more 'absorptive' authorities which are often more resourceful (Interview NA, 2013; Monastiriotes, 2008:20)	Internal Structural	Mainstream programmes and CBC programmes have no quotas for applications, and the authorities with stronger human and financial capital have an advantage in the current tendering process which effectively means that those who need the resources the most do not receive them.	The Managing and National Authorities assist beneficiaries through information and guidance sessions. Multiple awareness-raising and training initiatives were organised prior to each of the calls (Interview GR JTS, 2013). Possible stronger role for local contact points to raise awareness about existing programmes, strengthen transparency and assist the beneficiaries with the procedures for application, certification and evaluation (AIR, 2012).

**Source:** Author, based on literature and interviews

#### 4.3.3.3. Regional strategies adaptation

The analysis of the multi-level governance structure and the impact of the crisis showed that there was no strategy adaptation in SC region and GR-BG CBC area. The objectives and priorities of the Regional Development Plan of 2005 were assessed as relevant in the interim evaluation of 2010 and in the update of 2011. The OPRD's mid-term evaluation established the consistency of the programme's goals with the socio-economic situation and triggered minor reallocations between priority areas to improve absorption rates. At the time when they were written in 2010 and 2011, policy-makers had already previewed the changes to be made for the next programming period. Stakeholders acknowledged that policy-makers started looking forward to the 2014-2020 period as early as midway through the 2007-2013 period. This was driven by a desire to put the test period behind them and use the lessons learned for the next one (Interviews, 2013-2014). This tendency is also seen on the regional level and in the regional strategic documents.

In the South Central region, the overall strategy for the use of **ERDF** has remained **broad-based development**, and it is complemented by an emphasis on the 'development of cross-border cooperation and the mobilisation of the potential of the peripheral border areas' (MRDPW, 2013:158).

Additionally, the RDP for the next programming period includes emphases on two **ESF** priorities with substantially lower resources allocated to them:

1. Improving access to employment and sustainability, and
2. Strengthening institutional capacity at the national, regional and local levels.

The table below illustrates the four strategic objectives for 2014-2020 and the share of the funds planned for each.

**Table 4.21 : Strategic objectives 2014-2020**

Strategic objective	Share of total
<b>SO1:</b> Economic convergence along national and intra-regional dimensions based on environmentally-friendly use of own resources	38%
<b>SO2:</b> Social cohesion and reduction of inter-regional disparities by investing in human capital and social infrastructure	8%
<b>SO3:</b> Development of cross-border and transnational cooperation contributing to economic and social development and cohesion	3%
<b>SO4:</b> Balanced territorial development by strengthening urban centres, improving connectivity in the region and the quality of the environment in urban areas	51%

**Source:** Regional Development Plan 2014-2020, 2013: 170.

The implementation of cohesion policy for 2014-2020 is also based on the Integrated Urban Rehabilitation and Development Plans (IURDP). These plans were already rolled-out in 2007-2013, but in the next period the needs of the cities as reflected in these plans are becoming the main strategic focus for planning the investment from the EU funds and State budgets.



#### 4.3.4. Conclusion

This Study aimed to provide examples of the impact of the economic crisis on the social, economic and territorial cohesion in Bulgarian regions. Thus, the review of the South Central region was supplemented, on one hand, with a review of the implementation of cohesion policy on national and municipal levels due to the nature of regional policy in Bulgaria. It is one of two case studies that explicitly focus on territorial cooperation and the potential of the cross-border cooperation framework to respond to cyclical shocks.

Overall, the Study underlined the importance of 2007-2013 as the **first programming period** for Bulgaria. In the review of the impact of the crisis, an assessment of the causality of the changes introduced was limited by this same fact – many adjustments in organisational and legal matters were made as a result of a 'testing' process rather than as a result of the crisis. Numerous lessons were learned and, where possible within the framework, the national authorities made amendments to incorporate them into current practices.

In addition to this factor of the first programming period, the Study emphasised the low level of economic development of the country, CBC area and the region. When reviewing the impact of the crisis, this is not irrelevant. Bulgaria was strongly connected to the rest of the EU and the Eurozone, and the 'communicating vessels' dynamic meant that the low growth of Bulgaria's trading partners directly resulted in low growth in Bulgaria (Figure 4.1). The impact was extended due to the lack of capacity of the country to bounce back easily due to long-term effects on employment and poverty levels. The effect on employment was especially strong in the South Central region, where three of the districts with the highest surge in unemployment rates are located. Despite the increase in unemployment, the NRDS of 2012 states that 'the economic development of the South Central region is fairly stable' (2013:32).

