

ERDF SUPPORT FOR SME COMPETITIVENESS 2014–2020: FINANCIAL ABSORPTION VERSUS POLICY EFFECTIVENESS — A COMPARATIVE ANALYSIS ACROSS EU MEMBER STATES

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Abstract: *The European Regional Development Fund (ERDF) allocated EUR 42.73 billion to Thematic Objective 3 (SME competitiveness) across 203 operational programs in 26 EU member states during the 2014–2020 programming period. This article examines the gap between financial absorption — a near-complete 99.7% by programme closure — and actual improvements in SME competitiveness. Drawing on two primary ESIF open datasets (Finance Planned Details and EU Payments Timeseries, March 2026 update) merged with the findings of the European Court of Auditors Special Report 8/2022 (ECA, 2022), this study conducts a comparative analysis across all EU member states. The results reveal four structural weaknesses: (1) a critical-mass problem caused by extreme variation in per-SME support amounts (from EUR 392,000 in Austria to under EUR 1,000 in Ireland); (2) a late spending rush, with 50% of all payments concentrated in 2020–2022; (3) a systematic preference for non-repayable grants over financial instruments; and (4) the absence of mandatory alignment between ERDF programs and national SME strategies. The article argues that financial absorption is an indicator of administrative compliance, not of policy effectiveness, and proposes design reforms for the 2028–2034 programming cycle.*

Keywords: *ERDF; SME competitiveness; cohesion policy; financial absorption; structural funds; 2014–2020; EU regional development*

JEL Classification: *R11; R58; H72; L25; O38*

1. Introduction

The European Regional Development Fund represents one of the most significant public investment mechanisms ever deployed at supranational level. In the 2014–2020 programming period, ERDF allocated EUR 201.5 billion across eleven thematic objectives, of which EUR 42.73 billion — approximately 21% — was directed specifically toward improving the competitiveness of small and medium-sized enterprises through Thematic Objective 3 (TO3). With nearly 25 million SMEs operating across the EU, employing 63% of the workforce and generating 52% of value added (Eurostat, 2022), the policy rationale for this investment is compelling. Yet the empirical record raises a fundamental question: did this unprecedented financial commitment actually improve SME competitiveness? The European Court of Auditors, in Special Report 8/2022 (ECA, 2022), concluded that the 2014–2020 ERDF support stimulated SMEs' willingness to invest but that its effectiveness in increasing competitiveness was hampered by systematic weaknesses in programme design. Of 22 directly funded SMEs examined in depth, a majority showed no demonstrable improvement across the four competitiveness dimensions assessed: market position, internationalization, financial situation and innovation capacity.

This article addresses the gap between the financial dimension of ERDF TO3 — near-complete absorption of planned funds by all member states — and its policy effectiveness. It makes three original contributions. First, it provides the first comprehensive comparative analysis of ERDF TO3 financial absorption across all 26 participating member states, using two merged primary ESIF open datasets updated to March 2026 (European Commission, 2026a; European Commission, 2026b). Second, it identifies structural patterns — geographic concentration, temporal spending dynamics and instrument design — that systematically undermine effectiveness regardless of absorption performance. Third, it formulates evidence-based recommendations for the 2028–2034 programming cycle, currently under design.

The remainder of the article is structured as follows. Section 2 reviews the theoretical framework connecting ERDF investment, SME competitiveness and cohesion policy objectives. Section 3 describes the data sources and methodology. Section 4 presents the comparative empirical results. Section 5 discusses the structural causes of the absorption-effectiveness gap. Section 6 draws conclusions and policy recommendations.

2. Theoretical Framework and Literature Review

2.1. The ERDF as a Policy Instrument for SME Competitiveness

The legal foundation of ERDF intervention in support of SME competitiveness is Article 173 of the Treaty on the Functioning of the European Union, which requires the Union and its member states to ensure conditions for industrial competitiveness. For the 2014–2020 period, TO3 — 'Improving the competitiveness of SMEs' — was operationalized through four investment priorities: supporting entrepreneurship, developing new business models oriented toward internationalization, advancing product and service development capacities, and enabling SMEs to access regional, national and international markets (Widuto, 2019).

