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The impact of EU Cohesion Policy as a growth tool for Italian SMEs

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Introduction

The European Structural & Investment Funds (ESIF) consisted of five EU funds (ERDF, CF, ESF+, EAFRD, EMFAF) which are aimed to implement the regional policy of the European Union, as well as the structural policy pillars focused on agriculture and fisheries. The Union aims to boost economic development and jobs and to support sustainability through the ESI Funds by investing in growth, job creation, and in a sustainable and healthy European economy and environment.

This work has as its object the impact assessment of EU Cohesion policy expressed by ESI funds for micro, small and medium enterprises: the first chapter will proceed to examine in-depth the SME ecosystem in Europe and Italy, by examining its most important characteristics and investigating the most diffused financing channels used by SME to subsidize their growth and core business.

The second chapter will describe the main EU priorities which characterized the Programming Period 2014-2020, by distinguishing between the different types of EU funds management: the funds directly managed by the European Commission, the funds managed by partner organisations and other entities, and the funds jointly managed by European Commission and national authorities of member states. The chapter will examine a few examples of Programmes as well run under each type of funds management, analyzing the most interesting features of each mentioned Programme, and explore the fundamental characteristics of 2021–2027 long-term budget by describing the new priorities of the next Programming Period.

Finally, the last chapter will focus on the EU Cohesion funds managed by The National Agency for Inward Investment Promotion and Enterprise Development – Invitalia S.p.a., identified as managing entity by the national authority in charge of the National Operational Programme - NOP “Culture and Development”, framed in the European Regional Development Funds – ERDF.

In particular, the chapter will examine in depth the main results of EU Cohesion Funds in Europe and in Italy and will show the focal points of the impact assessment carried out by Mipa Consortium on behalf of Ministry of Culture: the assessment concerns “Cultura Crea” Programme, which represents the National Operational Programme Culture and Development’s Axis II; the evidences reported by Mipa Consortium will be an interesting starting point in order to study strengths and weaknesses relating the process of application for EU grants, which actually play a fundamental role for the growth and sustainability of SMEs.

Chapter I – SMEs overview in Italian and International context

1.1 SMEs overview in Italian context

The Italian productive system is mainly based on micro, small and medium-sized enterprises: according to the official definition of European Commission[1], within the SME population, micro-enterprises are identified as companies which employ fewer than 10 staff, while small-enterprises employ 10 to 49 staff, and medium-sized enterprises employ between 50 and 249 staff. Indeed, considering the latest available data[2], almost 94% of the operating enterprises in Italy (about 4,4 million) are micro-SMEs. The rest is composed by small and medium-sized enterprises (almost 200.000 units, about 5%) and large enterprises. In terms of employment, the segment of micro-SMEs accounts for 43% of staff, while small and medium-sized enterprises employ together about 33% of staff; moreover, the aggregated value added generated by the micro, small and medium-sized enterprises is about 65%, or 40% if we take into account only small and medium-sized ones.

Within the perimeter of non-financial business sector, in the decade before the pandemic (2008-2019) we observe a contraction in terms of employment and number of enterprises concerning wholesale and retail trade, construction and manufacturing industries and, at the same time, an increase of accommodation and food services, ICT and travel industries[3].

Industry *in the strict sense* turns out to be the first sector for employees (23,4%), despite the decline registered in the last decade and even though it includes only 9,1% of total enterprises. A further 20% of employees work in the sector of commerce, which is instead first in terms of number of enterprises, with a share of 24.4%, followed by professional, scientific and technical activities (17,1%).

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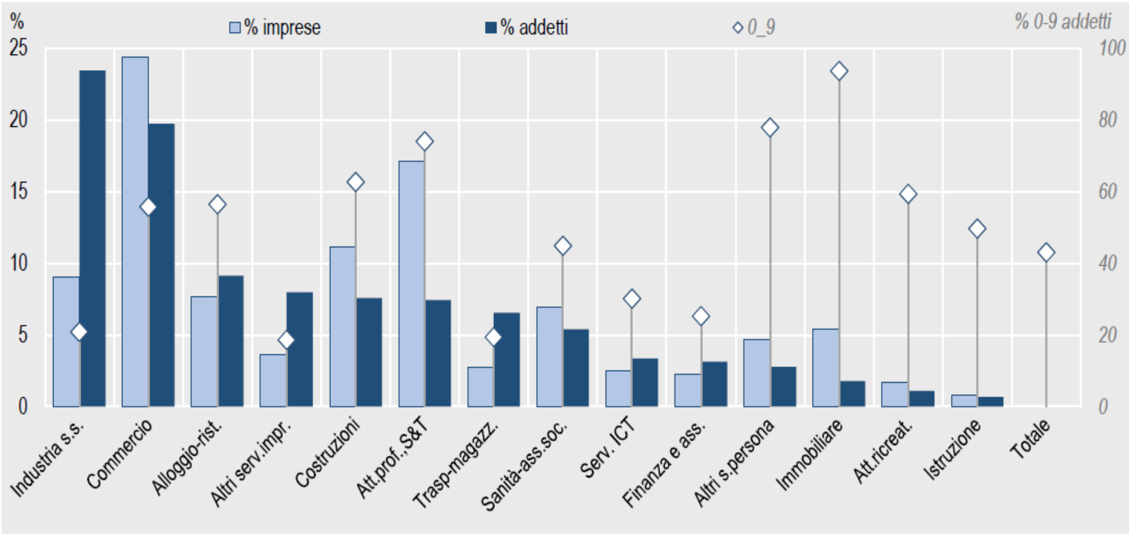
[1] EC Recommendation of 6 May 2003 concerning the definition of micro, small, and medium-sized enterprises (2003/361/EC), Official Journal of the European Union, L 124/36, 20 May 2003

[2] Istat (2021), Rapporto sulle imprese. Struttura, comportamenti e performance dal censimento permanente

[3] Construction industry lost 23% of enterprises (145.000) and 34% of employees (690.000); manufacture industry lost 19% of the enterprises and almost 15% of the employees (645.000); in the sector of Commerce and Transport and warehousing, the number of companies decreased by 12%, while the number of employees reduced by 3.3%.

During the same period, the growth in the number of enterprises and employees in non-commercial services was supported by an above-average increase in added value.



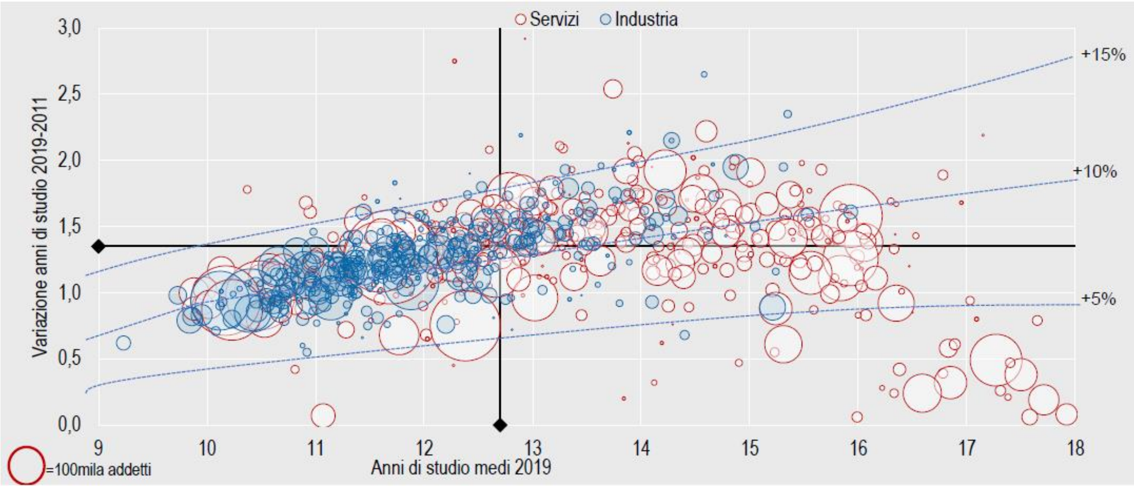
Fonte: Istat, Archivio statistico sulle imprese attive - ASIA dati: doi.org/10.1481/Istat.Rapportoimprese.2021.1.4

In the past decade, other changes have occurred together with the evolution of the production structure, in the economic system: among these, it could be interesting to observe the organizational aspects of companies such as the chosen legal form, the individual characteristics of entrepreneurs and the endowment of human capital, with reference to both economic sectors and individual enterprises. These parameters are representative of the current and potential evolution in organizational structure of businesses, as well as aspects such as generational turnover.

The generational change in existing companies has played a major role, because of the presence of young people as promoters of a new entrepreneurial approach founded on highly educated human capital and modern management practices. In fact, the great majority of companies are characterized by the overlapping between ownership and management, and a remarkable number has gone through a generational transition or will have to carry it out in the coming years; the empirical evidence shows that companies which made the generational transition have, for instance, a stronger aptitude to innovation.

As a matter of fact, a greater permeability of enterprises to innovation and the use of modern technologies is associated to a more evident progress in the education of both entrepreneurs and company staff.

Indeed, the average education of employees in micro, small and medium-sized enterprises, measured in years of study needed to achieve the highest qualification, passed from 11.35 years per capita in 2011 to 12.7 in 2019.



Average education level of employees in years (2009 – 2011)

This phenomenon is, to a large extent, due to a simple effect of generational turn-over (thanks to which older and less educated employees were replaced by young and skilled people) within a static economic system: on the one hand, if we consider the education levels in 2019 within the productive structure of 2012, we would observed that the switch towards more knowledge-intensive activities is only marginally driven by the increase of education level measured in years of study.

On the other hand, companies whose employees in 2019 had an education above the average level needed for their usual tasks increased their value added of at least 20% and their staff between 2 and 3 times higher than the average[4].

[4] Istat, Rapporto sulle imprese. Struttura, comportamenti e performance dal censimento permanente (2021)

Since the early 2020, In Italy, as for all the SMEs throughout the world later on, the COVID-19 pandemic produced an unprecedented economic uncertainty and turmoil. Indeed, Italian SMEs were slowly but successfully achieving the same levels of growth rate and value added of 2007, after the downturn registered during the crisis of 2008-09 and 2011-12; as already mentioned, this slow but at the same time stable recovery has been sharply interrupted by the pandemic since the early 2020: on average, SMEs decreased revenues in real terms of 8,8% between 2019 and 2020, the largest decline observed in the considered period. Small businesses suffered the most, by registering a decrease of -9.2%, more than mediums (-6.3%) and large companies (-5.4%).

The policy responses aimed at supporting SMEs and entrepreneurs' liquidity included *Cura Italia* Decree (Law no. 18/2020) and *Liquidity* Decree (Law no. 18/2020), which assisted businesses by providing them loan guarantees, tax relief and liquidity support. The government opted as well for structural measures, such as the *Relaunch* Decree (Law no. 77/2020) whose main purpose was supporting exporting sector, internationalization and investments including, for example:

- 4 billion euro package the Italian export credit agency (SACE) to help SMEs cash flow needs and diversify export markets.

- A new co-insurance system to reinforce public export support with a mix of 90% of state insurance and 10% of company insurance.

Another key measure to mention is National Recovery and Resilience Plan, which established fiscal incentives and training support aimed at improving SMEs investments in intangibles, digitalization, internationalization and development of innovative supply chain models[5].

Italy, according to OECD analysis, was more exposed to business disruptions during the pandemic: as a matter of fact, the most affected sectors accounted for 40,2% of total employment against the OECD average of 39,7%. Moreover, Italian SMEs were more exposed to disruptions in Global Value Chains (GVCs), because of their strong

[5] OECD SME and Entrepreneurship Outlook 2021, pp. 212-214

engagement in international trade, especially as exporters, and in long value chains. The most exposed region has been the province of Bolzano (Alto Adige), with about 34% of jobs at risk, because of the high regional concentration of wholesale and retail trade, accommodation and food services.

As a matter of fact, the majority of Italian SMEs (about 54%, compared to 33,6% in the OECD) have been able to overcome successfully this situation, because of their ability to access and combine government support (mainly composed by non-repayable forms of support). In addition, other key elements of resilience are represented by an entrepreneurship regulatory framework that, although still high administrative costs and other criticalities, contains some strengths such as the low level of administrative burdens on start-ups and the stability of insolvency framework.

Conversely, the OECD report highlights growing imbalances for innovation skills on the Italian labour market, particularly for which concerns computer, electronics and complex problem solving: indeed, for these three aspects, Italy performs under the OECD middle range.

1.2 SMEs Overview in international context

The current definition of SMEs, in force since January 1, 2005, is unique at European level; indeed, a common definition is necessary in order to improve the consistency and effectiveness of SME policy across the EU. The previous definition of SMEs, which stems from a Recommendation of 1996, has been replaced in order to take into account new economic developments. As already mentioned in the previous section, the main parameter is based on the number of employees, but there are also two financial criteria, i.e. the annual turnover and the annual balance sheet total: the first one allows to evaluate more effectively the results of the company and to compare them with competitors, while the second one considers the turnover figures of certain companies that, due to the nature their own core business or sector, could be higher than others.

The EU definition provides an option between the turnover and the balance sheet total, which reveals the overall wealth of a company, so that SMEs engaged in different types of business industries are equally treated. In other terms, the mandatory condition in order to be considered a SME is the one relating to the staff headcount, while an enterprise may choose to meet either the turnover or the balance sheet total limit. Thus, it does not need to satisfy both requirements and may exceed one of them without losing the status of SME.

By comparing the enterprise's data with the three threshold mentioned above, an enterprise can determine whether it is a micro, small or medium-sized enterprise. In particular:

- Micro-enterprises are defined as enterprises which employ fewer than 10 persons and whose annual turnover or annual balance sheet total does not exceed € 2 million.

- Small enterprises are defined as enterprises which employ fewer than 50 persons and whose annual turnover or annual balance sheet total does not exceed € 10 million.

- Medium-sized enterprises are defined as enterprises which employ fewer than 250 persons and either have an annual turnover that does not exceed € 50 million, or an annual balance sheet that does not exceed € 43 million[6].

It is also important to identify which enterprises really are SMEs, because SMEs need support that other type of firms do not. Compared with other type of companies, SMEs must face with a unique set of issues. First of all, market failures: real SMEs often face market failures because they compose the ecosystem in which they operate and compete with other players more challenging. Thus, SMEs may have many difficulties to access finance or invest in research and innovation or they may lack the resources to comply with environmental regulations.

Market failures may occur in areas such as finance (especially venture capital), research, innovation or environmental regulations.

[6] European Commission, The revised user guide to the SME definition, 2020, pp. 10-11

Structural barriers may represent another important issue to be faced: SMEs often must also overcome structural barriers such as a lack of technical and entrepreneurial skills, inflexibilities in labour markets and a limited knowledge related to opportunities for internationalization. Considering the relative lack of funds, it is important to preserve the advantages of SME support programmes for genuine SMEs.

Thresholds *(Article 2)*

Enterprise category	Headcount: annual work unit (AWU)	Annual turnover		Annual balance sheet total
Medium-sized	< 250	≤ EUR 50 million	or	≤ EUR 43 million
Small	< 50	≤ EUR 10 million	or	≤ EUR 10 million
Micro	< 10	≤ EUR 2 million	or	≤ EUR 2 million

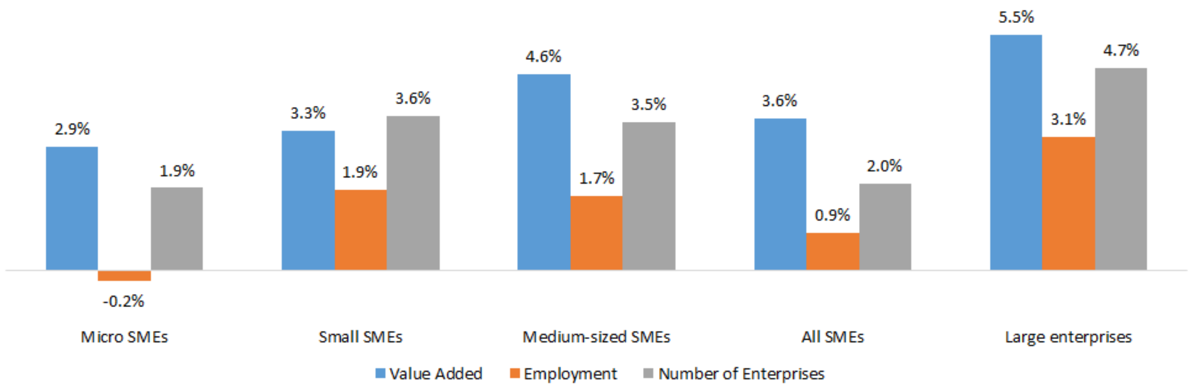
EU parameters to be defined as Micro, Small or Medium enterprise

The domestic scenario previously mentioned is aligned with the European picture in 2021, where about 22,8 million SMEs, which accounted for 99,8% of all enterprises in the non-financial business sector, were active in the EU-27 and employed 83,2 million people. The majority of SMEs in 2021 were micro-SMEs, which accounted for only 35% of SME value added and 44% of SME employment in the same period of reference. In terms of employment, micro-SMEs account for a relevant share of total SME employment (44,3%), followed by small SMEs (31%), and medium-sized SMEs (24,7%).

The three SME size classes generated about the same ratio of SME value added in 2021, with the share of value added produced by micro-SMEs (35%) being only slightly higher than the share realized by small (32%) and medium-sized SMEs (33%)[7].

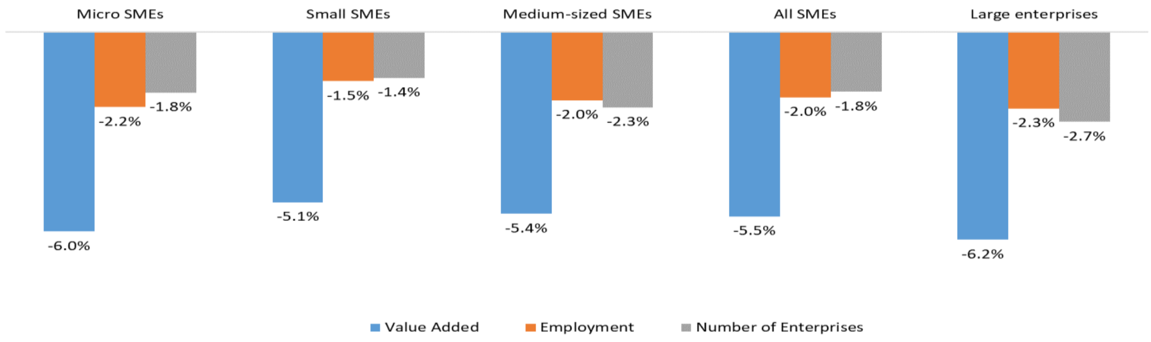
The impact of the pandemic varied remarkably across industries, because some of them registered substantial declines in sales while others experienced relevant increases in their sales. In the pre-pandemic year (2019) all enterprise size classes in the EU-27 experienced growth in value added in 2019, but this growth was faster among larger enterprise size classes than for micro-SMEs. SME employment increased in 2019 (by 0,9%), even though Micro-SMEs experienced a small decline in employment (-0,2%); in the same year, across all three performance indicators, micro-SMEs experienced the slowest growth, while large enterprises saw the fastest growth.

In 2020, the first year of the pandemic, all enterprise size classes in the EU-27 experienced substantial declines in value added and less significant decreases in employment and in the number of enterprises. Micro-SMEs, among the three SME size classes, experienced the greatest decline in value added and employment, although medium-sized SMEs faced a more evident drop in the number of enterprises.



Annual change (in %) in 2019 of value added, employment and number of enterprises in the EU-27 NFBS by enterprise size class

[7] European Commission, SME Performance Review Annual Report 2021/2022



2020 growth rates of value added, employment and number of enterprises by enterprise size class

As mentioned above, SMEs, especially micro-SMEs, were impacted negatively by the pandemic in 2020. However, EU-27 SMEs rebounded in 2021, considering that their value added grew by 8,0% in 2021 and their employment increased by 0,5%.

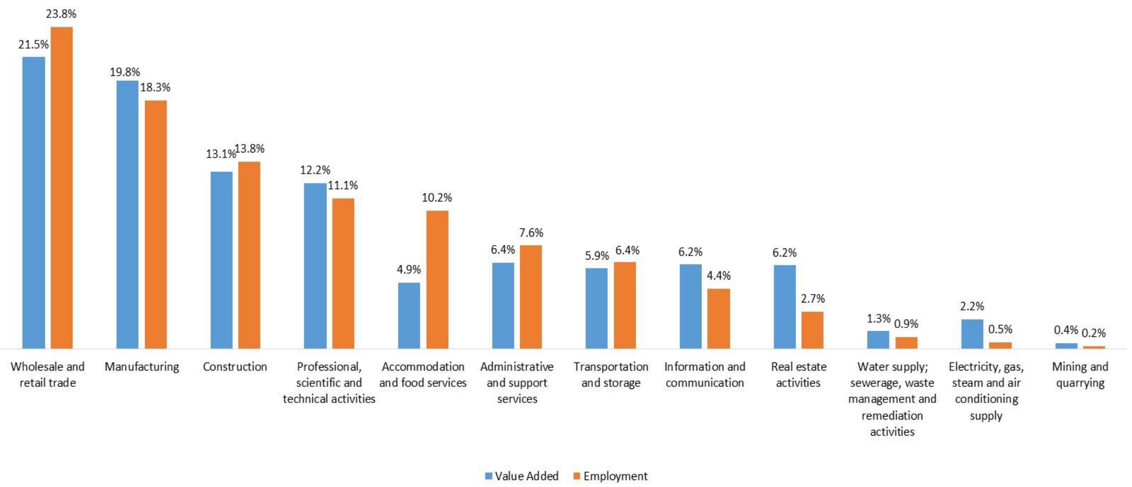
This large difference between SME value added and employment growth in 2021 was caused by two circumstances. In the first place, SME value added is measured in current prices and, as a result, the strong value added growth in 2021 partially reflects a pick-up due to inflation. Furthermore, the various Covid-related programs set up by governments in 2020 supported SME employment, so that value added fell significantly less than SME's value added in 2020.