The impact of the **economic and financial crisis on the implementation and use of cohesion policy** in the South Central region has been mixed (**RQ3**). The crisis in the region was transmitted through the real economy, which was quickly affected, as well as through a sharp drop in government spending on procurement and the difficult access to credit for enterprises. It was also mentioned that the most challenging features of the region include the increasing intra-regional disparities in the South Central region and the pronounced territorial aspect of these challenges. The region is characterised by a wide gap between the performance of the regional centre, Plovdiv, and the rest of the region, especially the border areas. The cross-border area is also defined by low accessibility and connectivity, which hampers its convergence to the EU average.

The analysis of resilience factors shows that the South Central region has a low level of resilience with regard to GDP per capita (lowest in the EU), investment in innovation and R&D, and human capital as indicated by the percentage of adults with tertiary education. At the same time, the factors that determine this low resilience are unequally divided among the districts and municipalities. The low starting level means, on one hand, a stronger impact of the crisis and lack of financing, but on the other hand, little exposure of the region to the crisis in financial markets. The impact of the crisis on a regional level is difficult to assess due to the weak link between strategic documents and Operational Programmes during the first programming period. The crisis in the peripheral area of the South Central region has strong similarities with the dynamics in the CBC area, which hints at the need for a territorially integrated approach.

Furthermore, administrative capacity in the country, region and CBC area has contributed to **low resilience** but, as reiterated, that should be largely due to 2007-2013 being the first experience with cohesion policy.

Concerning the **effectiveness of cohesion policy before and after the crisis and the changes in this aspect (RQ4)**, the information available on the regional level is not sufficient to give a clear response. First of all, evaluations conducted and approaches to

effectiveness in evaluation practices offer limited conclusions. Effectiveness was assessed primarily by looking at the absorption rates of the EU SCFs, which place the SC region second in terms of the number of contracts and beneficiaries and third in terms of EU funds value per capita. Second, on a regional level the original Regional Development Plan which can be used as the pre-crisis benchmark does not provide enough financial or management data to be used for the comparison. Last but not least, the difficulty in the effectiveness of cohesion policy lies in the overall regional strategy, which is targeted to the medium-to-long term, and thus a longer timeframe is necessary. Effectiveness on **the municipal level** was seen as a more accurate measure of the response to the crisis. **Municipal budgets** were affected by the crisis with impacts upon already constrained investment resources. Existing evidence shows that there was a replacement of original investment sources with EU funds.

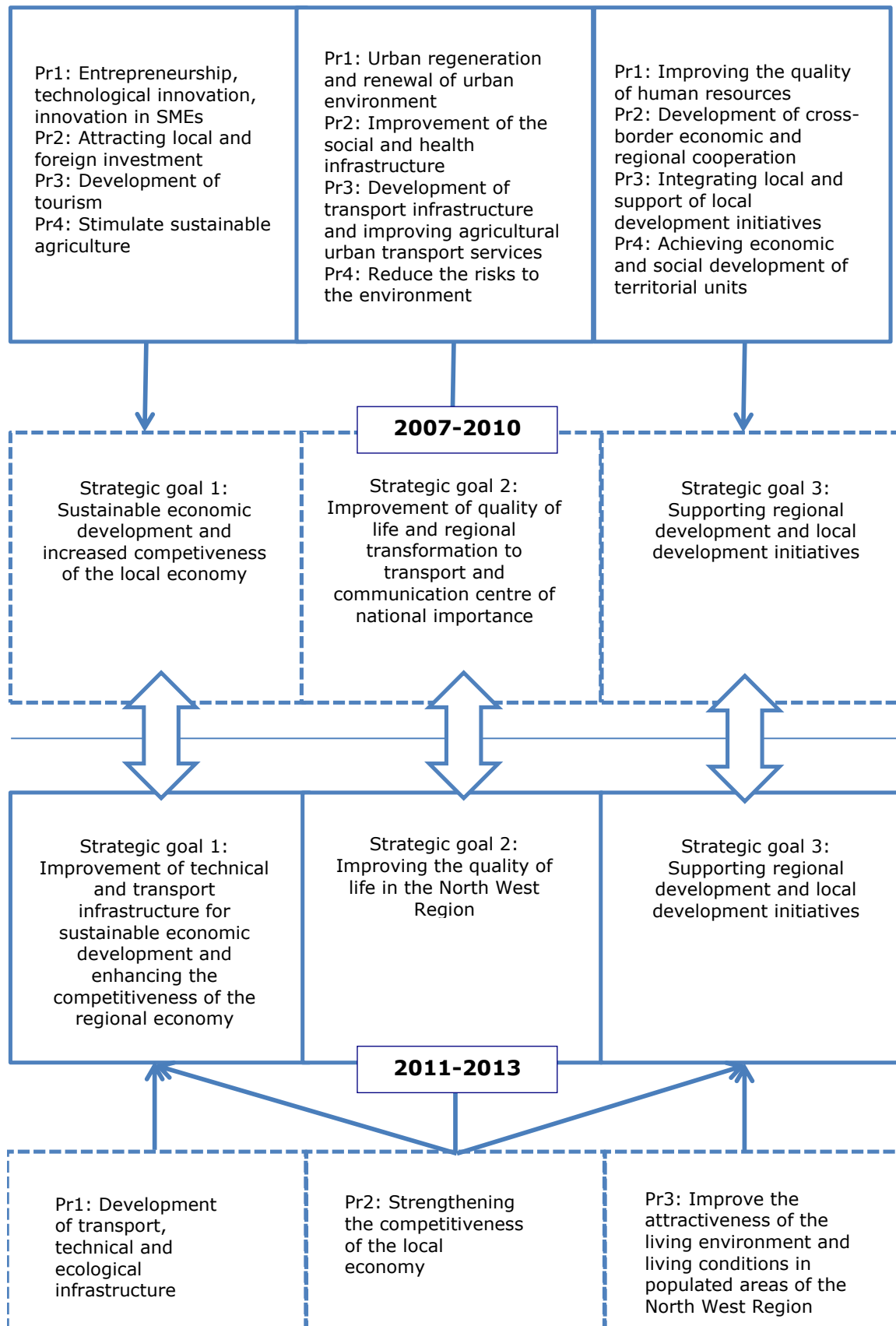
The implementation and management of cohesion policy was hampered by **multiple constraints** during this first programming period (**RQ5**). As underlined earlier, it is difficult to assess the causality between the crisis and the existing constraints, especially on a regional level. The main constraint has been the availability of financial resources for beneficiaries, but not enough evidence exists to assess the effect of national measures on the regional level.