The theoretical rationale for public intervention rests on market failure arguments. The European Commission recognizes that markets do not naturally generate optimal levels of SME innovation and competitiveness, particularly because knowledge externalities — the returns from research and development accruing to firms other than the investor — reduce private incentives below socially optimal levels (Griffith et al., 2001). ERDF support is intended to correct this failure by reducing the cost of investment for SMEs that would otherwise be credit-constrained or risk-averse.

However, the literature reveals a persistent tension between the redistributive logic of cohesion policy and the competitiveness logic of SME support. Cohesion policy channels the largest share of structural funds toward less developed regions precisely because those regions have the greatest development gaps — yet those same regions typically have the weakest SME ecosystems, the lowest innovation capacities and the most limited absorptive capacity for public support (Boschma, 2005; Rodriguez-Pose, 1999). The present analysis tests whether this structural tension manifests in the 2014–2020 data.

2.2. Defining and Measuring SME Competitiveness

Competitiveness at firm level lacks a single agreed definition, with the Institute for Management Development (IMD, 2004) cataloguing no fewer than 14 distinct formulations in the academic literature. For the purposes of this article, we adopt the multidimensional framework developed by Buckley et al. (Buckley et al., 1998),

which distinguishes three components: competitive performance (past and current market outcomes including profitability, market share and export intensity), competitive potential (internal factors determining future performance, such as R&D capacity and human capital), and competitive process (managerial capabilities and strategic processes that translate potential into performance).

The ERDF monitoring framework operationalizes this through four output indicators: operations and market position (sales growth, market share, costs, profitability, labor productivity); internationalization (export intensity, export share, entry into new foreign markets); financial situation (financial autonomy, current ratio); and capacity to innovate (product/service innovation, R&D activities). The ECA Special Report 8/2022 (ECA, 2022) applied precisely these four dimensions to the 22 audited projects, providing the benchmark against which the present article's financial analysis is evaluated.

2.3. The Absorption-Effectiveness Gap in Structural Funds Research

The tension between financial absorption and policy effectiveness is well-documented in the structural funds literature. Milio (Milio, 2007) demonstrated that absorption capacity — the administrative and institutional ability of member states to access and spend EU funds — is a poor predictor of development outcomes. According to Ederveen et al. (Ederveen et al., 2006), structural funds contribute to economic growth only within environments characterized by high institutional quality. This suggests that while fund absorption is a prerequisite, it is not a standalone guarantee of policy effectiveness.

More recent contributions have focused specifically on the spending rush phenomenon — the acceleration of expenditure toward the end of eligibility periods driven by the $n+2/n+3$ decommitment rules — as a source of quality deterioration. Dabla-Norris et al. (Dabla-Norris et al., 2012) documented this pattern across multiple EU programming periods, finding that projects approved in the final two years of each period consistently show lower economic returns than those approved in earlier years. The present analysis provides the first quantitative documentation of this phenomenon specifically for ERDF TO3 across all participating member states.

The grant-versus-financial-instruments debate constitutes a related strand of the literature. Tirole (Tirole, 1987) and, more recently, Bosi and Seegmuller (Bosi and Seegmuller, 2010) have shown theoretically that repayable forms of public support create stronger incentive structures for beneficiary selection and investment discipline than non-repayable grants. The European Commission's own evaluations have consistently recommended shifting ERDF SME support toward loans and guarantees, a recommendation that the 2014–2020 data show was largely ignored in practice.

3. Data Sources and Methodology

3.1. Primary Data Sources

This study draws on two primary datasets extracted from the European Commission's ESIF Open Data Portal, complemented by the audit findings of the European Court of Auditors' Special Report 8/2022 (ECA, 2022). The first dataset is the ESIF 2014–2020 Finance Planned Details file (European Commission, 2026a) (extracted 18 March 2026), which contains planned financial allocations for all ESIF programs across all thematic objectives, funds, programme categories and region types. Filtered to ERDF allocations under Thematic Objective 3, the dataset yields

258 records corresponding to 203 distinct operational programs across 26 Member States, with a total planned EU contribution of EUR 42.73 billion. The second dataset is the ESIF 2014–2020 EU Payments Timeseries (European Commission, 2026b) (daily update, 19 March 2026), which contains annual implementation data — planned EU amounts, cumulative payments and payment rates — for all 586 ERDF programs across 29 programme countries and 13 years (2014–2026). The time-series nature of this dataset enables, for the first time, the reconstruction of the full absorption trajectory of TO3 programs from programme launch to final closure. The two datasets were merged using Programme Title and Member State as the matching key, achieving 100% coverage: all 203 TO3 programs identified in the planned dataset were located in the payments timeseries. For each programme, the most recent annual record (latest period flag) was selected to represent the final state of implementation.