It's important to notice that, in contrast to 2020, large enterprises in the EU-27 performed slightly better in 2021 than SMEs, and, within the overall SME population, micro-SMEs performed better than small and medium-sized SMEs. As a result of the better results achieved in 2021 by SMEs, value added (in current prices) was 2,1% higher in 2021 than in 2019. However, as prices increased by about 3,5% over this period, the 2021 level of EU-27 SME value added and employment was still about 1,5% below its 2019 value.

Both domestic and foreign demand for goods and services produced by the EU-27 economy declined dramatically in 2020: because of all the sanitary measures taken in the same year by governments in order to limit the impact of Covid-19 on their population and health services, EU-27 GDP fell by 6,3% after having grown by 1,6% in 2019, producing an extraordinary drop in economic system not seen since the great recession of 1929-1930.

The year 2021 saw a significant recovery in GDP, domestic and foreign demand; indeed, in the same year, many of the sanitary measures were eased in response to an improving sanitary situation. Nevertheless, in the latter part of 2021, economic activity weakened again in several Member States with the arrival of new Covid-19 variants, the resulting increase of the number of infected persons and a return to stricter sanitary measures. Without these late 2021 developments, the economic rebound would have been even stronger.

In 2021, as in previous years, SMEs accounted for most of the total employment in several industries, and for more than 80% of total employment in four industries (i.e.: construction, accommodation and food services, real estate activities and professional, scientific and technical activities). "Real estate activities and professional" and "Scientific and technical activities", were the only industries in which micro-SMEs accounted for the majority of employment in the whole industry. The value added produced by SMEs in the EU-27 industries was smaller than their employment share in most other industries, and they accounted for the majority of total value added in a minority of industries (i.e.: construction, wholesale and retail trade, accommodation and food services, real estate activities and professional, scientific and technical activities).



Number of SMEs, SME employment and SME value added across EU-27 NFBS industries in 2021

In terms of number of companies, EU-27 SMEs accounted for at least 99% of the total number of enterprises in every industry of the EU-27 except for water supply, sewerage, waste management and remediation activities. Micro enterprises accounted for most of this figure, representing 90% or more of the total number of enterprises in all but four industries (mining and quarrying, manufacturing, water supply, sewerage, waste management and remediation activities and accommodation and food services). SMEs in different industries do not operate in isolation from other economic entities: Instead, they join a broader industrial ecosystem, within which they are connected to many distinct organisations, such as other SMEs, large enterprises, academic institutions and other entities.

A recent report by the OECD on financing conditions faced by SMEs in 2020[8] reports that the sudden and abrupt decline in sales revenues during the first half of 2020 produced serious liquidity shortages and jeopardized the survival of many viable businesses. An increase in demand for bank lending and a steady supply of credit supported by government programs and interventions helped SMEs survive during these exceptionally challenging times. However, other sources of finance tended to run out, in particular early-stage equity.

1.3 SMEs financing conditions and alternatives to traditional credit channels

If compared to large firms, SMEs represent more challenging investment opportunities in general, independently of their level of innovativeness, because they may offer no solid track record, they usually are not listed on a stock exchange, they may have no collateral, and perform unique activities which may be too complicated to evaluate from the outside. Consequently, external funding is usually accessible by affording a premium, because of the increasing of investment risks.

The resulting difference between the cost of external and internal funds means that many projects are only sustainable only if they can be financed through internal funds.

[8] Organisation for Economic Co-operation and Development (2020). Financing SMEs and Entrepreneurs: An OECD Scoreboard Special edition: The impact of COVID-19, November.

Yet, internal finance might not be available through retained earnings if the firm is not only small but also young.

Generic and well-recognized market failures such as asymmetric and imperfect information can lead to financial constraints and, consequently, to a high perceived uncertainty; thus, banks and other professional investors need to arrange a usually costly activity of firm-specific soft and private information collection in order to perform a proper assessment of creditworthiness. Because of the complexities associated with the above-mentioned assessments, investors engage alternative approaches in their own screening procedures, such as monitoring and independent auditing and screening, milestone financing and collateral, specialization and banking relationships. However, these alternative approaches are not only costly for investors but also not sufficient to disclose all the relevant information. Therefore, financial proposals stemming from firms with characteristics potentially related to innovation, smallness, information asymmetry, newness or that are historically associated with high default risk make Investors particularly skeptical.

Further to this point, literature on risk and uncertainty shows that decision-making processes cannot be fully considered as an objective optimization process executed by fully rational agents, because capital markets involve information inefficiencies and frictions among all the actors, leading to rarely obtain a complete and clear investment outcome assessment. In other terms, investors make decisions under "*bounded rationality*" because of the presence of incomplete information and complexity of anticipating the outcome of investments. Lastly, it's important to take into account that decision making process is also driven by cognitive biases deeply rooted in the investors' social habits, beliefs and experiences. When investment choices are characterized by high complexity and uncertainty, simple heuristics play a major role[9].

Even though the adoption of Information and Communication Technology (ICT) could be positively considered by lenders as an indication of firms' "willingness to innovate" and reduce market inefficiencies[10], an additional set of problems is associated with

[9] D. Hain, J. Christensen, Capital market penalties to radical and incremental innovation (2018)

[10] R. Mushtaq, A. Ali Gull, M. Usman, ICT adoption, innovation and SME's access to finance (2021)

innovation activities: indeed, Innovation investments are highly uncertain and for this reason hard to evaluate without specific knowledge.

Furthermore, the evidence about success or failure related to innovative firms occurs slowly over time; and, finally, innovation tends to involve distinctive intangible capital, such as intellectual property, rather than tangible capital with greater secondary marketability.

Therefore, investing in firms deeply involved in innovation activities is usually associated to a higher level of information asymmetries between the firm and investors, and the related investment outcomes are considered highly risky and uncertain. For these market inefficiencies caused by informational weaknesses, their weaker balance sheets and frequent lack of fixed assets that could be used as collateral, and generally higher technological, market and financial risk, innovative firms need to communicate their merits to institutional investors.

However, not many institutional and traditional investors (i.e.: financial institutions) are willing and able to deal with all the aspects characterizing small innovative firms: indeed, this kind of task is usually carried out by actors which have specific knowledge (Venture Capitalists), even if Venture Capitalists are not available in large supply and, most importantly, they do not suit every investment proposal.

The problems concerning innovation propositions includes two more important aspects: the first one relates to the significant heterogeneity within SMEs populations, in which there is robust evidence about the positive contribution of SMEs to employment and output growth which seems to be highly concentrated among a minority of firms presenting disproportionately strong entrepreneurial performances. The second aspect concerns the fact that, according to empirical evidence, high-tech firms seem more likely to be financially constrained than medium-and low-tech firms, arguably because high-tech firms are engaged in frontier research and are more inclined to undertake riskier investments and more subjected to asymmetric information problems.

While financial constraints can affect R&D expenditures, successful R&D projects can themselves be sources of financial constraints because the commercialisation of innovation is often costly when the firm is at near-to-market stages. Lastly, it’s important to focus not only on the resources that are needed in the R&D process, but also on the inputs, including finance, that firms need in the development phase of product and service innovation.

An interesting study[11] on the perceived restrictions on external capital revealed that the impact of innovation per se on capital demand and supply is not equal, but interdependent with other firm's characteristics. Firms generally prefer internal over external sources of capital to fund their innovation activities; additionally, according to this analysis, the type of innovation, and not only the amount of innovative activity, matters: while incremental innovation[12] is generally rewarded by investors, the results for radical innovations[13] are more puzzling but generally suggest that these types of innovation are more difficult to fund from external sources.

This appears to be particularly true for small firms that develop radical innovations. The academic literature deeply investigated the phenomenon of innovative firms that can easily be credit-rationed[14]; furthermore, several studies have identified a set of aspects that make investors more skeptical, and less effective, in evaluating the risk/return profiles of prospective innovative investments, with the uncertainty and difficult collateralization of R&D projects, the idiosyncratic distribution of innovation payoffs, and the asymmetric information between innovators and investors being the most relevant. Because of all these factors, the cost of external financing for innovators turns out to be higher than for not innovative firms. Thus, the extent to which innovative firms can access credit decreases, and some of their potentially profitable innovative projects may remain uncompleted.

The simplest example of what mentioned above is represented by the so called "*full technological innovators*": firms that innovate by introducing both product and process innovations, but which keep their organizational and marketing structures unaltered. While the two kinds of technological innovations are generally considered as opposed

[11] A. Mina, A. Di Minin, I. Martelli, G. Testa, P. Santoleri, Public funding of innovation: Exploring applications and allocations of the European SME Instrument (2020)

[12] Incremental innovations could be defined as small improvements in the existing products and operations of the firm that let it operate more efficiently and deliver a greater value to customers.

[13] Radical innovations are defined as breakthroughs which transform an existing business by introducing a radically new service, product or organizational pattern that supplants the existing ones in that specific market.

[14] Kerr, W. R. and R. Nanda, Financing innovation, Annual Review of Financial Economics (2015)

and may reveal divergent firm strategies (e.g., quality-based vs. cost-based), recent studies have shown that they can be complementary, allowing firms to pursue superior business performance through their combination.

Another important case is represented by "*full non-technological innovators*": firms which focus their activities entirely on "*soft*" innovation objectives by combining organization and marketing innovations, relying on their pre-existing technological know-how and ignoring the possibility of developing innovative products and processes.

On the other hand, the literature has called firms focused on both technological and non-technological domains and combine the introduction of a new product and/or production process with that of a new organizational structure/procedure and/or marketing system/practice.

According to several research, SMEs' demand for credit increases if the firm focuses its core activity on innovation, but this demand increases also with their involvement in specific innovation typologies and combinations[15]. The result of this research also suggests Innovative SMEs are considerably more likely to be credit-constrained than non-innovative ones, but the probability of not receiving bank loans increases only for firms that combine specific innovation typologies.

Combining different typologies of innovation could make an important pressure on the internal financial resources of firms: actually, the pursuit of remarkable innovative changes by non-single innovators has more implications than the introduction of one single innovation and, accordingly, involves costs over and above those of the relative innovation inputs (e.g., R&D and other intangible and tangible investments). For example, the combination of product and process innovations could involve costs for modifying or even reconfiguring the production process and the value chain; those costs could be greater than those incurred for implementing only one of the two innovation typologies even if the specific type of combination could make the difference.

The discussion on the accessibility of bank financing by SMEs is diametrically opposed: SME entrepreneurs accuse banks of not lending enough funds to small businesses

[15] T. Gregori, S. Montresor, S. Rossi, External financing of innovative small and medium enterprises (SMEs): unpacking bank credit with respect to innovation typologies and combinations (2021)

(generating the so-called *supply effects*), while banks complain about the lack of strong credit demand from entrepreneurs (generating the so-called *demand effects*).
Several studies show that the amount of credit available to SMEs has fallen sharply since the beginning of the global financial crisis in 2008 but is not clear whether this fall is produced by a reduced demand from firms or by a restricted supply from lenders. Over the period 2008–2011, it has been showed that new bank lending to SMEs (lending of an average amount smaller than 1 million) declined by 47% in the European Union, varying from 21% in Italy, 66% in Spain and 82% in Ireland; this phenomenon represents a major policy concern as lack of access to finance limits investments and economic recovery.
A financial crisis not only affects the supply of money to firms for investment proposes, but it also has consequences on the daily operations of firms because they seek for alternative sources of finance when external resources are reduced. Firms which are subjected to a strict limitation of their traditional sources try to adjust by financing their activities from other sources including cash reserves, loans from families and business credit cards. Firms also manage their working capital more efficiently by delaying payments to suppliers and restricting customer credit. This extra credit may be negotiated or taken without agreement as both suppliers and buyers adjust to the new conditions[16].
The importance of trade credit as alternative source of funding has been also investigated on a large database that includes panel financial statement and banking relationship data on nearly 40.000 firms in Spain over the period 1994-2010: the main results examine how funding differs between two types of SMEs, unconstrained firms and constrained firms; and how this difference changes from pre to post financial crisis of 2007. It seems that unconstrained firms depend more on bank financing to fund capital expenditure while constrained firms depend more on trade credit. In other terms, for unconstrained firms, bank funding predicts capital expenditure (but not trade credit) and for constrained firms, trade credit predicts capital expenditure (but not bank loans). Obviously, the magnitude of these effects increases during the credit crunch.

[16] G. McGuinnes, T. Hogan, Bank credit and trade credit: Evidence from SMEs over the financial crisis

This analysis indicates a significant evidence of a general credit crisis in the SME sector and that there are two economically important alternatives for SMEs across most of the world: bank loans and trade credit.

SME's access to these two alternative sources of external finance varies across firms and changed during the crisis in interesting ways. Specifically, credit constrained SMEs depend on trade credit, but not bank loans, to finance capital expenditure – and the intensity of this dependence increased during the financial crisis. Unconstrained firms, in contrast, are dependent on banks loans but not trade credit. This suggests that trade credit was an important mechanism that helped some SMEs survive the credit crisis induced by this crisis. In other words, trade creditors play a role in the SME sector as lenders of last resort and this role becomes more important during a credit crisis[17].

The study conducted in Ireland on small businesses bank financing during and after financial crises show that the aggregated SMEs' demand for bank credit has no substantial changes between the crisis (2009–2011) and the post-crisis periods (2012–2014), implying that demand for credit is less affected by economic conditions. However, results suggest that the restricted supply of credit by financial institutions is likely to impact SMEs' difficulties in accessing bank credit. During the post-crisis period, banks are more likely to reject loan applications from firms considered as too risky. Together, these results indicate that the predisposition of banks to not lending enough funds to small businesses (i.e. supply effects) initially occurs through the bank-lending channel and then shift to the borrower balance sheet channel across the crisis and the post-crisis periods.

According to the implications suggested by these studies, policy makers should focus on how to increase the supply of credit rather than how to boost the public demand for credit in the current economic environment. The findings support the Irish government's interventions in increasing the supply of credit in SME financing markets by introducing a number of SME lending support programmes. Moreover, entrepreneurs should become fully aware that lenders use hard financial information to limit borrowers. Consequently, bank financing may not be an ideal external source for start-up entrepreneurs who lack comprehensive financial information. Instead, early-stage

[17] S. Valverde, F. Rodriguez Fernandez, G. Udell, Trade Credit, the Financial Crisis, and SME Access to Finance (2016)

businesses may seek other external financing sources such as venture capital and angel funds which are inclined to take more risk.

Finally, lending banks can restructure and consolidate their balance sheets by rejecting too risky firms and under-lending to the firms that have strong current financial conditions[18].

An effective alternative source of funding for SMEs is represented by FinTech platforms: Indeed, SMEs are more inclined to apply for FinTech lending if they have interactions with banks with lower liquidity of assets, less stable sources of funding and lower capital ratios. This suggests that one of the reasons why firms switch to FinTech reducing their exposure to banks that are less capable to absorb shocks and more likely to cut lending activity during liquidity crises. Moreover, in relation to the impact of FinTech lending to firm's outcomes, an interesting study of the European Central Bank[19] shows that firms that access to FinTech lending experience a faster growth, if compared to rejected applicants, in terms of assets value, employment, sales volume and investments without sacrificing profitability.

For which concerns firms' debt structure, FinTech lending seems to allow firms to expand their debt capacity by substituting long-term bank lending with long-term FinTech lending. Since FinTech loans are unsecured, this suggests that SMEs may prefer to finance their growth with long-term debt to avoid the refinancing risk inherent in short-term debt. In any case, FinTech provides firms with an alternative to access unsecured long-term financing: indeed, most SMEs are limited in their availability of collateral, and tighter regulation and higher capital requirements make long-term unsecured loans to SMEs unattractive to banks.

Overall, the results show that FinTech lending platforms are convenient to SMEs, but for reasons that are not necessarily the ones expected ex-ante. FinTech platforms do not seem to mainly serve young, inexperienced firms with no access to the banking system, but to allow high quality SMEs to differentiate their lending relationships and, at the same time, finance their growth. SMEs who apply to FinTech platforms want to reduce

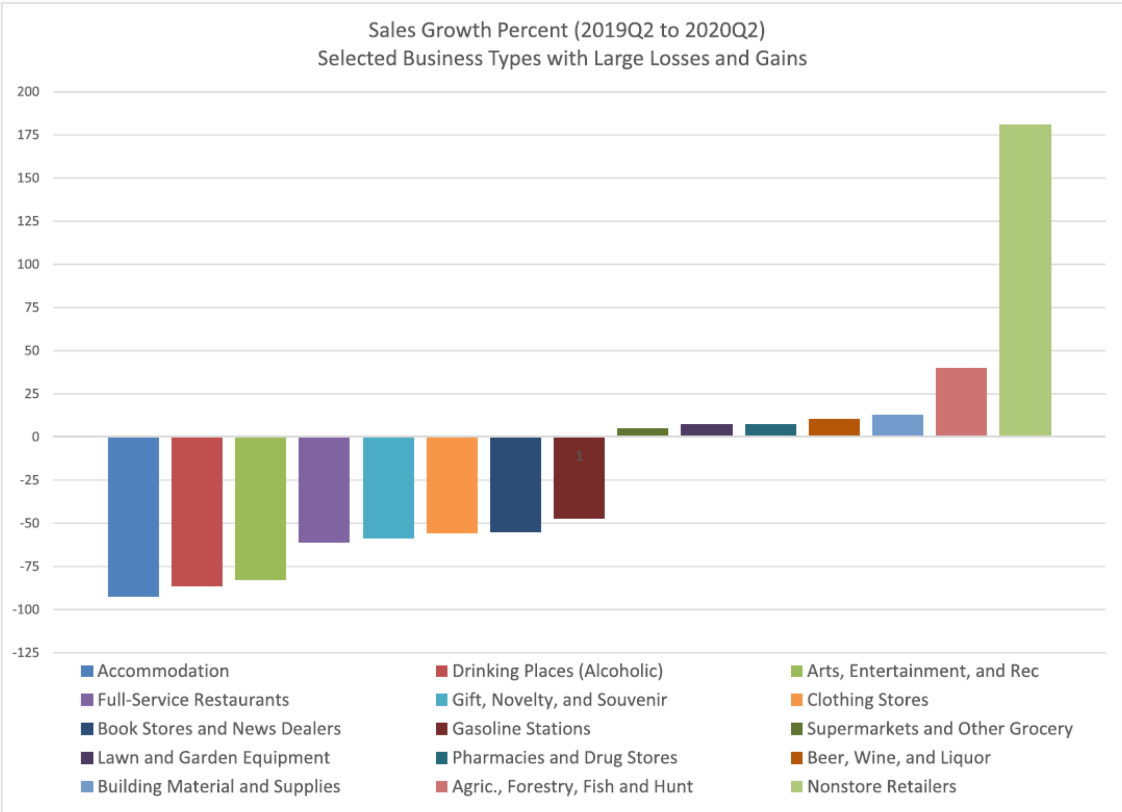
[18] R. Harrison et al., Why do small businesses have difficulty in accessing bank financing? (2022)

[19] A. Eça et Al., The real effects of FinTech lending on SMEs: evidence from loan applications. European Central Bank Working Paper Series (2022)

their exposure to shocks to the banking system, which may limit their available financing and, ultimately, adversely affect their growth.
In contrast to the above-mentioned previous financial crisis, the COVID-19 crisis has been unique in many ways: it has been exogenous, uncertain, and global. Even though the economic turmoil caused by COVID-19 was unexpected and severe for a broad range of economic operators, the consequence of COVID-19 was particularly difficult to face for European SMEs, who can be considered as the backbone of the European economy. As already said, the most important economic consequence for SMEs was a massive drop in demand for their products and services due to global lockdowns and changes in consumer behavior. Revenues decreased remarkably while SMEs' financial obligations remained primarily stable; moreover, the depth and length of the pandemic decline and the recovery process have been uncertain.
In such unpredictable times, the lack of liquidity and collateral to bridge the financial turmoil or face the finance problems until the market conditions stabilize might deteriorate quickly SMEs' financial situation, leading a large number of firms into bankruptcy, with significant consequences for the European economy. Indeed, 25 million SMEs in Europe employ 100 million people, generate approximately two-thirds of the total turnover and make approximately half of the value added[20]. Therefore, European SMEs' bankruptcy risk around the time of the pandemic and the impact of this risk on SMEs' access to finance are of central importance for policymakers and market operators.
There is a growing body of literature on the impact of the COVID-19 crisis on SMEs. Several studies presented significant losses in sales around the pandemic outbreak, with SMEs being disproportionately affected by the drop: for example, several research have been conducted across business types collected by the California Department of Tax and Fee Administration. Overall, the patterns of sales losses and growth show a shift from in-store purchases to online purchases, and from restaurants to grocery stores.
Finally, consumers avoided business subsectors in which there was a lot of person-to-person contact because of health concerns over the coronavirus. The Table shown below reports the percent change in sales from 2019-Q2 to 2020-Q2 and sales levels in

[20] European Commission, Unleashing the Full Potential of European SMEs European Commission (2020)

2020-Q2 for aggregated business types. Starting with stores that were mostly considered "nonessential" and have person-to-person contact, losses were largest in businesses affected by mandatory lockdowns such as accommodations at 91%. But other types of businesses experienced large gains, such as online sales, which grew by 180% as consumers substituted away from in-store purchases. The pandemic-induced recession created large losses for many types of businesses[21].



Sales growth percent (2019 Q2 to 2020 Q2) - selected business types with large losses and gains

Another research examined the prospects of a 2021-time bomb in SME failures triggered by the generous support policies enacted during the 2020 COVID-19 crisis, showing that the factor that posed a significant risk was instead credit contraction; such a contraction disproportionately affected firms that could survive COVID-19 in 2020 without any fiscal support. Even in that scenario, most business failures would not have arisen from

[21] R. Fairlie, F. Fossen, The early impacts of the COVID-19 pandemic on business sales (2021)

excessively generous 2020 policies, but rather from the contraction of credit to the corporate sector[22].

Another interesting evidence concerns the restrictions on eligibility of most public programs: only firms that are young, small, innovative or some combination thereof can access their financing. However, the evidence indicates a need for careful consideration of these eligibility criteria, because the above-mentioned programs aim at increasing the number of innovative mainly subsidizing access to knowledge for non-innovative firms (for example by way of "innovation vouchers" and similar public programs).