From the information available, the **regional strategy has remained the broad-based economic development** of the region, building on internal resources to strengthen the resilience of the region (**RQ6**). The vision and strategic goals for the next programming period emphasise the low starting point of the region and the 'catching-up' it has to do with the South West region and the EU. Even though the resources under the ESF have increased, the ERDF continues to be the main source for support.

With regard to territorial cooperation, the Managing Authority could not make any substantial changes in the programme but delivered measures to ease the absorption of funds and speed up implementation. The programme is complementary to the sectoral programmes in the two countries, but stakeholders identified the need for a stronger link between the measures and the strategic focus.

The on-going debate about the shape of Bulgaria's regional policy widely impacts on the possible tools available to regional authorities to respond to the challenges brought by the crisis. A stronger territorial focus in all Bulgaria's mainstream programmes and a stronger linkage between Regional Development Plans and the implementation of cohesion policy could essentially decrease the wide inter-and intra-regional disparities that exist in the country.

## Appendix 1. North West Bulgaria goals and priorities comparison 2007-2010 and 2011-2013





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## ANNEX 1. LIST OF PEOPLE INTERVIEWED

Category	Code/Name	Role	Date of interview
<b>BASILICATA, ITALY</b>			
<b>Strategic Interviews</b>			
1	A1	ERDF MA	Potenza, 12.12.2013
2	B1	ESF MA	Potenza, 12.12. 2013
<b>Operational interviews</b>			
1	C1	ERDF Axis I delegate	Potenza, 12.12.2013
2	D1	ERDF Axis IV delegate	Potenza, 12.12.2013
3	E1	ESF MA member	Potenza, 12.12.2013
<b>External Interviews</b>			
1	F1	Representative of CGIL Basilicata	Telephone interview, 29.01. 2014
2	G1	Academic from the University of Bari	Telephone interview, 29.01.2014
<b>CAMPANIA, ITALY</b>			
<b>Strategic Interviews</b>			
1	A2	Head of Programming of Region Campania	Napoli, 11.12. 2013
<b>Operational interviews</b>			
1	B2	Member of the ESF MA	Napoli, 11.12.2013
2	C2	Member of the ERDF MA	Napoli, 11.12. 2013
3	D2	Member of the Group for Evaluation of Public Investment, Campania Region	Napoli, 11.12. 2013
4	E2	Member of the Group for Evaluation of Public Investment, Campania Region	Napoli, 11.12. 2013
5	F2	Member of the Dept. for Education, Research and Cultural and Social Policy	Napoli, 11.12. 2013
<b>External Interviews</b>			
1	G2	Researcher at the University of Strathclyde	Skype, 07.02.2014
	H2	Representative of Confindustria Campania	Written feedback provided on 31.01.2014
2	I2	Representative of CGIL Campaina	Written feedback provided on 27.01.2014
<b>BAVARIA, GERMANY</b>			
<b>Strategic Interviews</b>			
1	Christian Halsbeck	Manager, ERDF	Written submission <sup>89</sup>

<sup>89</sup> The ERDF Authority did not agree to participate in a full interview programme, but provided written input after consultation with measure managers.