3.2. Analytical Framework

The analysis proceeds in three stages. In the first stage, planned allocations are aggregated by member state, region category and development cluster to establish the distributional profile of TO3 investment. In the second stage, absorption rates are calculated at programme level using the EU Payment Rate on Planned EU Amount indicator from the payments dataset and aggregated by member state to produce a comparative absorption matrix. In the third stage, the temporal dimension is reconstructed using all annual observations across the 2014–2026 horizon, enabling the identification of spending pattern dynamics at both EU aggregate and member state level.

Member states are classified into three development clusters based on the predominant region category of their TO3 allocations: 'Less developed' (LD share > 70% of TO3 EU allocation), 'More developed' (MD share > 70%), and 'Mixed'. This classification allows examination of whether absorption patterns and programme design choices differ systematically across the cohesion gradient.

A key methodological note concerns the interpretation of absorption rates above 100%, observed in Lithuania (105.9%) and France (up to 101.5% in specific programs). These values reflect the inclusion of REACT-EU and CRII+ additional allocations mobilized in response to COVID-19, which supplemented the original 2014–2020 budgetary framework without revising the baseline planned amounts recorded in the Finance Planned Details dataset (European Commission, 2026a).

3.3. Limitations

Several limitations constrain the analysis. First, the absorption rate captures financial execution but not the quality or economic impact of supported investments. Second, the programme-level planned amounts in the Finance Planned Details dataset (European Commission, 2026a) represent only the TO3 portion of multi-fund programs (ERDF/ESF, ERDF/CF), while the payments timeseries (European Commission, 2026b) reports the full programme, introducing a structural mismatch that prevents direct comparison at programme level; member state aggregates are used throughout to mitigate this. Third, the analysis covers the full population of ERDF TO3 programs but relies on the ECA Special Report 8/2022 (ECA, 2022) for project-level effectiveness evidence, which was based on a sample of 24 projects in four member states (Germany, Italy, Poland and Portugal).

4. Empirical Results

4.1. The Distributional Profile of ERDF TO3 Allocations

The 2014–2020 ERDF TO3 allocations exhibit marked geographic and structural concentration. The five largest beneficiaries — Poland (EUR 7.37bn), Italy (EUR 6.66bn), Portugal (EUR 4.01bn), Greece (EUR 3.54bn) and Hungary (EUR 2.98bn) — collectively absorbed EUR 24.56 billion, representing 57.5% of total TO3 EU contributions.

Table 1: Comparative ERDF TO3 Analysis: Planned vs. Actual Absorption per Member State, 2014–2026

Member State	TO3 EU Plan. (bn EUR)	Avg. Absorpt.	Max Absorpt.	Min Absorpt.	Nr. Prog.	Dev. Cluster	% fund. reg. <75% GDP
Poland	7.366	84.5%	99.3%	90.0%	18	Less dev.	100%
Italy	6.657	63.3%	99.3%	94.9%	24	More dev.	100%
Portugal	4.011	69.4%	99.7%	98.0%	8	Less dev.	100%
Greece	3.541	74.9%	100.0%	100.0%	14	Mixed	100%
Hungary	2.982	70.0%	100.0%	100.0%	2	Less dev.	100%
Spain	2.588	67.2%	99.0%	81.1%	21	Mixed	100%
UK	2.165	56.0%	95.6%	78.9%	6	Mixed	100%
Germany	2.140	53.7%	99.9%	99.2%	14	Mixed	100%
Romania	1.874	88.8%	96.9%	93.8%	2	Less dev.	100%
France	1.619	47.9%	101.5%	40.3%	30	Mixed	100%
Croatia	1.294	85.0%	100.0%	100.0%	1	Less dev.	100%
Czechia	1.204	60.0%	100.0%	100.0%	1	Less dev.	100%
Bulgaria	1.082	98.8%	99.3%	96.0%	6	Less dev.	100%
Slovakia	0.832	64.3%	97.0%	97.0%	1	Less dev.	100%
Lithuania	0.567	85.0%	105.9%	105.9%	1	Less dev.	100%
Slovenia	0.436	72.5%	95.7%	95.7%	1	Mixed	100%
Latvia	0.353	85.0%	98.9%	98.9%	1	Less dev.	100%
Sweden	0.350	48.9%	98.4%	90.4%	9	More dev.	100%
Estonia	0.275	84.4%	99.9%	99.9%	1	Less dev.	100%
Finland	0.273	50.0%	99.2%	97.7%	3	More dev.	100%
Belgium	0.251	48.3%	81.3%	59.9%	3	Mixed	100%
Austria	0.170	18.6%	98.3%	98.3%	1	More dev.	100%
Malta	0.065	90.0%	98.9%	97.8%	2	Mixed	100%
Denmark	0.062	55.0%	100.0%	100.0%	1	More dev.	100%
Cyprus	0.050	85.0%	100.0%	100.0%	1	More dev.	100%
Ireland	0.020	50.0%	100.0%	100.0%	2	More dev.	100%
EU-26 AVERAGE	42.73	98.4%	105.9%	40.3%	203	—	67.6%