In relation to public programs, governments' main objective is providing support to young entrepreneurial firms essentially for two reasons: first, young entrepreneurial firms are often the fast-growing firms that provide most of the innovation and job creation that comes from SMEs. Second, these key companies are those that face the most significant financing obstacles. Young entrepreneurial companies experience more difficulties in accessing external financing from financial institutions than do large and more established firms. As already said, their access to external finance is hampered by numerous structural factors, including high uncertainty, information asymmetries and a lack of internal financing and collateral. Access to external equity is hindered by high issuing costs and the scarcity of venture capital (VC), which is accessible to only a very limited percentage of actors.

Government initiatives in terms of tax advantages and government support programs seem to have a positive spillover effect on the probability that a firm obtains credit from a bank; while there is no spillover effect in case of a firm applying for a loan or becoming a discouraged borrower. These government initiatives play a more important role in countries where the demand for credit is higher (such as Eurozone) than in countries where there is less demand for credit (the non-Eurozone countries).

These results show that, in their attempts to promote entrepreneurship, the major challenge for governments is to provide the proper form and scale of support for entrepreneurial firms in order to effectively address market failure. If governments provide insufficient level of support, they will not be able to promote entrepreneurship

[22] P. Gourinchas et al., Covid-19 and SMEs: a 2021 "time bomb"? (2020)

adequately in order to achieve a socially optimal level, which might destabilize the entire economy.

At the same time, if governments provide too much support, they risk promoting low-quality firms, usually characterized by too weak business models or vulnerable entrepreneurial teams; these firms tend to fail not long after they have received support. Resources invested in such unsustainable businesses are not effectively allocated and, in the end, wealth is destroyed.

On an aggregate level, government initiatives fostering entrepreneurship on too large scale can generate a temporary overheating of the economy: in this situation, badly planned government initiatives can reduce finance from banks and private investors such as business angels and venture capitalists compromising the efficiency of the financial market[23].

Excess support for entrepreneurship in one EU member state can lead firms to relocate their operations to that supportive EU member state, which might trigger a mutual competition among EU member countries that drives government initiatives fostering entrepreneurship over the optimal level. However, to ensure optimal allocation of resources, it is essential that governments find the right balance in their initiatives fostering entrepreneurship. The evidence suggests that governments within the EU seems to implement initiatives fostering entrepreneurship trying to maintain the right measure of support and generate positive spillover effects.

Government public programs seem to effectively boost the probability of entrepreneurial firms to obtain a positive lending decision from financial institutions, effectively addressing the market failure economies in relation to entrepreneurial activity.

Also, the evidence shows that government initiatives do not affect the probability of entrepreneurial firms applying for loans, or that of firms becoming discouraged borrowers: indeed, these findings highlight that these initiatives are provided following an appropriate scale and do not question the effectiveness of government initiatives fostering entrepreneurship. This happens because, as already mentioned, excessively supportive government initiatives would promote low-quality firms to apply for a loan

[23] Cumming et al, Public policy towards entrepreneurial finance: spillovers and the scale-up gap (2018)

and if they did so, the probability that they would become discouraged borrowers would reduce, which would expose lenders to potentially damaging risk.

At the same time, an excessive public support would probably lead to take too much risk related to investments in unsustainable businesses, making it attractive for entrepreneurs to engage as well in low-quality entrepreneurial projects.

In other terms, when governments support access to credit appears to be too easy, this can give the idea that credit is simpler to access for each economic operator in the market, thus encouraging weak firms as well to apply for a loan, confident that they will succeed in obtaining it.

Accordingly, government initiatives in the EU member states seem to effectively facilitate access to credit for entrepreneurial firms without producing any type of distortion concerning management borrowing decisions. In any case, as mentioned above, government must choose the right type of measures in conjunction with its activity of fostering entrepreneurship: this aspect can be addressed by examining the economic impact of the different types of government initiatives fostering entrepreneurship. It's important to underline that the main evidence suggests government support programs have a greater impact than tax advantages, and this finding could be explained by considering that:

1) the most important programs stemming from government support initiatives (e.g., grants, guarantees, funds, etc.) tend to be more selectively granted to entrepreneurial firms than tax advantages; while tax advantages are typically accessible to all entrepreneurial firms, government support programs have subjective requirements, and target firms with specific characteristics in terms of parameters such as industry, firm size, location, and market served.

2) Usually, access to government support programs is subjected to the evaluation of a detailed project plan whose main purpose is describing the estimated effects of the support measure on policy goals such as job creation, growth, and innovation on one or more specific industries. The structured approach used to allocate government support implies that only those firms that are pursuing credible strategies coherent with the government's policy goals tend to be

successful in the application process. Accordingly, being able to access government support programs communicates to financial institutions that the entrepreneurial venture (e.g., business model and venture team) is reliable and solid and the consequent spillover effect is an important information delivered to banks to take an informed lending decision. At the contrary, tax advantages are accessible to all entrepreneurial firms, and it consists in the injection of extra cash into firms' bank accounts while providing no such information on the merit of the firm.

3) The specificity of the government support programs indicates that these initiatives are focused on particular weaknesses of entrepreneurial firms and the associated risks. For instance, a firm that lacks assets to obtain a collateralized loan may be the main addressee of these programs. Moreover, they do not only provide support to firms, but at the same time have positive spillover effects on the related-industry and on banks' lending decisions because they allow banks to hedge and reduce the specific risk incurred by a lender to an entrepreneurial firm. A very general initiative such as a tax advantage is not able to address such very specific risks incurred by banks when lending to entrepreneurial firms.

Generally speaking, government support initiatives seem to be more effective in fostering entrepreneurial firms' access to bank finance, because that type of public initiative seems to be more selective and better targeted[24]. Another aspect to highlight is that any change in both tax advantages or government support programs play a greater role for younger than for older firms and for those that are smaller rather than larger.

In addition, firms with higher growth rates and those working on innovation the most intensively experience the most important boost to obtain credit induced by government initiatives fostering entrepreneurship.

[24] Bertoni et al, The impact of government-supported participative loans on the growth of entrepreneurial ventures (2019)

This finding supports the assertion that in the EU, government initiatives fostering entrepreneurship are appropriately designed to have a positive spillover effect on the lending decisions of banks and of firm's management.
Moreover, government initiatives do not affect the demand for credit stemming from entrepreneurial ventures, but they do positively affect firms' ability to obtain loans. The evidence also suggests that government initiatives do not influence a firm's decision to apply for a loan and pursue projects. Therefore, the above-mentioned initiatives do not modify the demand for credit by affecting the expected performance of the projects in question. However, they impact the perception of the risk sustained by banks when they decide to lend to firms because they perceive that doing so entails less risk.
In the countries where there is a high demand for credit (those in the Eurozone), bank processes for selecting potential borrowers are more prudent: this implies that every additional factor representing the financial robustness of the applicant and the reduction of the risk the bank incurs is taken into consideration and positively affects the probability of obtaining credit.
This last evidence confirms the importance of policies that have potential positive spillover effects because they reduce the risk lenders incur when lending to entrepreneurial firms. Overall, European governments as a group apply effective policies to support entrepreneurship: on the one hand, it seems that government initiatives fostering entrepreneurial ventures do not affect the decision of entrepreneurs on whether to borrow; on the other hand, these public initiatives tend to affect the probability of the same firms to obtain credit from the financial industry[25].
Ultimately, avoiding negative spillover effects and distortion is very important, because in a well-functioning economic system the decision whether to pursue an entrepreneurial venture must be taken based on the intrinsic capability of the project to generate benefits for the investors rather than being motivated by governmental initiatives.
As already said, Innovative SMEs, usually characterized by a strong growth orientation, are considered as fundamental components of the processes of economic growth and

[25] A. Moro et al., Spillover effects of government initiatives fostering entrepreneurship on the access to bank credit for entrepreneurial firms in Europe (2020)

industrial transformation. However, in the absence of internal finance – typical situation of startups –, their growth prospects can only be pursued if firms are able to access alternative sources of capital.

Innovative SMEs may be particularly sensitive to asymmetric information problems, and therefore more likely to experience financial constraints; on the one hand, policy responses have often neglected the high concentration patterns of innovation, and on the other hand the need to support near-to-market innovation activities. With specific reference to European SMEs, the empirical literature has identified more pronounced finance gaps relative to the US context.

Compared with EU ecosystem, US system has the capacity to generate stronger support for entrepreneurial growth and to provide more resources for the development of new ideas with disruptive potential. This has been related to policy schemes such as the SBIR and STTR programs, combined with the superior scale and efficiency of the venture capital market.

The Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs are highly competitive programs that promote domestic small businesses to engage in Federal Research/Research and Development (R/R&D) with the potential for commercialization. Through a competitive awards-based program, SBIR and STTR allow small businesses to explore their technological potential and provide the incentive to profit from its commercialization. By including qualified small businesses in the nation's R&D arena, high-tech innovation is stimulated, and the United States gains entrepreneurial spirit as it meets its specific research and development needs.

In the EU, the SME Instrument within Horizon 2020 aims to foster innovation and competitiveness in the European economy. It targets the finance gaps experienced by smaller innovative firms.

The results indicate that the program is appealing for companies that are in the top quartile of the growth distributions by employment and revenue but still have lower profit margins and lower sales. Applicant firms are likely to have received Venture Capitalists support prior to the application and to have patents[26].

[26] A. Mina et al., Public funding of innovation: Exploring applications and allocations of the European SME Instrument (2021)

Moreover, they are usually active in manufacturing and high-tech sectors (which are more capital-intensive sectors and therefore associated with greater need for external finance).
The strongest determinants of funding success seem to be coherent with Signaling theory[27] and are:

- Achieving a top quartile level of growth performance.
- Having been selected and supported by a Venture Capital.
- Being patent active.

While being patent active is considered as a strong signal of firm quality and growth opportunities, it can be argued that growing firms and firms that have received some private equity investment before the SME Instrument grant may already have more resources to self-finance their innovation activities than other firms. However, these firms are not necessarily less financially constrained: growth may not generate enough cash flow when the quality of firm investment opportunities requires more – rather than less – financial resources over time.
A second concern is that past growth, even though it relates to recent times, may not be a good indicator of growth potential or future growth because growth process tends to be discontinuous and irregular overtime, especially among small and young firms. The EU Instrument aims to select SMEs with high-growth potential and is picking up signals of firm quality. It is, however, difficult at this stage to assess whether the scheme has been able to nurture a large enough number of high-quality firms to generate the desired impact on the European economy.

[27] Signaling theory is the belief that information on a company's financial health is not available to all parties in a market at the same time. Since executives and board members have more information about their company's prospects than the wider public, the decisions they make can reveal information about the company's finances.

Chapter II – European structural funds

2.1 The Multiannual Financial Framework

EU policies are executed through a wide range of programmes and funds which provide financial support to several type of beneficiaries such as farmers, students, scientists, non-governmental organisations (NGOs), businesses, towns, regions and many others. The programmes are included the Multiannual Financial Framework (MFF), which has been divided into the following categories of expenditure for the period in the 2014–2020:

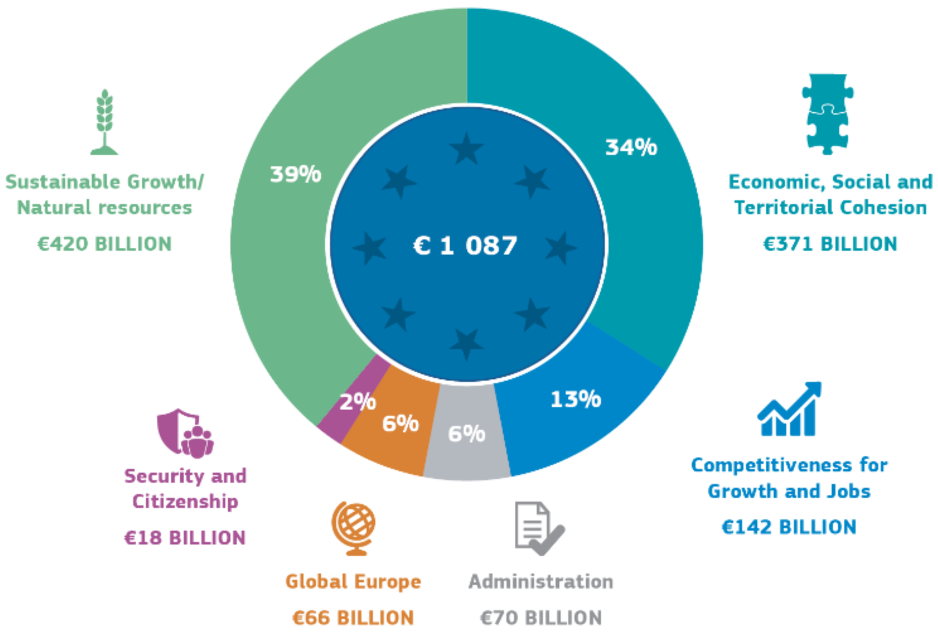
- **Heading 1a – Competitiveness for growth and jobs**: The programmes under heading 1a are contained into the *Smart and Inclusive Growth* macro-category of the 2014-2020 MFF and include topics such as: research and innovation, education and training, social policy, transport and telecommunications, development of enterprises, etc.

- **Heading 1b – Economic, social, and territorial cohesion:** The programmes under heading 1b are contained as well into the *Smart and Inclusive Growth* macro-category of the 2014-2020 MFF and consist in carrying out the regional policy whose main purpose is helping the least developed EU countries and regions to catch-up with the rest, strengthening all regions' competitiveness and developing inter-regional cooperation.

- **Heading 2 – Sustainable growth and natural resources:** The programmes under heading 2 of the 2014-2020 MFF Include the common agricultural policy, common fisheries policy, rural development and environmental measures.

- **Heading 3 – Security and citizenship:** The programmes under heading 3 of the 2014-2020 MFF Include justice and home affairs, border protection, immigration and asylum policy, public health, consumer protection, culture, youth, information and dialogue with citizens.

- **Heading 4 – Global Europe:** The programmes under heading 4 of the 2014-2020 MFF include all external action ('foreign policy') by the EU such as development assistance or humanitarian aid apart from the European Development Fund (EDF) which provided aid for development cooperation with African, Caribbean and Pacific countries, as well as overseas countries and territories. The EDF did not fall under the 2014-2020 MFF because it was not funded from the EU budget but from direct contributions from EU Member States[28].



EU programmes funded under the 2014-2020 long-term budget divided by heading

The European Commission has ultimate political responsibility for ensuring that all money from the EU budget is spent correctly. However, national governments are also responsible for conducting checks and annual audits, as about 80 % of EU funding is managed at country level.

[28] European Commission, Multiannual financial framework 2014-2020 and EU budget 2014

In addition, international organisations are responsible for managing a small part of the EU budget which is allocated to programmes implemented by institutions such as the Red Cross and the United Nations, for example.

Generally speaking, organisations looking for EU grants or contracts have to check carefully to which institutions they should send their request or proposal. The European Commission manages the budget through its departments and executive agencies. EU countries assign the management of EU funding mainly to managing authorities such as ministries and other public bodies.

It's important to point out that the nature of the funding concerned entails a different type of implementation of the relative programme funded by EU. There are three different type of implementations modes[29]:

- **Direct management**: in this case the EU funding is managed directly by the European Commission. Direct funding grants may be made available by the European Commission or its executive agencies for projects with specific objectives (environment, research, training, etc.).

- **Shared management:** the EU funding is jointly managed by European Commission and national authorities.

- **Indirect management:** the EU funding is managed by partner organisations or other authorities inside or outside the EU.

As a matter of fact, even if the Commission provides the funding for a specific programme or project, it is not always directly involved in the daily management; in any case, whereas the Member States are in charge of the implementation of the majority of the EU budget, the Commission has the ultimate responsibility for its execution. For this reason, the Commission carries out rigorous and effective controls on how the EU

[29] European Commission, Funding by management mode. https://commission.europa.eu/funding-tenders/find-funding/funding-management-mode_en

funds are spent. These procedures will be different depending on how the programme is executed.

As mentioned above, in direct management the European Commission is directly responsible in each step of the programme's implementation; the most important steps can be summarized as follows:

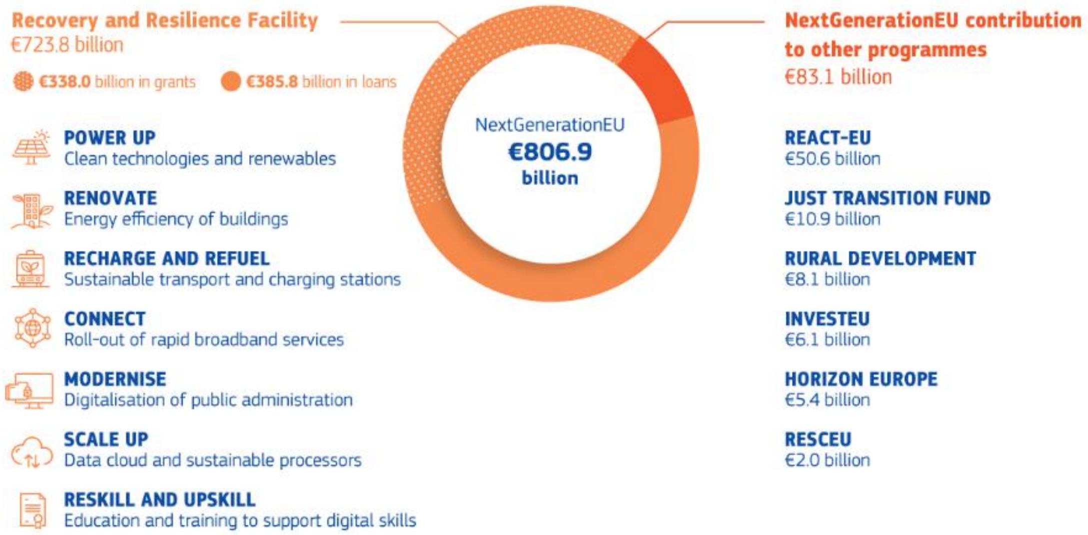
1. launching the calls for proposals
2. evaluating submitted proposals
3. signing grant agreements
4. monitoring project implementation
5. assessing the results
6. making payments

These tasks are carried out by the Commission's departments, at its headquarters, in the EU delegations or through EU executive agencies; there are no third parties. Programmes implemented in direct management account for around 20% of the EU budget 2014-2020 and 2021-2027.

It's important to point out that 2021–2027 long-term budget is different from any previous budget because it has new priorities. Indeed, as already mentioned, in 2020 the European Union provided an unprecedented response to the coronavirus crisis that hit Europe and the world. The main tool is a stimulus package including € 2.018 trillion in current prices (EUR 1.8 trillion in 2018 prices). It consists of the EU's long-term budget for 2021 to 2027 of EUR 1.211 trillion (EUR 1.074 trillion in 2018 prices), complemented with EUR 806.9 billion (EUR 750 billion in 2018 prices) through Next Generation EU package, a temporary instrument to power the recovery.

With a total budget of € 806.9 billion, Next Generation EU aims to repair the immediate economic and social damage brought about by the coronavirus pandemic, and make Europe greener, more digital, more resilient and better fit for the current and upcoming challenges. It could be considered as a temporary instrument to boost the EU's long-term budget (the multiannual financial framework, 2021-2027). The centerpiece of Next Generation EU is the Recovery and Resilience Facility (RRF), an instrument for providing grants and loans to support reforms and investments in the EU Member States at a total value of € 723.8 billion.

The funds under the Recovery and Resilience Facility will be distributed according to national recovery and resilience plans set up by each Member State, in cooperation with the European Commission, and in line with an agreed allocation key.



Next Generation EU: key features

The programmes funded under the multiannual financial framework 2021-2027 are grouped into seven headings, or expenditure categories, of the EU budget. Each one is dedicated to a specific policy area.

The seven expenditure categories are the following:

	MFF	NGEU	TOTAL
1. Single Market, Innovation and Digital	149.5	11.5	161.0
2. Cohesion, Resilience and Values	426.7	776.5	1 203.2
3. Natural Resources and Environment	401.0	18.9	419.9
4. Migration and Border Management	25.7	-	25.7
5. Security and Defence	14.9	-	14.9
6. Neighbourhood and the World	110.6	-	110.6
7. European Public Administration	82.5	-	82.5
TOTAL	**1 210.9**	**806.9**	**2 017.8**
TOTAL expressed in 2018 prices	**1 074.3**	**750.0**	**1 824.3**

- **Heading 1 – Single Market, Innovation and Digital:** The programmes included in this category relate investments in strategic areas such as research and innovation, strategic infrastructure, digital transformation and the single market, as they will be crucial to unlocking future growth. These Programmes will help face shared challenges such as decarbonisation and demographic change, and boost the competitiveness of enterprises, including small and medium-sized companies. Moreover, Next Generation EU will contribute to this heading with € 5.41 billion for Horizon Europe and € 6.07 billion for InvestEU, in current prices.

- **Heading 2 – Cohesion, Resilience and Values:** The programmes under this heading aim at reinforcing the resilience and cohesion between the EU Member States. In order to achieve this objective, the funding helps reduce disparities in and between EU regions, and within and across Member States, and foster sustainable territorial development. In addition, the programmes seek to make the EU more resilient to present and future challenges by investing in the green and digital transition, young people, health and action in order to protect EU values. Programmes such as the Recovery and Resilience Facility and REACT-EU, financed under Next Generation EU, support critical investments and reforms in the Member States.

- **Heading 3 – Natural Resources and Environment:** sustainability has been and will continue to be a fundamental topic upon which an important part of EU budget will be invested, including sustainable agriculture and maritime sectors, along with climate action, food security and rural development, environmental protection. Some of the programmes under this heading support the EU's farming, agricultural and fisheries sectors and aim to increase their competitiveness (such as the European Maritime, Fisheries and Aquaculture Fund or the Common Agricultural Policy). Other programmes are dedicated exclusively to the EU's environmental and climate objectives such as the programme for environment and climate action (LIFE) and the Just Transition Fund (JTF).

- **Heading 4 – Migration and Border Management:** Programmes under this heading seek to face the challenges related to migration and the management of the EU's external borders. Under the 2021–2027 long-term budget, support for strengthening the EU's external borders is being increased in order to safeguard the asylum system within the EU. Member States also receive more EU funds to help them better manage migration into the EU.