2	Georg Moser	Manager, ESF	26.11.2013 <sup>90</sup>
<b>External Interviews</b>			
1	Kai Sattler, ISG Institut	Expert/evaluator, ESF	04.03.2014
2	Ralph Rautenberg, Prognos	Expert/evaluator, ERDF	05.02.2014
<b>NORTH RHINE-WESTPHALIA, GERMANY</b>			
<b>Strategic Interviews</b>			
1	Petra Schulz	Coordinator, ERDF	Participation declined
2	Daniel Jansen	Manager, ESF	Written submission <sup>91</sup>
<b>External Interviews</b>			
1	Marco Puxi	ISG Institut	21.01.2014
<b>PODLASKIE VOIVODSHIP, POLAND</b>			
<b>Strategic Interviews</b>			
1	Piotr Machański	Head of Office of ROP Coordination, Department for Coordination of Regional Programmes and Digitization, MID <sup>92</sup>	9.11.13
2	Michał Ptaszyński	Vice Director, Department for Coordination of Regional Programmes and Digitization, MRD	19.11.13
<b>Operational interviews</b>			
1.	Elżbieta Romańczuk	Director, Department of ESF, Marshal Office of PW	28.11.13
2.	Małgorzata Kukor - Kołodko	Head of Office, Department of ESF, Marshal Office of PW	28.11.13
3.	Agnieszka Godlewska	Head of Office, Department of ESF, Marshal Office of PW	28.11.13
4.	Marcin Sidorczuk	Head of Department of Coordination and Implementation of HCOP, Podlaskie Voivodeship Labour Office	28.11.13
5.	Daniel Górski	Director, Managing Authority of ROP (ERDF), Marshal Office of PW	29.11.13
6.	Marcin Podlubny	Head of Monitoring Department of ROP, Marshal Office of PW	29.11.13
7.	Małgorzata Żynel	Deputy director for New Programming Period, Managing Authority of ROP, Marshal Office of PW	29.11.13

<sup>90</sup> The ESF Managing Authority did not have detailed input into the study and did not agree to participate in a full interview programme, with the broad position and broad answers provided in a telephone conversation on the date indicated.

<sup>91</sup> The ESF Authority did not agree to participate in a full interview programme, but provided written input.

<sup>92</sup> Ministry for Infrastructure and Regional Development, newly established as joint body of the Ministry of Transport, Construction and Marine Economy and Ministry of Regional Development (27 November 2013).

<b>External Interviews</b>			
1.	Andrzej Parafiniuk	Chairman of the Board of the Podlaska Regional Development Foundation	29.11.13
2.	Urszula Jabłońska	Secretary of the Lapy Comune	29.11.13
<b>DOLNOŚLĄSKIE VOIVODSHIP, POLAND</b>			
<b>Strategic Interviews</b>			
1	Joanna Reduta	Department of Structural Policy Coordination, MIR	9.11.13
2	Michał Ptaszyński	V-ce Director, Department for Coordination of Regional Programmes and Digitization, MRD	19.11.13
<b>Operational interviews</b>			
1.	Sławomir Sobieszek	Director, Department for Management of Regional OP, Lower Silesian Marshall's Office	22.11.13
2.	Barbara Dziubak	Department for Management of Human Capital OP (EFS), Lower Silesian Marshall's Office	22.11.13
3.	Monika Kwil-Skrzypińska	Director, Lower Silesian Voivodeship Labour Office	25.11.13
<b>External Interviews</b>			
1.	Dr Andrzej Raczek	Department of Spatial Development, Faculty of Earth Science and Environmental Management	22.11.13
<b>SOUTH CENTRAL REGION, BULGARIA</b>			
<b>Strategic Interviews</b>			
Interview MA JTS	Mr Kiriakos Fotiadis Jointly with the Joint Technical Secretariat members	Director of the Joint Technical Secretariat, Greece-Bulgaria Cross Border Cooperation	Call, 05.12.2013
Interview NA	Ms Maria Duzova	Director General, DG 'Territorial Cooperation Management', Ministry of Regional Development and Public Works	Sofia, 27.11.2013
Interview NA	Ms Dimana Sandonkova Jointly with Mr Milen Obretenov	Deputy Director General, DG 'Territorial Cooperation Management', Ministry of Regional Development and Public Works	Sofia, 27.11.2013
<b>Operational interviews</b>			