- **Heading 5 – Security and Defence:** This heading includes programmes whose main objective is to improve the security and safety of Europe's citizens, to reinforce Europe's defense capacities, and to provide the tools needed to deal with internal and external security challenges to which no Member State can respond on its own. Examples of programmes included in this category are the Internal Security Fund, which has been reinforced to implement networks and common systems for a more efficient cooperation between national authorities, and the European Defence Fund which promotes cooperation between EU countries and industries of all sizes, including SMEs.

- **Heading 6 – Neighbourhood and the World:** Programmes under this heading aim to reinforce the EU socio-economic impact in its neighbourhood, in developing countries and in the rest of the world. The heading also includes help for countries preparing for accession to the EU. Thanks to this funding, the EU can keep and even strengthen its role as a global player.

- **Heading 7 – European Public Administration:** The European public administration plays a crucial role in helping the EU to pursue its objectives and to develop policies and programmes in the common interest of the Union. At the same time, it remains relatively small compared with national or even regional and local administrations. The budget for administration has been generally stable over the years, accounting for less than 7 % of the spending under the long-term budget. This heading mainly covers the administrative expenditure of all the EU institutions, as well as the pensions of retired EU officials[30].

In addition, as already mentioned above, Next Generation EU package will reinforce several existing EU programmes and policies, as follows:

- the **Cohesion policy under the recovery assistance for cohesion and the territories of Europe** (REACT-EU), which supports investment initiatives that foster crisis-repair capacities and contribute to a green, resilient and digital recovery of the economy, including provision for maintaining jobs, short-time work systems and support for the self-employed. Moreover, it helps job creation and youth employment measures, healthcare systems and the provision of working capital and investment support for small and medium-sized enterprises. The REACT-EU package includes €55 billion of additional funds that will be made available to the 2014-2020 European Regional Development Fund (ERDF) and the European Social Fund (ESF).

- the **Just Transition Fund**, considered as a key tool because it supports the territories most affected by the transition towards climate neutrality providing them with tailored support. The fund will reduce the socio-economic costs triggered by climate transition, supporting the economic diversification and

[30] European Commission, The EU's 2021-2027 long term budget and Next Generation EU (2021), pp.5-11

reconversion of the objective territories. This means helping productive investments in small and medium-sized enterprises, supporting the creation of new firms, research and innovation, environmental rehabilitation, clean energy, up- and reskilling of workers, job-search assistance and active inclusion of jobseeker's programmes, as well as the transformation of existing carbon-intensive installations when these investments lead to substantial emission cuts and job protection. It is expected to mobilise close to €30 billion in investments.

- the **European Agricultural Fund for Rural Development (EAFRD),** which finances the CAP[31]'s contribution to the EU's rural development objectives: developing the competitiveness of agriculture, promoting sustainable management of natural resources and climate action, achieving a balanced territorial development of rural economies and communities.

- **InvestEU**, which will bring together under one roof the multitude of EU financial instruments currently available to support investment in the EU, making funding for investment projects in Europe simpler, more efficient and more flexible. The InvestEU Fund will support four policy areas which represent important policy priorities for the EU and bring added value: sustainable infrastructure; research, innovation and digitalisation; small and medium-sized businesses; social investment and skills. The Programme guarantees amounts to € 26.2 billion, with provisioning from the Multiannual Financial Framework (MFF) and Next Generation EU resources. The overall investment to be mobilised on this basis is estimated at more than €372 billion. Two further components will add to the InvestEU Fund: The InvestEU Advisory Hub, which will provide technical support and assistance to the preparation, development, structuring and implementation of projects, including capacity building. The InvestEU Portal will

[31] The Common Agricultural Policy (CAP) was created in 1962 by the six founding countries of the European Communities and is the longest-serving EU policy. Its aim is to: provide affordable, safe and high-quality food for EU citizens; ensure a fair standard of living for farmers and preserve natural resources and respect the environment.

bring together investors and project promoters by providing an easily-accessible and user-friendly database.

- **RescEU**, which represents an upgrade of the EU Civil Protection Mechanism to protect citizens from disasters and manage emerging risks. RescEU has created a new European reserve of resources (the 'RescEU reserve'). It includes a fleet of firefighting planes and helicopters, medical evacuation planes, and a stockpile of medical items and field hospitals that can respond to health emergencies. Furthermore, the EU is also developing a reserve to respond to chemical, biological, radiological, and nuclear incidents.

- **Horizon Europe**, which is the EU framework programme focused on research and innovation: it provides essential support to top researchers and innovators and stimulates excellence in research to drive the systemic changes needed to ensure a green, healthy and resilient EU. Through this programme, the Commission provides funding in the form of grants, prizes and procurement to excellent researchers to support their activities. It also provides funding to improve research infrastructure and foster mobility within the EU. Lastly, it supports partnerships between Member States, industry and other stakeholders to work jointly on the strategic area of research and innovation.

More than 50 % of the long-term budget 2021-2027 and Next Generation EU will be dedicated to new priorities. This means that it will be principally spent on research and innovation, through Horizon Europe; fair climate and digital transitions, through the Just Transition Fund and the digital Europe programme; recovery and resilience, through the Recovery and Resilience Facility, the EU's Civil Protection Mechanism (rescEU), and the health programme, EU4Health.

Moreover, about 30 % of the long-term budget and Next Generation EU will be spent on climate change – the highest share ever, from the largest EU budget ever. These funds are part of a major investment scheme that the EU will put in place to green the economy. It will combine EU and national public funds, and public and private investments to support the EU to achieve the climate neutrality goal by 2050.

About 20 % of the Recovery and Resilience Facility funds will be invested in the EU's digital transformation. These funds will help the EU invest more in cybersecurity, supercomputing, advanced digital skills, artificial intelligence and the broad use of digital technologies across the economy and society.
In 2026 and 2027, 10 % of the annual spending under the long-term budget will contribute to stopping and reversing the decline of biodiversity.
Restoring forests, soils and wetlands and realizing green spaces in cities will help the EU achieve its climate change mitigation[32].

2.2 EU Funds directly managed by European Commission

Examples of programmes run directly by the Commission are:

1. **Creative Europe**, whose main objectives are to give support to the cultural and creative sectors in order to catch the opportunities of the digital age and globalisation; facilitate cultural and creative sectors to reach and exploit their economic potential, contributing to sustainable growth, jobs, and social cohesion; Give Europe's culture and media sectors access to new international opportunities, markets, and audiences.
   Creative Europe promotes the audiovisual, cultural and creative players to operate across Europe, by reaching new audiences and developing the skills needed in the digital age. The programme contributes to safeguarding cultural and linguistic diversity by helping European cultural and audiovisual works to reach audiences in other countries.
   The Creative Europe programme 2021-2027 has a budget of € 2.44 billion, compared to €1.47 billion of the previous programme (2014-2020). The Programme aims to reinforce cultural diversity, trying to respond to the needs and challenges of the cultural and creative industries. The Creative Europe

32 European Commission, The 2021-2027 EU budget. https://commission.europa.eu/strategy-and-policy/eu-budget/long-term-eu-budget/2021-2027/whats-new_en

programme is divided in 3 strands: Culture strand, MEDIA strand and Cross-sectoral strand[33].

The first one supports a wide range of cultural and creative sectors such as music, cultural heritage, design, literature, performing arts, and encourages cooperation and exchanges among cultural organisations and artists within Europe and beyond. MEDIA strand programme supports the European film and audiovisual industries to develop, distribute and promote European works, taking into consideration today's digital ecosystem; moreover, it encourages cooperation across all the operators belonging to the audiovisual industry and at EU level, in order to scale up enterprises and European content globally.

Lastly, the Cross-sectoral strand of the Creative Europe programme is designed to accomplish three primary purposes:

- The establishment of a loan programme developed by the European Investment Fund (so called Guarantee Facility) targeting the cultural and creative sectors.

- The promotion of transnational policy cooperation.

- The creation and maintenance of a network of Creative Europe Desks.

2. **Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME)**, a Programme implementing the Small Business Act (SBA)[34] which reflects the Commission's political will to recognize the central role of SMEs in the EU economy[35]. The budget for the period 2014-2020 is € 2.3 billion.

[33] European Commission, Creative Europe https://culture.ec.europa.eu/creative-europe/about-the-creative-europe-programme

[34] The Small Business Act for Europe (SBA) is an overarching framework for the EU policy on Small and Medium Enterprises (SMEs). It aims at improving the approach to entrepreneurship in Europe, simplify the regulatory and policy environment for SMEs, and remove the remaining barriers to their development.

[35] European Commission, Europe's programme for small and medium-sized enterprises. https://single-market-economy.ec.europa.eu/smes/cosme_en

COSME's main objectives are the following:

- The mobilization of loans and equity investments for SMEs in order to provide them an easier access to finance in different phases of their lifecycle: creation, expansion or business transfer.

- the provision guarantees and counter-guarantees to financial institutions (e.g. mainly banks and leasing companies) through the so-called *Loan Guarantee Facility*, so they can provide more loan and lease finance to SMEs. According to what is expected, COSME will be able to facilitate between 220.000 and 330.000 SMEs to obtain assisted financing for a total value of between € 14 and € 21 billion.

- Through the *Equity Facility for Growth*, COSME will be able to provide risk capital to equity funds investing in SMEs, mostly in the scale-up and growth-stage phases. The Facility should support between 360 and 560 firms to receive equity investment with an overall volume invested ranging from € 2.6 to € 4 billion.

- The support for EU firms' internationalization and access to markets through the funding of facilities such as the *Enterprise Europe Network* (EEN) consisting of over 600 offices in more than 50 countries helping SMEs access EU financing, stipulate business and technology partnership, comprehend EU legislation. The programme also funds digital resources specifically designed for enterprises development such as *Your Europe Business Portal* or the *SME Internationalisation Portal*. Your Europe Business Portal provides practical online information for entrepreneurs who want to start or scale up a business in another Member State. The *SME Internationalisation Portal* provides information on support measures for companies which want to develop their business outside Europe.

The programme also provides financial assistance to the EU-Japan Centre for Industrial Cooperation, to encourage all forms of industrial, trade and investment cooperation by disseminating information on how to access the Japanese market, facilitating exchanges of experience and know-how between EU and Japanese ventures.

- Supporting the competitiveness of industries with market potential, by helping SMEs to develop new business models and integrate into new value chains. The realization of a strategic environment for SME's competitiveness could be achieved by supporting actions to improve the framework conditions in which enterprises operate, and by reducing all the unnecessary administrative and regulatory liabilities. Such actions may include the impact of relevant Union law on SMEs, developing a smarter and business friendly regulation for them and strengthening the use of the "*Think Small First*" principle for policy-making at national and regional level. COSME fosters cluster excellence and internationalisation as well with an emphasis on cross-sectoral cooperation, especially in support of emerging industries. The programme also aims at accelerating the digitalisation of the business community and promoting e-skills and e-leadership.

- The promotion of an entrepreneurial culture through the implementation of the Entrepreneurship 2020 Action Plan[36]. The execution of the Entrepreneurship 2020 Action Plan may include mobility exchanges, research activities, the diffusion of best practices and pilot projects in areas such as entrepreneurship education, mentoring for new and potential entrepreneurs. The programme especially focuses on digital entrepreneurship, by supporting European ventures on their digital

[36] The European Commission's Entrepreneurship 2020 Action Plan aims to stimulate the entrepreneurial environment in Europe through a range of support actions during the period 2014-2020. It is based on three pillars: developing entrepreneurial education and training; creating the right business environment; role models and reaching out to specific groups.

transformation processes, so that they are able to fully benefit from the unprecedented new opportunities created in the digital era, which are essential for their competitiveness and growth.

3. **Horizon Europe,** divided into three pillars and one part which correspond to its main priorities[37]:

    - The first pillar is defined *Excellent Science pillar*; it aims to improve the EU's global scientific competitiveness. It supports frontier research projects driven by top researchers through the European Research Council, funds fellowships for postdoctoral researchers, doctoral training networks and exchanges for researchers and invests in world-class research infrastructures.

    - The second pillar is called *Global Challenges and European Industrial Competitiveness pillar*; it aims to strengthen technological and industrial capacities through the creation of clusters and to help research projects related to society. It also includes activities managed by the Joint Research Centre which supports EU and national authorities with independent scientific research and technical support.

    - The third pillar is called *Innovative Europe pillar*; It supports the development of the overall European innovation ecosystem through the European Institute of Innovation and Technology (EIT), which fosters the integration of the knowledge triangle of education, research and innovation.

    - The part *Widening Participation and Strengthening the European Research Area* (ERA) gives support to EU Member States in order to

[37] European Commission, Horizon Europe Programme Guide (2022)

improve their efforts in developing their national research and innovation potential. Finally, Horizon Europe will be developed also through the European Defence Fund[38] and complemented by the Euratom Research and Training Programme[39]. The programme will have a budget of around €95.5 billion for 2021-2027, including €5.4 billion from Next Generation EU which aims to boost recovery and make the EU more resilient for the future, as well as an additional reinforcement of € 4.6 billion.

As already mentioned above, a relevant part of the funds from the recovery instrument Next Generation EU will be implemented in direct management mode, especially the Recovery and Resilience Facility (RRF).

RRF has the main goal to provide large scale financial support to sustainable reforms and related public investments with the explicit long-run objective to support digitalisation, green investments and resilience more broadly. RRF entered into force on 19 February 2021. It finances reforms and investments in Member States from the start of the pandemic in February 2020 until 31 December 2026.

The Facility is structured around six pillars: green transition; digital transformation; economic cohesion, productivity and competitiveness; social and territorial cohesion; health, economic, social and institutional resilience; policies for the next generation. RRF allows the Commission to raise funds to support Member States that address the tasks identified in country-specific recommendations under the European Semester framework of economic and social policy coordination and who implement reforms and investments that are coherent with the EU's priorities. It makes available €723.8 billion in loans (€385.8 billion) and grants (€338 billion) for that purpose.

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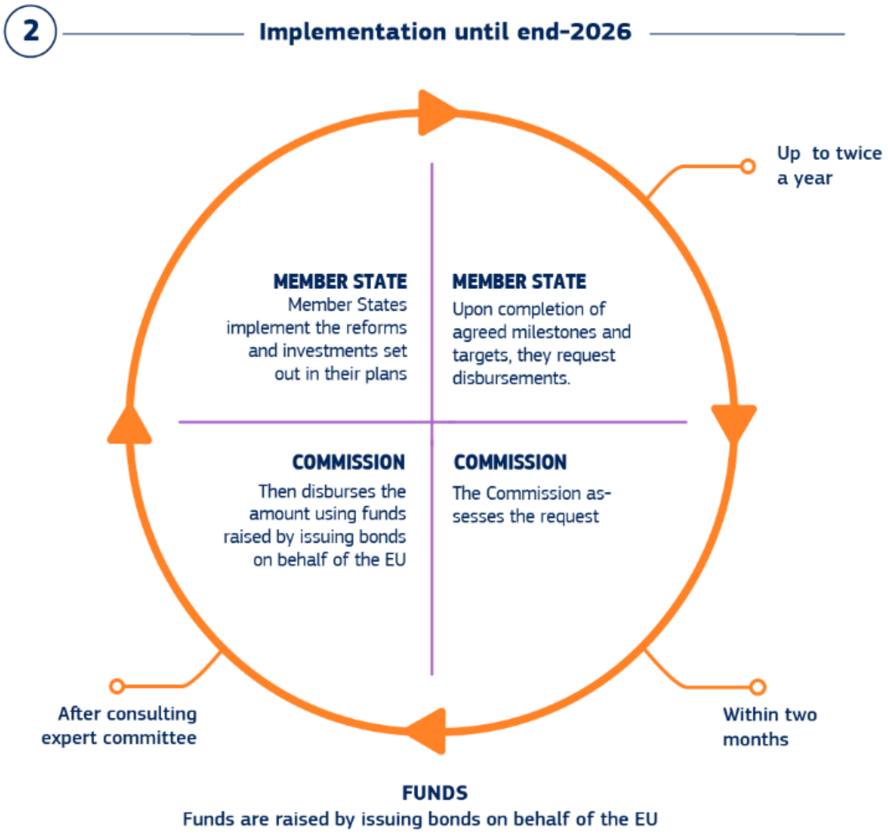
[38] The Fund promotes cooperation among companies and research actors of all sizes and geographic origin in the Union, in research and development of state-of-the-art and interoperable defence technology and equipment.

[39] The Euratom Research and Training Programme (2021-2025) is a complementary funding programme to Horizon Europe which covers nuclear research and innovation. It uses the same instruments and rules for participation as Horizon Europe. The budget is €1.38 billion to implement the new programme for the period 1 January 2021 to 31 December 2025.

The RRF supports the EU as well to achieve its target of climate neutrality by 2050 and puts Europe on a path of digital transition, creating jobs and stimulating growth in the process. A minimum of 37% of expenditure on investments and reforms contained in each national recovery and resilience plan should support climate objectives, while a minimum of 20% should support the digital transition. The facility implementation, because of its exceptional nature, will follow specific procedures.

The Member States will pay out directly the funds depending on the progress in the execution of national recovery and resilience plans. The plans should effectively focus on challenges identified in the European Semester, particularly the country-specific recommendations adopted by the Council[40].

[40] European Commission, Recovery and Resilience Facility. https://commission.europa.eu/business-economy-euro/economic-recovery/recovery-and-resilience-facility_en



Creation and implementation process of RRF

The design of the Recovery and Resilience Facility and of the implementation of the recovery and resilience plans will be monitored through the European Semester process:

- **Country reports,** which provide an overview of the economic and social developments and tasks that Member States are pursuing. Based on this analysis, the country reports recognize those challenges which are not sufficiently addressed by the recovery and resilience plans.

- **Country-specific recommendations**: together with the country reports, the Commission proposes to the Council country-specific recommendations (CSRs). The CSRs address the key issues identified in the country reports and the in-depth reviews, by indicating for which policy action will be required. The CSRs also include recommendations on the budgetary situation of the Member States.

- **The national reform programmes**, which play a dual role: besides their role in the context of the European Semester, the NRPs also achieve the bi-annual reporting requirements of Member States under the Recovery and Resilience Facility.

2.3 EU Funds' indirect management

EU Programmes implemented under indirect management represent about 10% of the overall EU budget; under this management mode, partner organizations are fully in charge of the execution of the projects funded by the programs. However, the Commission remains responsible to the Parliament and Council for the proper use of the funds. Usually, partners are national authorities or international organisations. Indeed, the majority of the EU budget allocated to humanitarian aid and international development, for instance, is implemented under indirect management.
Usually, the Commission need to ensure that its internal rules and procedures guarantee a high level of protection of EU funds before delegating the implementation of a project to a partner organisation. Therefore, the partner must successfully pass a so-called **pillar assessment**. Pillar assessments are institutional compliance assessments which the partner organizations must pass before using indirect management cooperation with the European Commission.
The Pillars Assessment aims to assess the organisation's compliance with the Commission's requirements for indirect management. Since the introduction of revised Terms of Reference for Pillar Assessments by the European Commission in April 2019[41], up to 9 pillars may be assessed.
The first three pillars, concerning the organisation's internal procedures, are mandatory to be assessed, while the residual ones need to be assessed only if the covered topics are relevant to organisation's operations. The results of the assessment are summarized in an assessment report which concludes on the organisation's compliance with

[41] Commission Decision of 17 April 2019 on establishing new terms of reference for the pillar assessment methodology to be used under Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council.

requirements for each pillar. The European Commission will use the independent auditor's assessment report as a basis for its decision to enter into indirect management with an external partner[42].

Moreover, the Commission may decide to sign Financial Framework Partnership Agreements ('FFPAs') with partner organisations, in order to facilitate the accomplishment of the EU's objectives by defining the contractual terms of a long-term cooperation. Financial Framework Partnership Agreements detail, among others, the terms of financial cooperation and the extent to which the Commission may rely on the systems and procedures of the specific Partner organisation[43].

Individual projects which are implemented by partner organisations are subject to the conclusion of so-called **Contribution Agreements,** which contain, among others, the detailed description and planning of all the tasks, the budget and the contractual provisions applicable to the EU-funded project, including any arrangements settled through Financial Framework Partnership Agreements.

Examples of programmes run indirectly include the financial support to fight Ebola outbreak in West Africa and the earthquake in Nepal in 2015. The typical partner developing projects funded by EU funds under indirect management mode could be, among others:

- **international organisations** (such as International Monetary Fund, Council of Europe, United Nations).
- **Specialised Union bodies** (such as European Investment Bank, European Investment Fund).
- **Decentralised Agencies** (such as European Centre for Disease Prevention and Control, European Medicines Agency, European Environment Agency) which usually contribute to the implementation of EU policies by assessing technical tasks thanks to their specific expertise.
- **Public-Private Partnerships** with specific third parties.

[42] Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council, Article 154 (3)

[43] European Commission, International Partnership. Working with partner organization. https://international-partnerships.ec.europa.eu/funding/guidelines/working-partner-organisations_en

- **National bodies**, identified by member states to develop specific EU programmes or funding opportunities (such as the promotion of Erasmus+ programme through the Union).

2.4 EU Funds jointly managed by European Commission and Member States

Under this management mode, programmes are implemented and executed directly by both the European Commission and national authorities in Member States, such as ministries and public institutions. The Member States' administrations (at national, regional and local level) choose which projects to finance and take responsibility for day-to-day management. Working together with the Member States, the Commission guarantee that the projects are successfully concluded, and the funds are well spent. Around 70% of EU programmes are run this way.

The most important example of EU funding jointly managed by European Commission and Member States is represented by the five **European Structural and Investment Funds** (ESIF), which fall under the EU's Cohesion Policy, the common agricultural policy and the common fisheries policy of 2014-2020 programming period.

Cohesion Policy could be defined as the European Union's strategy to promote and support the "overall harmonious development" of its Member States and regions. The EU's cohesion policy is enshrined in the Treaty on the Functioning of the European Union (Art. 174)[44], and it aims to improve economic and social cohesion by reducing disparities in the level of development between Member States. The policy focuses on key areas which will help the EU face up to the challenges of the 21st century and remain globally competitive.

Approximately 32.5 % of the EU budget 2014-2020 (equivalent to ca. EUR 351.8 billion over seven years at 2014 prices) is allocated to financial instruments which support Cohesion Policy.

[44] Article 174 of the Treaty on the Functioning of the European Union (TFEU) provides that, in order to strengthen its economic, social and territorial cohesion, the Union is to aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions or islands, and that particular attention is to be paid to rural areas, areas affected by industrial transition, and regions which suffer from severe and permanent natural or demographic handicaps.

The 2014-2020 framework focuses on investments towards 11 thematic objectives: 1) Research, technological development and innovation; 2) Information and communication technologies (ICT); 3) Small and medium-sized enterprises (SMEs); 4) Low-carbon economy; 5) Climate change; 6) Environment and resource efficiency; 7) Transport; 8) Employment; 9) Social inclusion and poverty; 10) Education and training; 11) Efficient public administration[45].

The five ESI Funds which support the above-mentioned objectives are as follows[46]:

- the **European Regional Development Fund** (ERDF) – it aims to reinforce economic, social and territorial cohesion by correcting the main regional inequalities in the Union through the sustainable development and structural adjustment of regional economies, including the conversion of declining industrial regions and regions whose development is lagging behind[47]. The Fund focuses its investments on key priority areas such as innovation and research, digitalisation, support for small and medium-sized enterprises (SMEs) and low-carbon economy. The budget for 2014-2020 is over €185 billion.

- the **European Social Fund** (ESF) – The purpose of the Fund is giving European citizens better job prospects and to help them succeed in their chosen careers. The ESF is increasing its efforts to boost job creation, support jobseekers and help keep people in work across Europe. Across Europe, ESF projects are supporting job creation, opening new job opportunities for more people and drawing more of them into the workforce. These efforts, which include thousands of programmes and projects, cover a wide range of activities and focus groups. Moreover, the fund aims to finance initiatives able to improve young people's education and training, and to reduce regulatory and administrative burdens by promoting high standards of transparency, integrity

[45] European Commission, Multiannual Financial framework 2014-2020 and EU Budget 2014.

[46] Regulation (EU) no 1303/2013 of the European Parliament and of the Council of 17 December 2013.

[47] Regulation (EU) no 1301/2013 of the European Parliament and of the Council, Art. 2

and accountability in public administration. The budget for 2014-2020 is about 84 € billion.

- the **Cohesion Fund** – it is dedicated to Member States whose Gross National Income (GNI) per inhabitant is less than 90 % of the EU average. It aims to encourage sustainable development and reduce economic and social disparities, through the allocation of a total of € 63.4 billion to projects regarding trans-European transport networks and environment. For the 2014-2020 period, the Cohesion Fund concerns Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia and Slovenia.

- the **European Agricultural Fund for Rural Development** (EAFRD) – It is the funding instrument of the second Pillar of the Common Agricultural Policy[48] of the European Union and it aims at strengthening the EU's agriculture, forestry sector and rural areas in general. The EAFRD has a total budget of over € 96 billion for the period 2014-2020, even if the rules for rural development spending during 2021-22 are laid out in the CAP transitional regulation, adopted on 23 December 2020[49]. This support is provided to agriculture, forestry and environment/natural resources management as well as to the sustainable development of rural economy.

- the **European Maritime and Fisheries Fund** (EMFF) – it is focused on financing projects focused on new jobs creation and improvement of the quality of life along European coasts, supporting coastal communities to diversify their economies, helping the sustainability of aquaculture developments. The fund

[48] As the second pillar of the common agricultural policy (CAP), the EU's rural development policy is designed to support rural areas of the Union and meet its priorities, which include the promotion of agricultural competitiveness, the sustainability of natural resources and the development of rural economies and communities. Contrary to the first pillar, which is entirely financed by the EU, the second pillar programmes are co-financed by EU funds and regional or national funds.

[49] The CAP transitional regulation bolsters the current budget with an additional € 8 billion from the Next Generation EU recovery instrument assigned to the fund (EURI).

has an overall budget of € 6.400 million for the period 2014-2020; 11% is managed by the European Commission to support EU-wide objectives in maritime and coastal affairs while 89% is managed by the Member States by means of operational programmes.

2.5 The Programming Period 2021 - 2027

For the 2021-2027 programming period, the EU Cohesion Policy keeps its focus on the promotion of economic, social and territorial convergence, through inclusivity, sustainable competitiveness, research and innovation, digital and green transition.
In addition, Member States will have additional flexibility, compared with the current programming period, to allocate resources among the funds at any point in time of the programming period. There will also be further flexibility which will give Member States more opportunities to complete operations not finished under the 2014-2020 programmes.
The new Cohesion policy also includes a crisis-response mechanism for the use of the funds in response to exceptional and unusual circumstances. The Commission will have the possibility to introduce temporary measures to help address such exceptional situations. Moreover, the 11 thematic objectives from 2014-2020 framework have been reduced to 5 *Policy Objectives* (POs):

1. A **more competitive and smarter Europe** through the promotion of innovative and smart economic transformation and regional ICT connectivity.

2. A **greener, low-carbon transitioning towards a net zero carbon economy and resilient Europe** through the promotion of a clean and fair energy transition, green and blue investment, climate change mitigation and adaptation, the circular economy, risk prevention and management, and sustainable urban mobility.

3. A **more connected Europe** by improving mobility.

4. A **more social and inclusive Europe** through the development the European Pillar of Social Rights.

5. A **Europe closer to citizens** by fostering the sustainable and integrated development of all types of territories and local initiatives.

The new Cohesion Policy introduced a single rulebook – the Common Provisions Regulation (CPR)[50] – which establishes a set of common rules for the eight EU funds jointly managed between the Commission, Member states and regions[51]:

- **European Regional Development Fund** (ERDF) – in the new programming period it will focus on empowering investments for a more competitive and smarter Europe (Policy Objective n.1), as well as greener, low-carbon transitioning towards a net zero carbon economy and resilient Europe (Policy Objective n.2). The available budget for the 2021 – 2027 Programming period is about €226 billion.

- **Cohesion Fund** (CF) – in the new framework it will keep its focus on supporting investments in the field of environment and trans-European networks in the area if transport infrastructure. For the 2021-2027 period, the Cohesion Fund concerns Bulgaria, Czechia, Estonia, Greece, Croatia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Portugal, Romania, Slovakia and Slovenia. The available budget is about €48 billion.

- **European Social Fund Plus** (ESF+) – in its new formulation, it will support the implementation of the European Pillar of Social Rights for responding to social challenges in Europe. Through supporting actions in the areas of employment, education & skills and social inclusion, the ESF+ will support individuals, regions and Member States to multiple challenges such as recovering from the current

[50] Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021

[51] European Commission, New Cohesion Policy 2021-2027. https://ec.europa.eu/regional_policy/2021-2027_en

pandemic or meeting the EU's targets for employment, social inclusion, education and climate. The available budget is €99 billion.

- **European Maritime, Fisheries and Aquaculture Fund** (EMFAF) – It supports the development of innovative projects preserving the aquatic and maritime resources. The fund helps achieve sustainable fisheries and preserve marine biological resources by ensuring food security through the supply of seafood products, the development of a sustainable blue economy and a sustainable management of seas and oceans. The available budget for the 2021-2027 is about €6 billion.

- **Just Transition Fund** (JTF) – it is a new instrument of Cohesion Policy 2021-2027, and it represents the first Pillar[52] of the *Just Transition Mechanism*[53]. The fund aims to alleviate the socio-economic costs generated by climate transition, supporting the economic diversification and reconversion of the most affected territories. This means financing productive investments in small and medium-sized enterprises, research and innovation, the creation of new firms, environmental rehabilitation, reskilling of workers, clean energy, job-search support, as well as the renovation of existing carbon-intensive installations. The available budget to support EU countries in their green transition is €17.5 billion, out of which €7.5 billion will be financed under the EU's 2021-2027 budget, while the remaining €10 billion will stem from the European Recovery Instrument (and, as such, will be made available from 2021 to 2023).

- **Asylum, Migration and Integration Fund** (AMIF) – the Fund represents a new instrument for 2021-2027 period and aims to boost national capacities and improve procedures for migration management, as well as to enhance solidarity and responsibility sharing between Member States, through emergency

[52] The Just Transition Mechanism's three Pillars are: the Just Transition Fund, The InvestEU Just Transition scheme and the Public Sector Loan Facility (PSLF).

[53] As part of the European Green Deal, the Just Transition Mechanism provides resources for facing the challenge of the transition process towards the Union's 2030 climate target and the objective of climate neutrality in the Union by 2050.

assistance and the relocation mechanism. AIMF main objectives concern the backing of the common European asylum system[54], the support to legal and irregular migration system of Member States, and the improvement of solidarity and responsibility sharing between the Member States, in particular towards those most affected by migration. The available budget is €9.9 billion.

- **Border Management and Visa Instrument** (BMVI) – it is a new instrument for the 2021-2027 period, it is part of the Integrated Border Management Fund (IBMF), together with the Custom Control Equipment Instrument (CCEI). The main objective of the facility is contributing to support an effective European integrated border management at the external borders, implemented by both European and national authorities, in order to prevent and detect illegal immigration and cross-border crime, facilitate legitimate border crossings, and to effectively manage migratory movements. This objective will be pursued mainly by investing in infrastructures, systems and services, exchange of experts, innovative solutions and new technologies. The allocation available for BMVI corresponds to € 6.38 billion.

- **Internal Security fund** – it is set up for the period 2021-2027[55], and its main objective concerns the achievement a high level of security in the EU, by preventing and fighting terrorism, serious and organized crime and cybercrime, by assisting and protecting victims of crime, and by protecting against and effectively managing security-related incidents, crises and risks. The fund will contribute to enhance the exchange of information among and within the EU law enforcement, strengthen cross-border cooperation in relation to terrorism and serious and organised crime and improve capabilities to fight and prevent crime, terrorism and radicalization.

[54] The Common European Asylum System (CEAS) is a legal and policy framework developed to guarantee harmonized and uniform standards for people seeking international protection in the EU. It is based on an understanding that the EU needs to have a common approach to implement transparent, effective and equitable procedures.

[55] Regulation (EU) 2021/1149 of the European Parliament and of the Council for the Period 2021-2027.

Chapter III – The main results and performance of EU Cohesion Policy

3.1 The policy priorities of 2014-2020 Programming Period

The 2014-2020 ERDF and CF programmes contribute principally to four of the policy priorities of the Commission:

1) a **European Green Deal**, aiming to be the first climate-neutral continent by becoming a modern, resource-efficient economy;
2) a **Europe fit for the Digital age**, aiming to develop a digital strategy to enable people with a new generation of technologies;
3) an **Economy that Works for People**, aiming to create a more attractive investment environment, and growth that creates quality jobs, especially for young people and SMEs;
4) a **Stronger Europe in the world**, in order to fight for multilateralism and a rules-based global order through a more dynamic role and clearer voice for the EU in the world.

The programming was aligned to contribute to the EU's effort to overcome the structural weaknesses in its economies, improve competitiveness and productivity and reinforce a sustainable social market economy.

The efforts of the 2014-2020 Programmes to set clearer intervention logics and to implement fund-specific "common output indicators" led to more vigorous and coherent performance reporting on the investment actions and outputs.

In response to the COVID-19 outbreak, the Commission proposed specific measures to expand the list of eligibility measures in the healthcare systems to support the public health response in Member States and to encourage reprogramming in other industries of their economy, while providing exceptional flexibility for the use of the ESI funds under the Coronavirus Response Investment Initiative (CRII) and its following upgrade CRII(+).

The first Coronavirus Response Investment Initiative package[56] consisted of three main elements: about €8 billion of immediate liquidity to accelerate up to €37 billion of European public investment, flexibility in applying EU spending rules and expand the scope of the EU Solidarity Fund. The second set of measures introduced an exceptional flexibility to allow that all non-utilised support from the European Structural and Investment Funds can be mobilised to the fullest.

This flexibility is provided for through:

- transfer possibilities across the three Cohesion Policy funds (the European Regional Development Fund, European Social Fund and Cohesion Fund);
- transfers between the different categories of regions;
- flexibility when it comes to thematic concentration;
- a 100% EU co-financing rate for cohesion policy programmes for the accounting year 2020-2021, allowing Member States to benefit for full EU financing for crisis-related measures.

The CRII(+) package also simplifies procedural steps correlated to programme implementation, use of financial instruments and audit. The majority of Member States have used at least one or another form of CRII(+) flexibility, such as extended deadlines for project implementation and for project calls, accelerating payments to beneficiaries and have used the opportunity to submit COVID-19 related expenses for repayment with retroactive eligibility since 1 February 2020. The use of financial instruments have also accelerated due to CRII(+) measures.
The Commission also worked with programmes to use COVID-19 programme specific indicators in order to identify their main priorities and achievements in terms of supporting the health response, SMEs and people. By December 2021, ERDF programmes had set targets using COVID-19 ad hoc indicators. More generally, the more extensive use of EU common indicators for 2014-2020 has radically improved the information available on performance.

[56] European Commission, Coronavirus Response Investment Initiative factsheet (2020)

At EU level, the following overall performance trends are evident from the monitoring of the ERDF and CF based on 2020 achievements reported:

- Overall project selection rates are at nearly 100% of planned investment everywhere by end 2021 (the main exception relates to the REACT-EU[57] resources only added to the programmes in 2021). EU interim payments at end 2021 were at 64% for ERDF and 70% for CF. High project selection rates do not automatically translate into prompt expenditure. Expenditure is slower to occur for projects that are still in the planning or procurement stage, projects with multi-annual implementation periods or projects that are otherwise immature.

- By thematic objective, project spending is above average in areas such as SME competitiveness, education infrastructure and sustainable transport. On the other hand, the average spending rates are lower than average for social inclusion, low-carbon economy and environmental investments.

- For some indicators with more significant gaps between the decided and implemented, the forecast indicator values from selected projects are close to or exceed the target values, raising the possibility that the preset targets could still be reached. In many of those cases, the high level of project selection is expected to translate into achieved outputs only late in the period. Also, the trend evidenced in the previous programming period (2007-2013) showed the late achievement of indicator values. The 2020 reporting exercise suggested that at the end of 2020 many of the 2023 targets for those indicators could still be achieved.

[57] Recovery Assistance for Cohesion and the Territories of Europe (REACT-EU) continues and extends the crisis response and crisis repair measures delivered through CRII and CRII(+). The package includes €55 billion of additional funds that will be made available to the 2014-2020 European Regional Development Fund (ERDF) and the European Social Fund (ESF) as well as the European Fund for Aid to the Most Deprived (FEAD). These additional funds will be provided in 2021-2022 from Next Generation EU and already in 2020 through a targeted revision to the current financial framework.

- For some common indicators (i.e. those measuring population benefiting from wastewater, risk prevention, water supply and health interventions), the decided values from selected projects, compared to targets at the end of 2019, showed a prospect of overachievement. This led to important boosts in specific target values during 2020. Deviations from targets are examined and followed-up in collaboration with the Member States affected by implementation difficulties.

- The impact of the COVID-19 pandemic led to intensified uncertainty. A wave of programme modification in 2020 and 2021 led to a rise in some common indicators target values, particularly in the areas of enterprise support related to crisis support during the pandemic. However, the uncertain socio-economic conditions, reduced demand, high unemployment, and unclear prospects for the relaunch of the economy suggest a careful monitoring by the Commission until programmes closure.

The indicators presented below for the specific objectives are 27 for ERDF and CF common output indicators reported by the national and regional authorities. The target values have been revised to the values set under the adopted programmes as of end 2020. With over 290 programmes the achievement values can also be corrected over time.

By the end of 2020, a majority – 55% or 15 of 27 indicators – show strong or over performing trends; 26% of indicators reveal a modest trend and 15 % a weak trend that require accelerating annual growth rates in order to attain their 2023 targets. Under achievement of the target is expected for the indicator Rehabilitated housing in urban areas[58].

[58] DG Regio, Regional Policy ERDF and CF Programme Statement (2022)

	SO 1	SO 2	SO 3	SO 4	SO 5	SO 6	SO 7	SO 8	SO 9	SO 10	Total	%
Outperforming						1			1	1	3	11%
Strong trend	3		3	1	2		2	1			12	44%
Moderate trend	2	1		1		2	1				7	26%
Weak Trend				2		1	1				4	15%
At risk of underachievement									1		1	4%
											27	100%

Table: performance of (common) indicators per specific objective (SO)

Overall, most indicators were on track to meet their targets at the end of 2020. The reasons are different for the few indicators that are not performing; indicators linked to urban investments in renovated building and housing show low achievement but have project selection rates that approach or exceed the target values.

Some key findings of 2014-2020 programme period are represented below[59]:

SMART GROWHT			
5.5 million	**1.4 million**	**238.000**	**10.900**
households have access to broadband of at least 30 Mbps by the end of 2020	enterprises were supported by the end of 2020	jobs were created in supported enterprises by the end of 2020	researchers were employed in supported entities by the end of 2020

SUSTAINABLE GROWTH				
4.4 million	358.000	1.890	1.7 million	1.540
tonnes of CO2 equivalent were saved by the end of 2020	households saw an improvement of their energy consumption classification by the end of 2020	GigaWh/year of annual primary energy consumption of public buildings were saved by the end of 2020	tonnes/year of additional waste recycling capacity were implemented by the end of 2020	km of railway lines were reconstructed or upgraded by the end of 2020

[59] European Commission, Programme Statement ERDF, DG Regio (2022), results up to 31/12/2021

INCLUSIVE GROWTH
52 million
people benefitted from new or modernized health services by the end of 2020

3.2 European Regional Development Fund (ERDF)

As already mentioned above and in the previous chapter, the European Regional Development Fund (ERDF) is one of the main financial instruments of the EU's Cohesion Policy. ERDF's main purpose is to contribute to reducing disparities between the levels of development of European regions and to improve living standards in the least-developed regions. Particular consideration is given to regions which suffer from difficult and permanent natural or demographic disadvantages, such as the northernmost regions, which have very low population densities, and island, cross-border and mountain regions.

The ERDF is intended to help to restore the main regional disparities in the European Union. It can do that through support for:

- The development and structural correction of regions whose development is lagging behind;
- The transformation of declining industrial regions.

The ERDF has two main goals, namely:

- Investments for jobs and growth – aiming to reinforce the labour market and regional economies.
- European Territorial Cooperation – aiming to strengthen cross-border, transnational and interregional cooperation within the EU.

Resources assigned to the first goal have been allocated to three different categories of regions:

- More-developed regions whose GDP per capita is above 90% of the EU average;
- Transition regions whose GDP per capita is between 75% and 90% of the EU average;
- Less-developed regions whose GDP per capita is below 75% of the EU average.

The ERDF also supports sustainable urban development. In the 2014-2020 period, at least 5% of the ERDF allocation for each Member State had to be allocated for integrated actions for sustainable urban development to face the economic, environmental, climate, demographic and social challenges affecting urban areas.

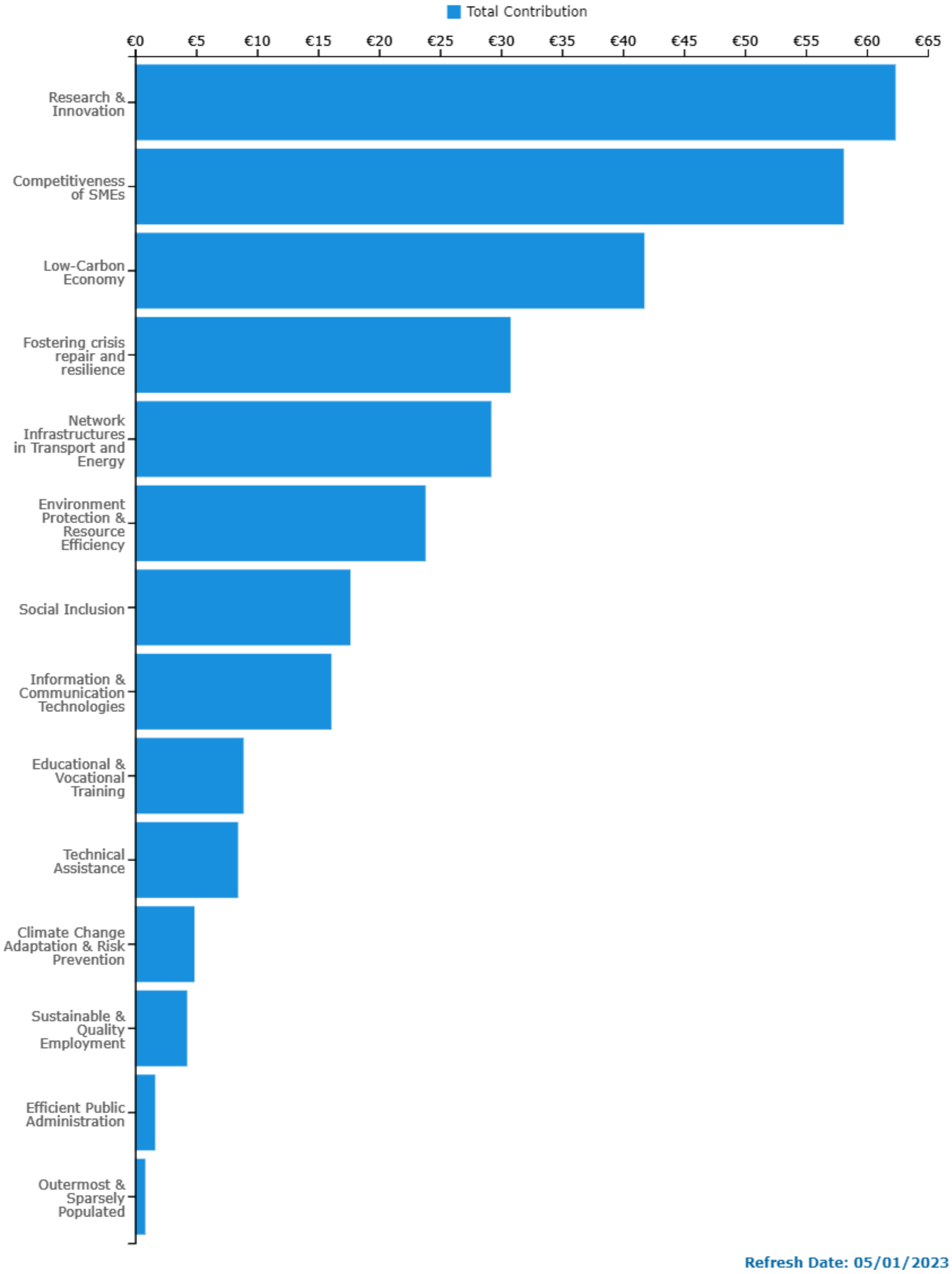
Specifics about the allocation and planned use of ERDF funds are defined in the Partnership Agreements. These are strategy documents drawn up by each Member State with the support of regional and social partners. ERDF spending focuses on the priorities specified in the strategy of thematic concentration. In the 2014-2020 period, the main priorities were:

1. Research and innovation
2. Information and communication technologies
3. Small and medium-sized enterprises (SMEs)
4. The promotion of a low-carbon economy

The level of concentration required varies according to the category of regions being supported: more-developed regions have to allocate at least 80% of their ERDF resources to at least two of these priorities and at least 20% to the promotion of a low-carbon economy. Transition regions have to allocate at least 60% of their ERDF resources to at least two of these priorities and at least 15% to the promotion of a low-carbon economy. Less-developed regions have to allocate at least 50% of their ERDF resources to at least two of these priorities and at least 12% to the promotion of a low-carbon economy[60].