Interview MA JTS	Galina Georgieva	Members of the Joint Technical Secretariat, Greece-Bulgaria Cross Border Cooperation	Call, 05.12.2013
Interview MA JTS	Dimitrios Papathanasiou	Member of the Joint Technical Secretariat, Greece-Bulgaria Cross Border Cooperation	Call, 05.12.2013
Interview NA	Mr Milen Obretenov	Head of the 'Monitoring, Evaluation, and Programming' Division, DG 'Territorial Cooperation Management', Ministry of Regional Development and Public Works	Sofia, 27.11.02013
Interview MRDPW	Ms Elka Vasileva	Head of Regional Development Strategies and Plans and Territorial Cooperation Department, DG Strategic Planning of Regional Development and Administrative-Territorial Organization	Sofia, 28.11.2013
Interview CoM	Ms Angelina Todorova	Advisor on Territorial Cooperation to the Council of Ministers of Bulgaria	Sofia, 27.11. 2013
Interview Geratliev	Mr Kiril Geratliev	Former Director General, DG 'Territorial Cooperation Management', Ministry of Regional Development and Public Works	Sofia, 28.11.2013
<b>External interviews</b>			
Interview CSD	Mr Plamen Salafov	Research Fellow, Centre for the Study of Democracy	Telephone, 29.01.2014
Interview CITU	Mr Todor Kapitanov	Chairman, Confederation of independent trade unions (CITU)	5.02.2014 Written response received
<b>NORTH WEST REGION, BULGARIA</b>			
<b>Strategic Interviews</b>			
Interview RO MA	Ms Julia Hertzog	Director, Managing Authority, 'Romania - Bulgaria' Cross Border Cooperation, Ministry of Development, Public Works and Housing	Bucharest, 29.11.2013
Interview RO MA	Ms Ioana Glavan	Head of Unit, Managing Authority, 'Romania - Bulgaria' Cross-Border Cooperation	Bucharest, 29.11.2013
Interview NA	Ms Maria Duzova	Director General, DG 'Territorial Cooperation Management', Ministry of Regional Development and Public Works	Sofia, 27.11.2013
Interview NA	Ms Dimana Sandonkova Jointly with	Deputy Director General, DG 'Territorial Cooperation Management', Ministry of Regional Development	Sofia, 27.11.2013



	Mr Milen Obretenov	and Public Works	
<b>Operational interviews</b>			
Interview MA, JTS	Ms Alexandra Calotita	Head of Unit, Managing Authority, Monitoring Department	Bucharest, 29.11.2013
Interview MA, JTS	Ms Michaela Piroi	Counselor (Contracting officer), Managing Authority	Bucharest, 29.11.2013
Interview MA, JTS	Mr Bogdan Musat	Head of the Joint Technical Secretariat	Bucharest, 29.11.2013
Interview MA, JTS	Mr Sandu Serban	Head of Romanian First Level Control	Bucharest, 29.11.2013
Interview MRDPW	Ms Elka Vasileva	Head of Regional Development Strategies and Plans and Territorial Cooperation Department, DG Strategic Planning of Regional Development and Administrative-Territorial Organization	Sofia, 28.11.2013
Interview CoM	Ms Angelina Todorova	Advisor on Territorial Cooperation to the Council of Ministers of Bulgaria	Sofia, 27.11.2013
Interview Geratliev	Mr Kiril Geratliev	Former Director General, DG 'Territorial Cooperation Management', Ministry of Regional Development and Public Works	Sofia, 28.11.2013
<b>External Interviews</b>			
Interview CSD	Mr Plamen Salafov	Research Fellow, Centre for the Study of Democracy	29.01.2014
Interview CCI Vidin	Mr Krasimir Kirilov	Chairman, Chamber of Commerce and Industry Vidin, North West Planning Region	5 .02. 2014 Written response received
Interview CCI Vratsa	Ms Maria Panaiotova	Administrative Secretary, Chamber of Commerce and Industry Vratsa, North West Planning Region	29 .01. 2014
Interview CITU Vratsa	Ms Mila Ivanova	Chairman of the Confederation of Independent Trade Unions (CITU), Vratsa, North West Planning Region	31 .01. 2014 Written response received





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