[60] https://ec.europa.eu/regional_policy/funding/erdf_en

During the 2014-2020 programming period, the EU allocated over € 350 billion to Cohesion Policy. That was equal to 32.5% of the overall EU budget for the period. Around € 199 billion was allocated to the ERDF. This included € 9.4 billion for European Territorial Cooperation and € 1.5 billion of special allocations for the furthest and sparsely populated regions.



ESIF 2014-2020: Total Budget by Theme: European Regional Development Fund, EUR billion

The level of co-financing required for projects financed by the ERDF is intended for the development of the regions concerned. In the less-developed regions (and outermost regions), the ERDF can finance up to 85% of the cost of the project. In the transition regions, this can be up to 60% of the cost of the project, and in the more-developed regions up to 50%.

In 2021, the EU entered a new multiannual programming period. Rules for the ERDF in the 2021-2027 period are established in:

- A regulation on the ERDF and the Cohesion Fund;
- A regulation on specific provisions for the European Territorial Cooperation goal (Interreg).

These regulations maintain the two current goals of the ERDF: Investment for jobs and growth and European Territorial Cooperation.

They also maintain thematic concentration for the top two priorities: support for innovation, the digital economy and SMEs delivered through a smart specialisation strategy (Policy Objective 1); and a greener, low-carbon and circular economy (Policy Objective 2). The new Cohesion Policy also introduced a list of activities that are not to be supported by the ERDF. It includes the decommissioning or construction of nuclear power stations, airport infrastructure (except in the outermost regions) and some waste management operations. For the 2021-2027 programming period, around € 200.36 billion has been allocated to the ERDF.

Less-developed regions will benefit from co-financing rates of up to 85% of the cost of the projects. Co-financing rates for transition regions and for more-developed regions will be up to 60% and 40% respectively. After 2020, support for cities will be reinforced. At least 8% of the ERDF resources (at national level) will be allocated for sustainable urban development and the creation of the European Urban Initiative.

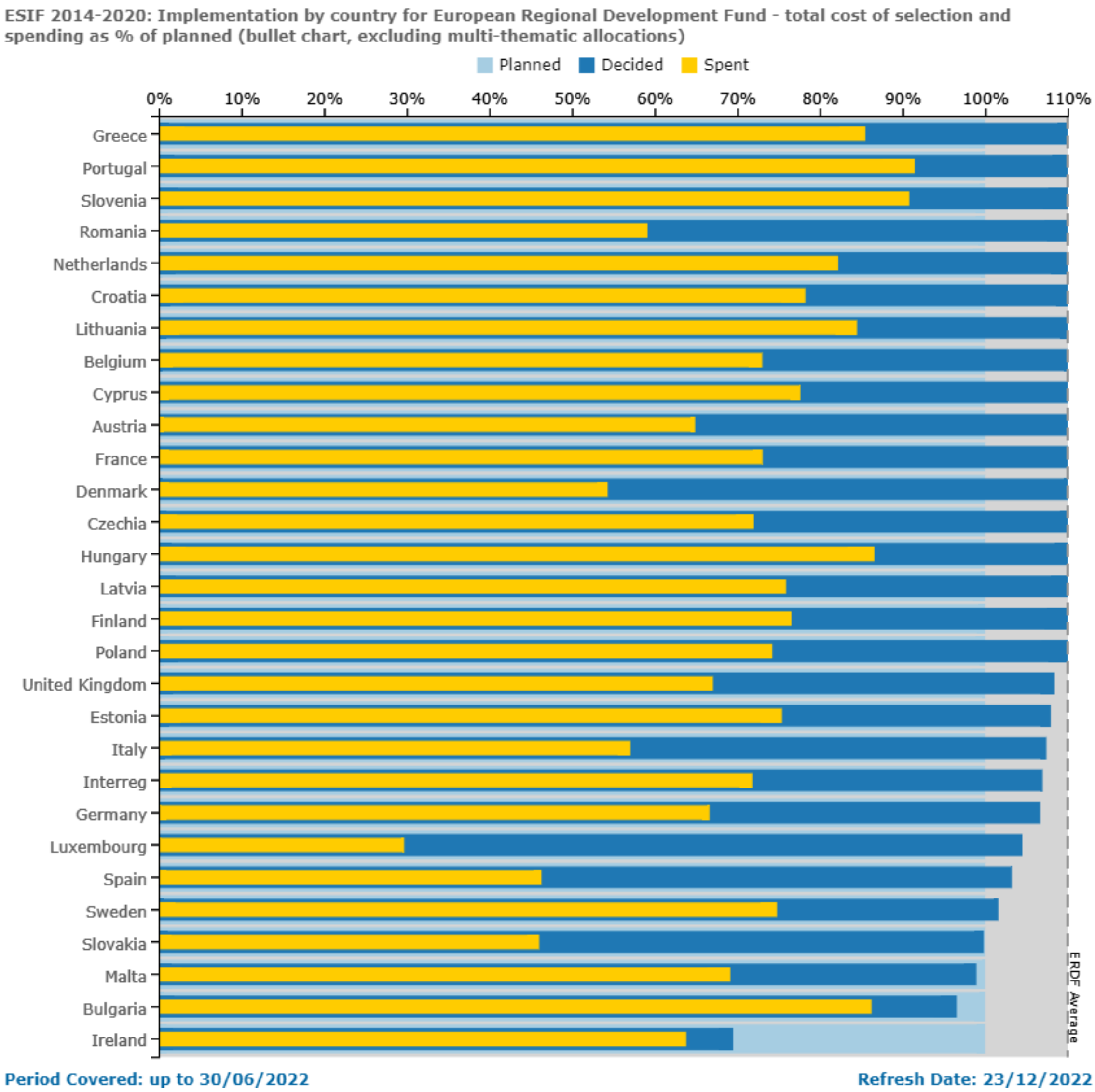
National and regional programmes report financial data to the Commission on their progress:

- Planned: Total budget of the programme.
- Decided: Financial resources allocated to selected projects.

- Spent: Expenditure reported by the selected projects.

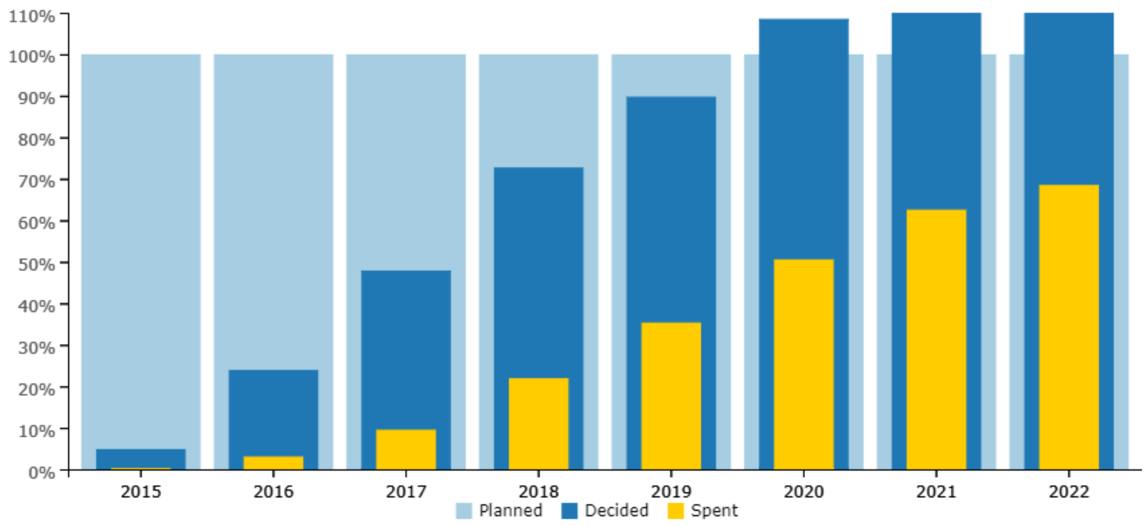
Thus, according to the Cohesion Open Data platform[61], up to 30/06/2022:

- about 69% of the total budget initially planned for ERDF has been spent (about € 209,5 out of € 305,8 Billion).
- Starting from the budget assigned to Italy (€ 36.6 Billion), the expenditure for selected projects is € 20.81 Billion (about 57% of total budget).



[61] https://cohesiondata.ec.europa.eu/funds/erdf/14-20#finance-implementation

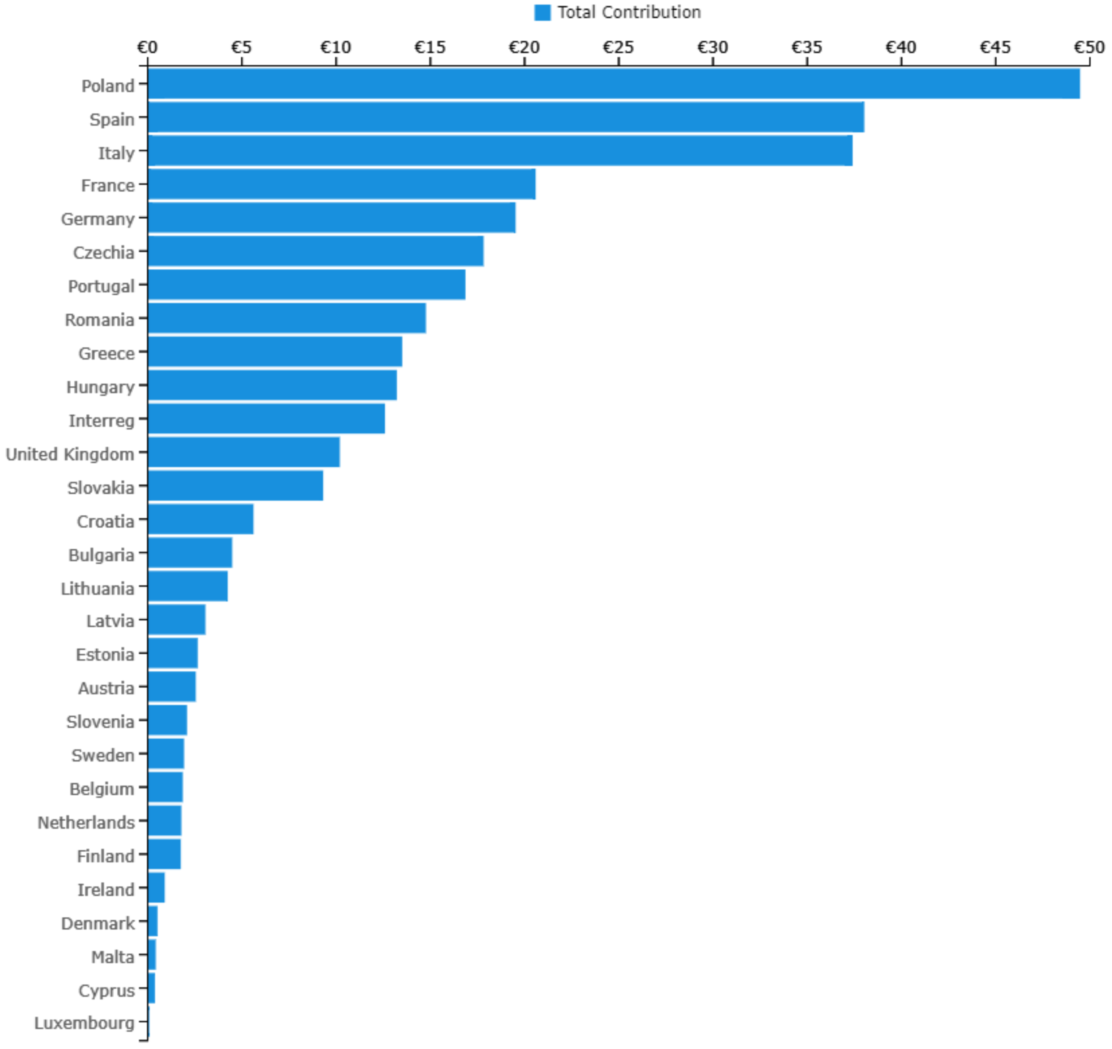
ESIF 2014-2020: Implementation Progress (total cost) for European Regional Development Fund



Period Covered: up to 30/06/2022

Refresh Date: 23/12/2022

ESIF 2014-2020: Total Budget by Country (daily update): European Regional Development Fund, EUR billion



Refresh Date: 05/01/2023

3.3 European Regional Development Fund (ERDF) in Italy

In Italy, the total resources deriving from the ESI Funds (ERDF, ESF, EAFRD and EMFF) destined for the implementation of socio-economic development interventions amount to a total of approximately € 62 billion (to which must be added the resources deriving from national co-financing equal to approximately € 31 billion) for a total of about € 93 billion.

The pursuit of the strategic objectives of the 2014-2020 EU Policy, as predicted by the 2014 Stability Law and the Partnership Agreement[62], also relates to actions activated at national level and which are complementary to EU Funds, financed with the resources of the funds referred to in Law 183/1987[63].

In addition to EU funds, in Italy there are further national resources from the Development and Cohesion Fund (FSC) which implements the constitutional objective of "*removing economic and social imbalances, to favor the effective exercise of the person*"[64]. The total budget allocated for the Development and Cohesion Fund for the 2014-2020 programming period amounts to € 68.8 billion.

In Italy, the financial resources deriving from the ESI Funds (ERDF, ESF, EAFRD and EMFF) amount to a total of 93.27 billion euros. These resources are managed through 83 operational programs of which:

- 15 owned by central administrations (12 National Operational Programs - NOP; 2 National Rural Development Programs - PSRN; 1 EMFF national programme);

[62] Commission Decision of 29 October 2014, Partnership Agreement with Italy.

[63] The so called "Revolving Fund", set up by Law No. 183 of 1987, provides for partial financial coverage of the charges pertaining to the country (to the extent of 70%) provided for in the Community policy Programs and Actions. This Fund ensures the centralization at the State Treasury of the financial flows of the structural funds from the European Union and the univocal management of the relative transfers in favor of the Administrations and national bodies.

[64] The Development and Cohesion Fund (FSC) – governed by Legislative Decree no. 88 of 2011 which thus renamed the previous Fund for underutilized areas (FAS) – includes additional national financial resources destined to economic and social rebalancing purposes, as well as public incentives and investments.

- 68 owned by Regional Administrations/Autonomous Provinces (39 Regional Operational Programs - POR; 8 Territorial Cooperation Operational Programs - PO CTE; 21 Rural Development Programs - PSR).

Distribution of ESI Funds resources			
EU FUND	Financial Endowment (€\mln)	EU contribution (€\mln)	National contribution (€\mln)
FESR	38.434,23	28.577,74	9.856,49
FSE	25.949,94	18.651,93	7.298,01
FEASR	27.904,37	14.365,48	13.538,89
FEAMP	979,50	537,26	442,23
Total	**93.268,03**	**62.132,40**	**31.135,63**

Up to 31 August 2022, compared to the total resources programmed under the ESI Funds, there was an advance of 73.21% in terms of commitments and 55.67% in terms of payments (the amount of commitments and payments includes both the EU share and both the national share referring to the programs i.e. commitments and payments accepted).

ESI Funds State of implementation						
EU FUND	**Financial Endowment (A)**	**EU Contribution**	**Committed resources (B)**	**Payments (C)**	**B/A**	**C/A**
FESR	38.434,23	28.577,74	32.487,59	21.465,84	84,53%	55,85%
FSE	25.949,94	18.651,93	18.420,96	13.265,44	70,99%	51,12%
FEASR	27.904,37	14.365,48	16.694,68	16.694,68	59,83%	59,83%
FEAMP	979,50	537,26	677,20	495,46	69,14%	50,58%
TOT	**93.268,03**	**62.132,40**	**68.280,42**	**51.921,42**	**73,21%**	**55,67 %**

1. **National Operational Programs (NOPs) which covers all categories of Regions:**

    - NOP "For Schools - skills and environments for learning", implementing the results of Thematic Objective (TO) n. 10 and TO n.11[65] (ESF and ERDF, multi-fund);
    - NOP "Active employment policies systems", implementing the results of TO n. 8[66] and TO n.11 (ESF, single fund);
    - NOP "Inclusion", implementing the results of TO n.9[67] and 11 (FSE, single fund);
    - NOP "Metropolitan Cities", in implementation of the Urban Agenda as regards the 14 metropolitan cities (ERDF and ESF, multi-fund);
    - NOP "Governance and Institutional Capacity", implementing the results of TO n. 11 and in support of other results of various TOs (ERDF and ESF, multi-fund);
    - NOP "Youth Employment Initiative" (ESF, single fund);
    - PON "Enterprises and Competitiveness" (ERDF, single fund);
    - NOP "Legality" (ERDF and ESF, multi-fund).

2. **NOPs covering only the categories of regions in transition and less developed:**

    - NOP "Research and innovation" (ERDF and ESF, multi-fund);
    - NOP "SMEs initiative" (ERDF, single fund).

3. **NOPs covering only the category of less developed Regions:**

    - NOP "Infrastructures and Networks" (ERDF, single fund);

[65] Reg (EU) No 1303/2013, Article 9: "*investing in education, training and vocational training for skills and lifelong learning*" and "*enhancing institutional capacity of public authorities and stakeholders and efficient public administration*".

[66] Reg (EU) No 1303/2013, Article 9: "*promoting sustainable and quality employment and supporting labour mobility*".

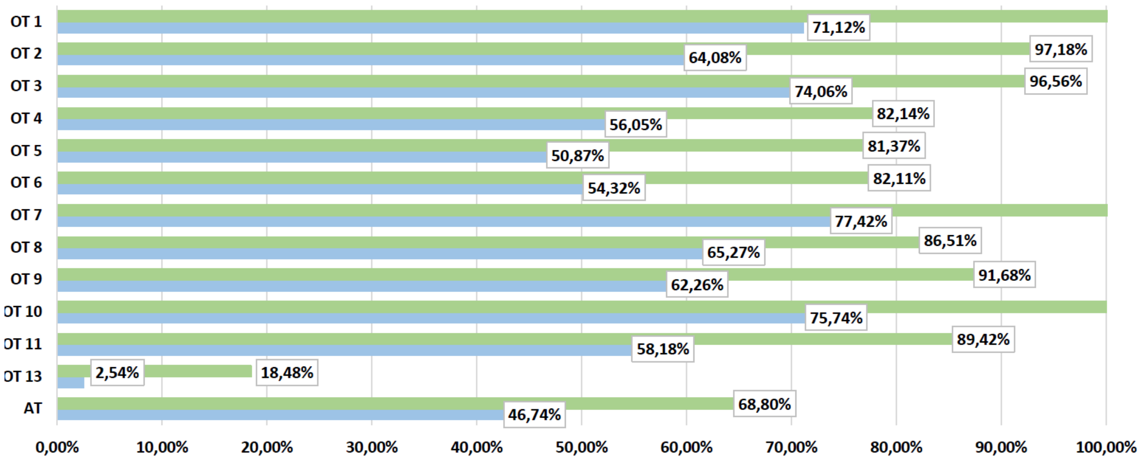
[67] Reg (EU) No 1303/2013, Article 9: "*promoting social inclusion, combating poverty and any discrimination*".

- NOP "Culture and Development" (ERDF, single fund)

State of implementation (ERDF and ESF) by category of region and type of programme (€/Mln)						
Programme typology	PON Financial Endowment (A)	EU Contribution	Committed resources (B)	Payments (C)	B/A	C/A
NOP	30.683,57	25.158,06	18.757,48	11.980,64	61,13%	39,05%

Compared to the total programmed resources equal to a total of 30.7 billion euro[68], there is an advance of 61.13% in terms of commitments and 39.05% in terms of payments.

With respect to the 12 thematic objectives, the progress in terms of commitments and payments is shown in the graphic below. The amount of commitments (highlighted in green) and payments (highlighted in blue) includes both the EU quota and the national quota referring to the programs (commitments and accepted payments). Furthermore, for projects relating to financial instruments, the commitments and payments admitted by transfer are considered.



Implementation status (ERDF and ESF) by thematic objective

[68] The NOP's financial endowment includes € 12,874.49 mln from the REACT-EU, of which € 12,688.11 mln from the community quota. The reprogramming of the PON SPAO in relation to the REACT-EU resources for the year 2022 includes approximately € 1,500.28 million. The resources, therefore, assigned to Italy under the REACT-EU initiative amount to € 14,188.39 mln relating to ERDF and ESF.

3.4 Case study – European Cohesion's funds managed by Invitalia S.p.a.

Invitalia is the National Agency for Inward Investment and Economic Development. It is owned by the Italian Ministry of Economy. Invitalia aspires to boost Italy's economic growth, focusing on strategic industries for development and employment. It is committed to reviving crisis areas and operates mainly in the South of Italy. It manages all national incentives that promote the creation of new companies and innovative startups. It finances small to large projects, targeting entrepreneurs with concrete development plans, especially in innovative and high added-value industries. The Agency provides services to the Public Administration for timely disbursement of EU and national funds, as well as in promoting cultural heritage.

One of the incentives managed by the Agency is called "Cultura Crea": it focuses on companies and institutions of the cultural and creative industry of South of Italy. This programme, still in progress, represents the backbone of Axis II of the National Operational Plan (NOP) "Culture and Development" 2014-2020.

The NOP is located in the frame of the European Regional Development Fund (ERDF) 2014-2020, one of the European Structural and Investment Funds (ESIF) covered by the Partnership Agreement (PA), signed by European Commission and Italy that defines the strategy for the optimal allocation of European Structural and Investment Funds throughout the country. The agreement has defined the way for investing in Cohesion Policy funding over 2014-2020 (including European Territorial Cooperation funding and the allocation for the Youth Employment Initiative). Among the objectives of the Partnership Agreement, there is the development and diffusion of the Italian cultural heritage, in order to enhance its local endogenous potential.

The NOP "Culture and Development" empowers the cultural resources of the Less Developed Regions in Italy (i.e. Basilicata, Calabria, Campania, Puglia and Sicily) in order to increase their attractiveness, shape a more consistent touristic demand and adequate cultural activity as well as to sustain and promote the reinforcement of creative and cultural enterprises.

This objective should be reached through preservation and conservation, valorization, enhancement and development of the cultural heritage also by supporting the enterprises. The NOP aims to a new strategical approach to the Cultural Heritage policies that overcomes the traditional relationship between preservation and accessibility and focuses on the capability to stimulate innovation and, consequently, structural changes over the territory.

The three pillars of the NOP's strategy:

- Strengthening supply and demand of the cultural attractors in the five less developed Italian regions (Apulia, Basilicata, Calabria, Campania and Sicily);
- Increasing the economic activities connected to the cultural heritage to stimulate the entrepreneurship in cultural and creative industry;
- Improving administrative efficiency through a dedicated strategy.

The "Cultura Crea" programme focuses on the development of cultural and creative industry: the issue of identifying Cultural and Creative Enterprises is a long-standing and complicated issue, due to the fact that these enterprises must possess specific characteristics and provide intermediate inputs in order to fully fulfill their function as mediators of "cultural based" local development paths.
This innate transversality of the Cultural and Creative Enterprises makes them difficult to classify in the traditional way and, consequently, difficult to identify in a specific perimeter. The difficulty in the definition of this type of enterprises represents an opportunity for the analysis of the added value of the industry. At the same time, however, it gives problems of delimitation of the field of investigation and creates difficulties of evaluation, since it refers to very different levels of analysis and to heterogeneous cases.

The legislation on which the Programme is based[69] delimits the definition of Cultural and Creative Enterprises:

[69] The main references of the Cultura Crea Programme are: i) Decree 11.05.2016 - Mibact "*Establishment of the aid scheme to support the cultural and creative supply chain and strengthen the competitiveness of micro, small and medium-sized enterprises, aimed at the development and consolidation of the productive industry linked to the Italian cultural heritage*" - Axis II of National Operational Programme « Culture and Development 2014-2020» (modified with the Decree MiBAC 10.12.2020 ii) Operational Guideline n. 55 20.07.2016 - Mibact and subsequent modifications; iii) Operational Guideline n. 237 29.03.2021 – which introduced the current edition of the Programme "Cultura Crea 2.0".

- Firstly, with respect to the enterprises subjected to the assessment process, the MiBACT Decree of 11 May 2016, which established and regulated the "Cultura Crea" Programme, identifyies the target on the basis of specific Ateco 2007 codes (for startups up and existing businesses: Annexes II and III of the Decree) and the ICNPO classification[70] (for non-profit entities: Annex IV of the Decree);

- Secondly, for the analysis of performances, the so-called "Cultural and Creative Production System", a system used in the annual reports "Io sono Cultura" edited by the Symbola Foundation and Unioncamere, which distinguishes, consistently with the Ateco 2007 classification, seven macro-domains belonging, respectively, to the "core culture" industry and to the so-called "creative driven" industry;

- Finally, the budget law for 2018 (art. 1, paragraph 57 of Law 27.12.2017, n. 205), which contains in art. 1, c. 57 a more qualitative definition, but substantially similar to the previous ones.

In 2019, cultural enterprises in the EU were around 1.2 million, equal to 5% of all enterprises surveyed under non-financial economic activities (NACE classification of economic activities), divided among 18 different economic activities, at different levels of aggregation.[71] These enterprises (99% small and medium-sized, of which 90% micro, i.e. under 10 employees) grew steadily in the previous five-year period at an annual rate of 1.5% (in line with other economic industries) developing a value added at factor cost of 2.3% out of the total value added of all EU non-financial economic activities.

[70] Non-profit institutions are classified by primary area of activity according to the International Classification of Non-profit Organizations (ICNPO). It is the classification system recommended in the United Nations (UN) Handbook on Non-profit Institutions in the System of National Accounts. The ICNPO system groups organizations into 12 major activity groups, including a catch-all 'not elsewhere classified' category. These 12 major activity groups are further divided into 24 subgroups.

[71] Eurostat, Culture Statistics, 2019

In 2020, the cultural and creative economy lost around 31% of its revenues. The overall turnover of Cultural and Creative Enterprises in the EU28 declined to € 444 billion, a sharp decrease of € 199 billion since 2019.

With a loss of 31% of its turnover, the economy of cultural and creative system was one of the most affected industries across Europe, slightly less than air transport, but to an even greater extent than tourism and the automotive industry (at -27% and -25% respectively)[72].
The southern regions have less suffered the effects of the pandemic than the rest of the country, thanks to a core business usually more concentrated in industries less affected by the crisis, such as agri-food and construction, and due to the greater weight in the structure economy of proximity services (e.g. food distribution), not affected by the restrictions due to the pandemic. The regions where the strongest recovery in turnover is observed are Puglia (+3.2% in 2021 compared to 2019) and Basilicata (+2.0%), while gross profitability reports the best performances in Abruzzo and Sardinia, with situations still rather critical in Campania[73]. Half of these cultural enterprises (50.4%) are located in four member countries (Italy, France, Germany and Spain).
Although Italy is the country with the highest number of cultural enterprises (14.5% of the EU total), the largest share of added value for this specific industry is developed in Germany (30% of the EU total), followed by France (18.7 %). Furthermore, Italy develops only about 10% of the total added value of the industry at European level. It should be considered that the European cultural industries are characterized by a local dimension and form an extremely fragmented value chain with recurring structural weaknesses.
This represents an extreme fragility and vulnerability of an industry that is subjected to a very low level of overall social protection, which penalizes the process of creativity and innovation as the key element for the economic development. The most recent researches have in fact emphasized the existence of a qualitative structural change in the international importance of the industry, which passed from a production intended

[72] Rebuilding Europe. The cultural and creative economy before and after Covid -19. Ernst&Young report, January 2021

[73] Rapporto regionale PMI 2022 Cerved, 2022

for the final consumption of residents and tourists to the creation of key inputs for the generation of positive externalities and "non-cultural" production cycles.
According to some research[74], the multiplier effect of investments in the creative and cultural industry on the rest of the economy is slightly less than 2.
The above-mentioned characteristics of fragility make the industry particularly penalized in terms of credit access. In fact, the industry does not benefit from significant external financing, except of a public nature, but mainly resorts to small-scale and short-term loans, unsuitable for launching longer-term investment projects (which require structured business plans or collateral guarantees of real nature). On the other hand, financial institutions often do not have adequate skills to understand the specific business models typical of some industries of the industry as well as generally show a poor understanding of the characteristics of an industry, which includes extremely heterogeneous players in a single supply chain among them: small businesses, non-profit organizations, public institutions, multinationals.
These pre-conditions of fragility were dramatically obvious during the pandemic as a result of which the cultural and creative economy was one of the most affected industries in Europe, losing about 30% of its receipts, slightly less than air transport, but more than tourism and the automotive industry (respectively at -27% and -25%).

3.4.1 The Cultural and Creative Industry in Italy

Also in Italy, the cultural supply chain has recorded a particularly negative performance in the last two years with a percentage variation (-3.4%) significantly worse than that recorded on average by the rest of the national economy (-1.1%). Similarly, employment in the industry recorded a greater contraction of almost one percentage point compared to the rest of the Italian economy (-2.3% against a national average of -1.5%). Despite this negative performance, the contribution of the Cultural and Creative industry (including the industry of creative driven activities) to the creation of added value and

[74] Symbola Foundation, "Io Sono Cultura" Report, 2022.

to national employment is still significant, equal to 5.6% and 5.8% respectively (about €89 billion).

The number of companies operating in the so-called core activities of the Italian cultural supply chain stands at around 270,000 units in 2021. From the point of view of regional distribution, the primacy belongs to Lombardy with over 57,000 enterprises, equal to 21.3% of the whole industry, followed by Lazio with 33,000 enterprises (12.3%).

Overall, the Less-developed Regions include about 20% of the companies in the industry operating at a national level. Campania is the region that includes the highest number of enterprises, develops the most significant share of added value and employment of the cultural and creative industry, followed by Sicily and Puglia (while Calabria and Basilicata play a marginal role). However, comparing the added value and employment in relation to the number of enterprises, the performance and average employment of target regions are not so different from each other and that only Calabria deviates significantly from the average values of the group.

Actually, all the target regions share common problems such as, for example, an average size of companies in the industry lower than the national average of the entire private industry, low added value, and a low level of employment. The total added value of less-developed regions in the industry is about 12% of the national value.

The small average size of the companies in the industry, especially within the less-developed regions, represents one of the deeply rooted criticalities, an expression of a family-based and artisanal organization of activities, characterized by financial fragility, weak management capabilities and limited international openness. These situations of vulnerability intensely emerged during the pandemic and have been treated so far with cyclical interventions such as, for example, government measures, liquidity, and so on.

Consequently, the main challenge of industry development policies for the coming years should be focused on reinforcing the structural capabilities of cultural enterprises, joining the ecological transition, benefiting from the new opportunities provided by digitization and new information technologies.

3.4.2 The NOP's framework: objectives, investment priorities and financial progress

The "Culture and Development" NOP aims to improve the less-developed regions cultural heritage levels of fruition, both by strengthening the system of major cultural infrastructures (the so-called attractors), and by promoting and supporting the activities of the industry of creative and cultural enterprises as well as of the not-for-profit sector. In line with the guidelines of the Partnership Agreement for Italy 2014-2020, the NOP intervenes in the areas of cultural attraction which have strategic national importance. The NOP has a solid programmatic structure, divided into three Axes, including the one dedicated to Technical Assistance.

It converges on two Thematic Objectives:

- Thematic Objective n. 6 "Preserving and protecting the environment and promoting the efficient use of resources";
- Thematic Objective n.3 "Promoting the competitiveness of SMEs"

and on four Investment Priorities (IP), which aim to pursue the expected results identified in the Partnership Agreement.
NOP's Axis II "Activation of territorial development potentials linked to culture" (Priorities 3a, 3b and 3c) is dedicated to the development of the economic system linked to the cultural industry in the target regions. Approximately 114 million euros are allocated to this Axis, equal to approximately 23% of the financial endowment of the Programme. All interventions of Axis II fall under Thematic Objective 3.

In summary, as far as Axis II is concerned, the strategy of the NOP is aimed at:

(i) stimulating the creation of new businesses (not limited to areas of cultural attraction) in favor of the cultural industries (Axis II – action 3.a.1);

(ii) promoting audience development processes by boosting and enhancing the entrepreneurial component associated to the cultural heritage (Axis II – actions 3.b.1 and 3.c.1)[75].

At an operational level, the priorities are defined as follows:

- Action 3.a.1a "Interventions to support the creation of new businesses both through direct incentives, the offer of services, and through micro-finance interventions", which is focused on companies founded during the last three years as beneficiaries operating within the sectors related to the cultural industries;

- Action 3.b.1.a "Support for the development of products and services complementary to the valorisation of identified cultural and natural attractions of the territory, also through the integration between companies in the cultural, tourist, creative and entertainment industries, and chains of traditional and typical products", which is focused on micro, small and medium-sized enterprises operating in the cultural, tourism, creative, entertainment and traditional and typical products industries (for the purpose of their consolidation);

- Action 3.c.1.a "Support for the launch and boosting of entrepreneurial activities that produce socially desirable effects and public goods not produced by the market", which is dedicated to not-for-profit entities operating in the cultural and artistic industry and in related activities.

[75] Ex-Ante Evaluation of the Financial Instruments of NOP's Priority Axis II (May 2016).

Priority Axis	Thematic Objective (TO) Priorities and Actions	Financial endowment
I. Strengthening cultural heritage	**Thematic Objective n. 6** - Preserving and protecting the environment and promoting resources efficiency	**€ 360.227.224,00**
II. Fostering territorial development potentials connected to culture	**Thematic Objective n. 3** - Enhancing the competitiveness of SMEs, of the agricultural industry (for the EAFRD) and of the fishery and aquaculture industry (for the EMFF). **Priority 3a -** Promote entrepreneurship, in particular by facilitating the economic exploitation of new ideas and promoting the creation of new companies, including business incubators. **Action 3.a.1.a -** Supporting the creation of new businesses through direct incentives, both through the offer of services and through micro-finance interventions **Priority 3b -** Developing new business models for SMEs, especially for internationalization. **Action 3.b.1.a -** Support for the development of products and services complementary to the enhancement of identified cultural and natural attractions of the territory, also through the integration between companies of the cultural, tourist, creative and entertainment industries, and of traditional and typical product industries. **Priority 3c -** Support the creation and expansion of advanced capabilities for the development of products and services. **Action 3.c.1.a -** Support for the startup and strengthening of entrepreneurial activities that produce socially desirable effects and public goods not produced by the market	**€ 114.014.376,00**
III. Technical Assistance	AT.1 - Efficient implementation of the NOP and of the so-called "administrative strengthening plan"	**€ 16.691.734,00**
Total		**€ 490.933.334,00**

With reference to the financial progress of the Program, the Annual Implementation Report 2021[76] shows a high commitment capacity (equal to about 94% of the resources) and an expenditure approved by UE of about 39% of the total budget.

Overall, the Programme achieved the spending targets for the year 2021, exceeding the annual n+3 target by approximately € 1.8 million.

NOP Culture and Development 2014-2020 planning and spending capacity							
Priority Axis	**Financial Endowment (A)**	**%**	**Planned (B)**	**Spent (C)**	**B/A**	**C/A**	**Operations selected**
I	358.727.224,00	73,40%	357.748.468,33	168.556.961,28	99,73%	46,99%	167
II	114.014.376,00	23,20%	106.933.000,00	44.467.958,78	93,79%	39,00%	1.531
III	18.191.734,00	3,40%	18.191.734,00	10.623.903,85	100,00%	58,40%	1
TOT	**490.933.334,00**	**100%**	**482.873.202,33**	**223.648.823,91**	**98,36%**	**45,56%**	**1.699**

Source: Ministry of Culture, Annual Implementation Report 2021

A significant portion of the Axis II budget, about € 30 million, was designed to implement the Cultura Crea Plus Programme, with the aim of providing support to companies affected by the Covid-19 emergency[77]. This Programme consisted of a non-refundable grant as liquidity injection for the same companies targeted by Cultura Crea which experienced a loss of turnover caused by Covid, up to a maximum of 25,000 euros. Cultura Crea Plus Programme, up to 22/11/2022, presented the following results: 1.799 applications received; 1.232 applications admitted, and about € 29.9 million committed; concessions to be disbursed equal to € 20.5 million.

[76] https://ponculturaesviluppo.beniculturali.it/documenti/gestione-e-controllo/

[77] European Commission, Decision C(2020)5532 final of august 7, 2020 through which the NOP's financial endowment was reprogrammed

3.4.3 "Cultura Crea" Programme: selection criteria, main results and output indicators

As already mentioned, Cultura Crea has been created in order to implement NOP's Axis II. The MiBACT Decree of 11 June 2016 establishes the main scheme and determines its implementation processes. The operational structure identified for the managing of the Programme is the National Agency for Investment Attraction and Business Development – Invitalia S.p.a[78]. The Agency carries out the activities relating to the receipt, evaluation and approval of applications, as well as the adoption of measures, the stipulation of the loan agreement, the expenditure of funds and the control and monitoring of the financial contributions.

There are three categories of companies receiving the financial contributions:

I. Startup (Title II of the MiBACT Decree). The financial contributions provided in this case are aimed at the foundation of new micro, small and medium-sized enterprises in the cultural and creative industry. They are intended for: (i) teams of natural persons who want to set up a company, considering that the constitution must takes place within 30 days from the communication of admission; (ii) to companies already existing for a maximum of 3 years from the application date.

II. Existing companies (Title III of the MiBACT Decree). The financial contributions of Title III finance the development of SMEs existing for at least 36 months, including cooperatives, operating in the cultural, creative and entertainment industries as well as in the industries of traditional and typical products.

[78] For the implementation of Axis II of the Programme, the Ministry of Culture identified the National Agency for the attraction of investments and business development – Invitalia S.p.a., which operates as UCOGE - Office competent for the management of business incentives. In particular, art. 3 of Ministerial Decree of 11.05.2016 recognizes Invitalia as the "managing entity" with technical and administrative competence for the submission, evaluation and approval of applications, the stipulation of loan agreement, the disbursement, monitoring and control of the Programme's subsidies.

III. Not-for-profit entities (Title IV of the MiBACT Decree). The grants envisaged by Title IV support companies and organizations of not-for-profit sector (in particular, ONLUS and social enterprises) which focus their core business on management of cultural goods related activities and services.

Entrepreneurial initiatives must be carried out in the Italian Less Developed Regions, defined in accordance with the rules on ESI funds for the 2014-2020 programming period: Campania, Basilicata, Puglia, Calabria and Sicily.

For the definition of eligible projects, the MiBACT Decree of 11 May 2016 identifies the ATECO Codes associated with the cultural and creative industry, in relation to startup (Annex II of the Decree) and to existing businesses (Annex III). The identification of eligible industries for not-for-profit subjects (Annex IV of the Decree) is carried out on the basis of the ICNPO (International Classification of Non-Profit Organization) classification, adopted by ISTAT instead of the NACE/ATECO classification.

It should be emphasized that the delimitation of cultural, creative and tourist economic activities defined by the NOP Culture and Development (with the identification of the corresponding ATECO codes) is specific to the Programme. It does not correspond to the "cultural industry" identified at Eurostat level. In particular, some businesses are common to the two systems (Cultura Crea and Eurostat), others fall within the NOP but not in the Eurostat definition and still other businesses fall within the Eurostat cultural industry but not in the NOP list.

In addition, start-up projects candidates must fall within one of the four areas indicated in the Decree (article 11): Knowledge Economy, Conservation Economy, Fruition Economy, Management Economics.

Specific section	Thematic area	Investment program
II	**Knowledge:** development or application of technologies that make possible to create, organise, store and access data and information about the cultural industry. **Conservation**: development or application of innovative methods and processes for activities related to the restoration/maintenance and recovery of cultural heritage (materials, technologies, risk management analysis, evaluation of degradation factors and intervention techniques, etc.) **Use**: innovative methods and tools for goods offering, also in an integrated form with local resources, innovative processes for the management - acquisition, classification, enhancement, dissemination - of the cultural heritage and local resources; digital platforms, hardware and software products for new ways of using them. **Management:** development of tools and application solutions capable of engineering the management of cultural assets and activities.	The concessions are granted for an investment program up to 400.000 € within the limits of the "De minimis regulation" and jointly provide for: • a subsidized zero-interest loan, up to 40% of the total investment; • a non-repayable grant of up to 40% of the total investment; In both cases, the subsidies can be raised up to 45% for projects presented by women's or youth companies or companies with a legality rating.
III	Services for tourist and cultural heritage Promotion aimed at enhancing cultural resources. Recovery and valorisation of typical local products	The concessions are granted for an investment program up to 500.000 € within the limits of the "De minimis regulation" and jointly provide for: • zero-interest subsidized loan up to 60% of the eligible expenditure, which can be raised to 65% in the case of a

		women's or youth company • non-refundable grant up to 20% of the eligible expenditure, which can be raised to 25% in the case of a female or youth enterprise.
IV	Activities related to the management of attractions and cultural resources of the territory. Activities related to the fruition of attractions and cultural resources of the area. Entertainment activities and cultural participation.	The concessions are granted for an investment program up to 400.000 € within the limits of the "De minimis regulation" and jointly provide for a non-repayable grant of up to 80% of the eligible expenditure, which can be raised to 90% in the case of a female or youth company[79].

For existing SMEs and not-for-profit entities, in addition to the requirement of classification in the ATECO Codes, the MiBACT Decree and subsequently the Operational Guideline define an eligibility condition linked to territorial location. In particular, it is envisaged that investment programs carried out in a production site located in the cities included in the areas nearby the identified cultural attractions are eligible for subsidies. The Operational Guideline n. 55 of 20 July 2016 defines, for each category of beneficiaries identified, the evaluation elements and assigns the relative scores. The maximum score achievable is 100, the minimum to be admitted to the subsidy is 60.

[79] Operational Guideline No. 55 of 07/20/2016 of MiBACT - PON Culture and Development 2014 -2020

- For startups, the highest score (with a maximum of 30) is assigned to the credibility of the candidate in terms of adequacy and coherence of the skills possessed by the entrepreneurial team, level of education and/or previous work experience, compared to the specific activity described by the business plan.
  The other aspects analyzed are the following:

  - the potential market share to reach, the competitive advantage and marketing strategies (with a maximum score of 24).
  - the social and cultural impact of the project, the technical and economic feasibility of the investment programme (with a maximum score of 18).
  - The economic impact (employment growth, creation of positive externalities) and the introduction of elements of process, organisational, product/service or market innovation (with a maximum score of 6 points and 4 points, respectively).

- For existing SMEs, the highest score is assigned to economic and financial sustainability of the initiative (with a maximum score of 30), followed by the potential of the market (with a maximum score of 25), the credibility of the applicant (16 points), the impact of the investment (15 points) and the technical feasibility in terms of consistency of the time schedule, innovation and environmental sustainability (14 points).

- For not-for-profit entities, the highest score is assigned to the impact of the investment program in terms of the development of the territory, the production of goods and the involvement of the social communities of the territory (with a maximum score of 30 points). This is followed by the economic and financial sustainability of the initiative (with a maximum score 18), the adequacy of skills (16 points), the ability of the applicant to manage the aspects of the organizational technical-productive process (16 points), the potential market share to reach, the competitive advantage of the initiative and the marketing strategies (12 points) and the innovation introduced by the project linked to the management and fruition of attractions and cultural resources (with a maximum score of 8 points).

Overall, all these criteria appear to be consistent with the objectives of the NOP. The differentiation between the scores assigned to the various criteria according to the categories of beneficiaries is also consistent with the objectives of Axis II and with the different characteristics of the applicants, which have different evaluation needs.

In particular, in the case of SMEs, the aspects relating to the economic-financial and technical sustainability of the initiative are primary, while in case of startups and not-for-profit entities, the credibility and skills of the applicant become fundamental for the evaluation. In case of startups, the economic-financial feasibility is usually examined jointly with other elements concerning the entrepreneurial skills of the entrepreneurial team. For not-for-profit entities, the most important elements relate the production of social (as well as economic) value and the project's ability to generate a significant impact in terms of territorial development, production of goods that create new social relationships by engaging local communities.

The structure and articulation of the evaluation of NOP's Axis are undoubtedly complicated but they allow the Program to pursue the policy for the growth of cultural and creative enterprises.

This policy is based:

(i) on principles of functional integration (in particular between economic activities and heritage) and territorial integration;
(ii) on the stimulation of positive externalities (also through the strengthening of production chains linked to cultural enhancement);
(iii) on an adequate and specific calibration of interventions to support creative and cultural enterprises, as opposed to a generalist and fragmented incentive model.

The implementation of the program was characterized by two specific moments:

- "Cultura Crea – First Edition", governed by the Decree of 11.05.2016 - Mibact and Operational Guideline n. 55 of 20 July 2016, which provided for the admissibility of investment programs for startups (Title II), existing companies (Title III) and non-for-profit entities (title IV), including the requirement of setting up the project in the areas of cultural attractions detailed in the above-mentioned Decree.

- "Cultura Crea 2.0", regulated by the Operational Guideline n. 237 of March 2021 issued by the Ministry of Culture, and the Decree of December 2020, which modified the previous legislation. This new edition is characterized by the following changes: extension territories in which is possible to set up the investment (for consolidated companies and not-for-profit entities), without tying the investments to the Cultural Attractors identified by the Minister of Culture; extension of the Ateco codes to the activity of tourist intermediation and accommodation; introduction of new eligible expenditures; tutoring service available for the beneficiaries. To contrast the crisis following the collapse of turnover caused by the Pandemic, the NOP has been reprogrammed by introducing a specific action as an integration to the Cultura Crea standard programme, *Cultura Crea Plus*, which provides for a non-repayable grant for working capital needs (up to a maximum of € 25,000.00 per company), even if not related to an investment programme, for companies having one of the ATECO codes specified on the National Operational Programme. The financial endowment allocated for this additional Programme is € 30 million.

The financial progress of the Cultura Crea Programme can be summarized as follows:

The subsidies committed for 358 beneficiaries amount to about € 60 million. These subsidies refer to investment projects that exist in 109 different areas. The subsidies actually paid to 200 companies reached the amount of approximately € 26.3

million[80]. The most important portion was obviously absorbed by the startups (regulated, as already mentions, by Title II of NOP's Axis II). The following tables and provide detailed information: the investment programs subsidized are strongly localized in specific territories, many of which are located in Campania who benefits of almost 70% of the Programme's resources.

Reference period	Applications submitted	Applications completed	Applications admitted	Funds committed (€/Mln)	Funds paid (€/Mln)
31/12/2021	**1309**	**1309**	**280**	**46,46**	**24,41**
30/06/2022	**1412**	**1412**	**324**	**53,38**	**24,96**
31/10/2022	**1501**	**1476**	**358**	**60,45**	**26,35**

CULTURA CREA	Startups (€)	SMEs (€)	Not-for-profit (€)	Cultura crea plus (€)	TOT (€)
Funds committed	*34.323.732,00*	*7.840.828,86*	*18.286.660,87*	*29.371.514,57*	***89.822.736,30***
Loans	*17.161.866,00*	*1.960.207,21*	*18.286.660,87*	*29.371.514,57*	***66.780.248,65***
Grants	*17.161.866,00*	*5.880.621,64*	-	-	***23.042.487,64***
Funds paid	*17.526.800,62*	*2.983.916,95*	*6.087.059,30*	*23.747.195,59*	***50.344.972,46***
Loans	*8.899.779,94*	*696.047,53*	*6.087.059,30*	*23.747.195,59*	***39.430.082,36***
Grants	*8.627.020,68*	*2.287.869,42*	-	-	***10.914.890,10***

Axis II's Action	Region	Applications submitted	Funds committed (€/Mln)	Applications admitted	Applications ongoing	Applications rejected
Action 3.a.1.a – Startups	Basilicata	26	1.256.628	8	1	17
	Calabria	81	1.301.299	11	2	68
	Campania	497	22.056.783	128	4	362
	Puglia	82	2.708.897	18	1	64
	Sicilia	182	7.238.840	43	3	135
	Tot	**868**	**34.562.448**	**207**	**11**	**646**
	Basilicata	5	229.133	2	1	2

[80] NOP Culture and Development Supervisory Board, data updated as of October 31, 2022.

Action 3.b.1.a – SMEs	Calabria	4	99.065	1	0	3
	Campania	155	6.583.538	33	3	119
	Puglia	17	354.110	4	1	12
	Sicilia	6	574.981	3	0	3
	Tot	**187**	**7.840.828**	**43**	**5**	**139**
Action 3.c.1.a – Not for Profit entities	Basilicata	20	237.829	2	1	17
	Calabria	27	717.817	6	1	20
	Campania	248	12.905.317	70	6	172
	Puglia	38	786.689	6	1	31
	Sicilia	113	3.639.007	24	0	89
	Tot	**446**	18.286.660	**108**	**9**	**329**
TOT		**1501**	60.451.221	**358**	**25**	**1118**

Source: Ministry of Culture, NOP "Culture and Development" Supervisory Board, December 2022

Creative Industry	**48**	**13,8%**	**38**	**5**	**5**
Architecture and design	11	3,2%	11	0	0
Craftmanship	11	3,2%	3	3	5
Communication	16	4,6%	15	1	0
Engineering	10	2,9%	9	1	0
Cultural Industry	**187**	**53,7%**	**104**	**4**	**79**
Audiovisual and music	31	8,9%	28	3	0
Culture, sport	79	22,7%	0	0	79
Publishing, press	17	4,9%	16	1	0
Videogame, software	60	17,2%	60	0	0
historical and artistic heritage	**34**	**9,8%**	**20**	**5**	**9**
Environment	2	0,6%	0	0	2
Museums, libraries, archives and management of historical places and monuments	32	9,2%	20	5	7
Performing and visual arts, Theater, concerts	**41**	**11,8%**	**33**	**1**	**7**
Support services for the fruition of cultural services	**38**	**10,9%**	**6**	**23**	**9**
Travel Agencies, tour operator	7	2,0%	6	1	0
Hotels and restaurants	7	2,0%	0	0	7
Housing	6	1,7%	0	6	0

Catering service activities	16	4,6%	0	14	2
Rental and operating leasing business	2	0,6%	0	2	0
Total	**348**	**201**	**38**	**109**	**102**

The analysis by industry allows to verify the areas of economic activity actually affected by the Programme's subsidy. The classification system adopted takes into account the Ateco codes of the investment program indicated in the project submission. In general, the "cultural industries" prevail (53.7% of the total), an industry in which not-for-profit entities operate in the "Culture, sport and recreation" area have also been included, while the other industries have a relatively similar frequency (10-14%).

3.4.4 Cultura Crea Programme Impact assessment

The following impact assessment has been conducted by Mipa Consortium[81] on behalf of the Ministry of Culture. The survey has been addressed to the companies benefiting of Cultura Crea subsidy.

It took place in the period 7 October - 9 November 2022 and had a satisfactory response rate, on average close to 40%, with higher values for startups.

The survey was carried out with cawi/cati methods, considering that the surveys closed through telephone interviews were about 70% of the total. The database has been provided by Invitalia S.p.a., as the entity that manages the incentive on behalf of the Ministry of Culture.

[81] Mipa Consortium (Consortium for the development of methodologies and innovations in public administrations) is a non-profit organization, set up on the initiative of ISTAT in 1997. Mipa Consortium promotes and carries out studies and research on the organization and functioning of central, regional and local public administrations and on the interaction with private subjects (https://www.consorziomipa.it/).

Companies profile

A first section of the survey was intended to detect the main characteristics of companies by year of foundation and sector. Almost 62% of the respondents of the start-up group declared that they were established in the three-year period 2016-2019, over 61% of the consolidated companies were established before 2011, while the distribution over the various years is more balanced for not-for-profit organizations. Obviously, these values are also a logical consequence of the requirements for accessing the measure. The predominantly declared sector was that of cultural industries (over 40%).

Industry	TOT	Sturtups	SMEs	Not-for-profit entities
Creative Industry	14,1%	19,1%	15,4%	0,00%
Cultural Industry	40,7%	52,8%	23,1%	15,2%
Historical and artistic heritage	27,4%	20,2%	15,4%	51,5%
Performing and visual arts	13,3%	13,5%	0,0%	18,2%
Support services	17,0%	20,2%	23,1%	6,1%
Other industries	13,3%	4,5%	46,2%	24,2%
Total	135	89	13	33

Source: MIPA Consortium, intermediate report on NOP Culture and Development's Axis II

Investments implemented

The responding companies stated that they usually operate in a regional (about 41% of the total) and provincial (about 29%) market, while a minority share claims to be active above all in the territory of the cultural attraction of reference (but with a higher percentage in the case of not-for-profit entities).

In the first place, the startups were asked about the impact of the Programme on the decision to start the business: around 88% of the new businesses stated that the support was significant, while in some minority cases (about 12%) the respondents declared to be in a state of unemployment at the time of submitting the application.

How much did "Cultura Crea" affect your decision to start a new business?	Creative Industry	Cultural Industry	Historical and artistic heritage	Performing and visual arts	Support services
Absolutely not	0.0%	3.9%	0.0%	7.7%	0.0%
Little	12.5%	7.8%	16.7%	7.7%	0.0%
Sufficiently	31.3%	39.2%	16.7%	38.5%	33.3%
A lot	37.5%	31.4%	50.0%	38.5%	33.3%
Very much	18.8%	17.6%	16.7%	7.7%	33.3%
Total	**16**	**51**	**6**	**13**	**3**

How much did "Cultura Crea" affect your decision to start a new business?	Absolutely not	Little	Sufficiently	A lot	Very much
Startups	**3,4 %**	**9,0 %**	**36,0 %**	**34,8 %**	**16,9 %**

Source: MIPA Consortium, intermediate report on NOP Culture and Development's Axis II

Over 53% declared that in the absence of the subsidy, the same investment would not have been made, 38% would have made it in any case but with a smaller amount or in subsequent periods, and only 8% would have sustained the same investment anyway.

Would you have started the investment even without Cultura Crea?	TOT	Startups	SMEs	Not-for-profit entities
Yes, same extent and same period	8,1%	9,0%	7,7%	6,1%
Yes, with a smaller extent	38,5%	40,4%	38,5%	33,3%
Yes, but elsewhere	0,0%	0,0%	0,0%	0,0%
No	53,3%	50,6%	53,8%	60,6%
Total	135	89	13	33

Source: MIPA Consortium, intermediate report on NOP Culture and Development's Axis II

On the other hand, with regard to the co-financing of the initiative, recourse to equity is the prevalent answer for startups, while in the case of consolidated companies there is more significant recourse to bank financing, a factor which can also be explained by companies that presumably have more consolidated relationships.

The investment share not covered by the Programme was financed with:	TOT	Startups	SMEs	Not-for-profit entities
Equity	73,3%	75,3%	61,5%	72,7%
Bank loan	3,7%	1,1%	15,4%	6,1%
Both	23,0	23,6%	23,1%	21,2%
Total	**135**	**89**	**13**	**33**

Source: MIPA Consortium, intermediate report on NOP Culture and Development's Axis II

The investments planned, launched and/or implemented with Cultura Crea had effects on the reference market, based on the respondents' statements. In over 37% of cases, variations were found in the reference market, with higher values in the case of consolidated companies. The main results show the scale up of the business and the acquisition of new market share.

Which are the main changes in the target market following the funded project?	TOT	Startups	SMEs	Not-for-profit entities
Acquisition of new market segments	46,8%	59,4%	0,0%	30,0%
New product/services	40,4%	37,5%	40,0%	50,0%
Business scale up	51,1%	50,0%	60,0%	50,0%
Other	4,3%	6,3%	0,0%	0,0%
Total	47	32	5	10

Source: MIPA Consortium, intermediate report on NOP Culture and Development's Axis II

Effects on human capital and training

In relation to the development of human capital, the survey shows that the project funded by the Programme contributed enough (about 51% of cases), with some differences between the various types of company, as shown in the following table.

Did the financed project favored the development of human capital and the company's experience?	TOT	Startups	SMEs	Not-for-profit entities
Absolutely not	3,2%	4,7%	0,0%	0,0%
Little	15,1%	10,6%	18,2%	26,7%
Sufficiently	50,8%	52,9%	63,6%	40,0%
A lot	23,0%	24,7%	18,2%	20,0%
Very much	7,9%	7,1%	0,0%	13,3%
Total	126	85	11	30

On the basis of the respondents' statements, the startups and also not-for-profit entities carried out sectoral and transversal training sessions, also through the support of external experts. Therefore, the measure may have created a favorable context for making investments in human capital. In the case of consolidated companies, around 55% affirm that they have not carried out any training actions.

Employment

The survey provides information as well about the effects of the policy on employment: according to the data collected, over 80% of respondents found positive effects of the funded project for which concerns employment. Most of these effects have already been achieved among startups (49%) and are focused on the future for established companies and not-for-profit entities (over 50%). The positive effects for startups have already been achieved in 51% of the cases, while for consolidated SMEs the assumptions already made are a quarter of the total. Finally, for the beneficiaries still waiting for funds the potential positive effects are concentrated in the future (51%).

Have the programme had a positive effect on the employment of your company/institution?	TOT	Startups	SMEs	Not-for-profit entities
Yes, it has had a positive effect	43,7%	49,4%	36,4%	30,0%
Yes, it could have it in the future	40,5%	34,1%	54,5%	53,3%
No, not at all	19,8%	21,2%	9,1%	20,0%
Total	126	85	11	30

If yes, which kind of effects?	TOT	Startups	SMEs	Not-for-profit entities
Increase of employment levels	50,5%	44,8%	80,0%	54,2%
Retention of employment levels	49,5%	55,2%	20,0%	45,8%

Total	101	67	10	24

Source: MIPA Consortium, intermediate report on NOP Culture and Development's Axis II

Overall, the positive effects on employment are equally divided between preservation and increase in the number of employed people. Indeed, it slightly prevails among startups the effect of maintaining the number of employed (55%) while in the third sector and among consolidated SMEs the increase in employment prevails.

Effects on turnover

Firstly, in about 63% of cases, companies reported that turnover increased as a result of investments committed or planned, with relatively lower values in the case of not-for-profit organizations.

This indication has been reported by distinguishing between the companies which already received the funds and the ones who did not: as can be seen from the following table, those who have already received the funds assert a more important effect of the subsidy on the increase of turnover. Obviously, in the case of startups, the increases could be a foregone trend, but the perception indicated by companies could be still considered significant.

After the investments implemented with "Cultura Crea" Programme, the turnover of your company is:	TOT	Startups	SMEs	Not-for-profit entities	Funds not still received	Funds received
increased significantly	17,5%	18,8%	18,2%	13,3%	18,9%	16,9%
increased slightly	45,2%	45,9%	63,6%	36,7%	32,4%	50,6%
unchanged	31,7%	30,6%	9,1%	43,3%	37,8%	29,2%
decreased slightly	2,4%	1,2%	9,1%	3,3%	5,4%	1,1%
Decreased significantly	3,2%	3,5%	0,0%	3,3%	5,4%	2,2%

How much have the investments influenced this result (increase in turnover)?	TOT	Startups	SMEs	Not-for-profit entities	Funds not still received	Funds received
Not at all	1,6%	0,0%	0,0%	6,7%	0,0%	2,2%
A little	15,9%	15,3%	27,3%	13,3%	21,6%	13,5%
Sufficiently	64,3%	62,4%	63,6%	70,0%	51,4%	69,7%
A lot	18,3%	22,4%	9,1%	10,0%	27,0%	14,6%
Total	126	85	11	30	37	89

Source: MIPA Consortium, intermediate report on NOP Culture and Development's Axis II

Effects on innovation and competitiveness

The perception reported a significant contribution of investment for the competitiveness of companies, and in residual cases the subsidy has been considered irrelevant. The prevailing innovation declared by the companies is technological innovation, and only in a few cases, around 16%, it was declared that the project did not bring any innovation. The analysis by sector also confirms what above mentioned.

Which were the main types of innovation implemented thanks to the investments made?	TOT	Startups	SMEs	Not-for-profit entities
Product innovation	44,4%	43,5%	36,4%	50,0%
Process innovation	20,6%	23,5%	27,3%	10,0%
Marketing innovation	16,7%	14,1%	27,3%	20,0%
Technological innovation	44,4%	44,7%	36,4%	46,7%
The project did not implement any significant innovations	15,9%	16,5%	0,0%	20,0%
Total	126	85	11	30

Which were the main types of innovation implemented thanks to the investments made?	Creative Industry	Cultural Industry	Historical and artistic heritage	Performing and visual arts	Support services
Product innovation	57,9%	45,1%	22,2%	25,0%	63,6%
Process innovation	26,3%	18,3%	33,3%	18,8%	18,2%
Marketing innovation	26,3%	12,7%	33,3%	12,5%	18,2%
Technological innovation	26,3%	53,5%	33,3%	31,3%	45,5%
The project did not implement any significant innovations	10,5%	16,9%	11,1%	31,3%	0,0%
Total	19	71	9	16	11

Source: MIPA Consortium, intermediate report on NOP Culture and Development's Axis II

The examples provided by the respondents on the type of innovative service introduced through the project could be interesting to highlight: live motion system for interaction with the public; promotional multimedia content to support and improve the fruition of the cultural heritage; Innovation in 3D processing and printing; Implementation of machine learning systems to offer targeted services; app focused on urban games with advertising space to promote the business; Latest generation diagnostic tools for the revitalization of cultural heritage; Digital Media Museum; Virtual thesaurus and 4D artwork representation system; Two-dimensional reproduction of paintings and creation of visual itineraries.

The analysis of the subjects involved in the partnership relationships was also carried out considering the Programme's target industries: the creative industries and performing and visual arts have been indicated as favorable environments to define agreements with local entities; cultural industries and those active in the field of artistic heritage with Cultural Attractors; the companies that provide support services for the use of cultural services have favored agreements with operators in the tourism sector. In a transversal way, all have activated relationships with other companies. An additional study concerned the perception of the Programme's impact on two specific factors: increased usability of the cultural heritage and greater participation in activities and cultural practices. In both cases, the answer is positive.

Did the Programme increase the accessibility/usability of the Cultural Attractor?	TOT	Startups	SMEs	Not-for-profit entities
Not at all	1,5%	2,6%	0,0%	0,0%
A little	12,3%	20,5%	0,0%	0,0%
Sufficiently	55,4%	43,6%	87,5%	66,7%
A lot	26,2%	30,8%	12,5%	22,2%
Very much	4,6%	2,6%	0,0%	11,1%

And participation in cultural activities/practices?	TOT	Startups	SMEs	Not-for-profit entities
Not at all	3,1%	2,6%	12,5%	0,0%
A little	13,8%	17,9%	25,0%	0,0%
Sufficiently	55,4%	51,3%	50,0%	66,7%
A lot	23,1%	23,1%	12,5%	27,8%
Very much	4,6%	5,1%	0,0%	5,6%
Total	65	39	8	18

Source: MIPA Consortium, intermediate report on NOP Culture and Development's Axis II

Finally, the beneficiaries indicated the most significant procedural criticalities met during the execution of the financed project, met on average by 60% of the companies and which mainly concerned the payment and reporting phases.

Please indicate the procedural phases concerning the execution of the project financed by the Cultura Crea Programme which were found to be the most critical	TOT	Startups	SMEs	Not-for-profit entities
Project submission	8,9%	9,0%	7,7%	9,1%
Assessment/admission	9,6%	10,1%	23,1%	3,0%
Contract drafting and stipulation	4,4%	4,5%	7,7%	3,0%
Subsidy payment	21,5%	21,3%	23,1%	21,2%
Reporting	20,7%	21,3%	15,4%	21,2%
Other	8,9%	9,0%	15,4%	6,1%
No criticalities	40,7%	39,3%	23,1%	51,5%
Total	135	89	13	33

Source: MIPA Consortium, intermediate report on NOP Culture and Development's Axis II

Conclusions

The analysis carried out in this paper confirms the high and persistent difficulties encountered by the SMEs ecosystem, especially in the considered context: access to credit for SMEs in general and for individuals operating in many industries, including the cultural and creative sector, remains very problematic. These difficulties are intensified for startups and for not-for-profit entities. In this scenario, the EU Cohesion Funds may represent a fundamental alternative for the foundation and growth of SMEs: indeed, National Operational Program "Culture and Development", framed in the European Regional Development Funds of the closing Programming Period 2014-2020, intervenes by implementing a combination of non-repayable grants and zero interest loans aimed at easing these difficulties.

Generally speaking, the instruments hinged in the ERDF – such as "Cultura Crea Programme" –appear to be consistent with the needs of the beneficiaries - needs that banking and financial credit market seems to be unable to fully satisfy. As shown by the impact assessment described in the last chapter, the subsidies of "Cultura Crea" give a strong incentive (through a very consistent aid intensity) to the formation of new capital. This stimulates the entrepreneurial ecosystem, especially in particular strategic industries such as the creative and cultural industry, whose development can be one of the drivers of the growth of regions of Southern Italy in the years to come. The evaluation strategy applied in the impact assessment was based not only on the analysis of monitoring data, but also on the results of a survey conducted on a sample of subsidized companies. The questions made had the purpose to clarify the effect of the incentives on entrepreneurs' decisions to undertake cultural investment, the link with the territory and with the areas of cultural attraction. The results appear to be interesting and validate two hypotheses: on the one hand, the imperfections of the credit market, which penalizes small businesses in particular, slows down the demand for investment also in the cultural sector, reduces innovation and disfavors the development of human capital; on the other hand, the "Cultura Crea" Programme has had indirect effects also on the territory, by activating new networks and partnerships and by strengthening the offer of services at a local level.

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