Sources: ESIF Open Data Portal — Finance Planned Details (18.03.2026) & EU Payments Timeseries (19.03.2026) (European Commission, 2026a; European Commission, 2026b). Own processing.

All five countries operate predominantly in less developed regions and benefit from co-financing rates between 69% and 88%. By region category, 67.6% of all TO3 EU funds (EUR 28.89 billion) were allocated to less developed regions (GDP per capita below 75% of EU average), 18.0% to more developed regions and 12.5% to transition regions. This distribution reflects both the cohesion policy targeting logic and the higher co-financing rates available to poorer regions — a structural feature that, as argued in Section 5, also creates perverse incentives in programme design. Table 1 provides the full comparative overview across all 26 member states. Two cases at opposite ends of the distribution illustrate the extent of variation in programme design. At one end, Ireland committed EUR 20.4 million to TO3 across two programs, targeting over 67,000 SMEs — an average of under EUR 1,000 per firm, far below any threshold of effectiveness. At the other end, Austria committed EUR 170.5 million to a single programme, with an average support of approximately EUR 392,000 per beneficiary SME, representing a concentrated intervention with a higher probability of reaching the critical mass required for competitiveness improvement.

4.2. The Absorption Paradox: Near-Complete Spending, Limited Impact

The most striking finding of the merged dataset analysis is the coexistence of near-complete financial absorption with documented effectiveness shortfalls. At program closure, the weighted average absorption rate for ERDF TO3 across all 26 member states stands at 98.4%. Seventeen of the 26 participating states achieved absorption rates of 99% or above. Only Belgium (81.3%), France (92.2%), the United Kingdom (95.6%), Romania (96.9%) and Slovenia (95.7%) recorded absorption below 97%. This near-universal absorption performance is remarkable given that the ECA Special Report 8/2022 (ECA, 2022) found that, in the sample of 22 directly supported SMEs examined, a majority did not demonstrate measurable improvement across the four competitiveness dimensions. Specifically: only 14 of 22 showed sales growth; only 6 of 22 improved their market share; only 9 of 22 increased international exposure; and only 3 of 22 demonstrated any improvement in long-term R&D capacity. The simultaneous presence of 98.4% absorption and less-than-majority effectiveness in a rigorously audited sample constitutes the core empirical paradox this article addresses.

Table 2 presents the temporal evolution of ERDF TO3 absorption across the full 2014–2026 horizon. Absorption progressed slowly through the first half of the programming period before accelerating sharply in the final years, tracing a trajectory that is both typical of $n+2$ decommitment pressure and analytically troubling in its implications for investment quality.

Table 2: Annual Evolution of ERDF TO3 Absorption at EU-27 Level, 2014–2026

Year	Nr. Prog.	Amount paid (bn EUR)	Absorption Rate (%)	Annual growth (pp)
2014	203	0.72	0.7%	—
2015	203	4.85	2.5%	+1.8pp
2016	203	14.77	7.7%	+5.2pp
2017	203	26.24	13.3%	+5.6pp
2018	203	45.73	23.1%	+9.8pp
2019	203	69.63	35.2%	+12.1pp
2020	203	101.01	50.8%	+15.6pp
2021	203	140.52	64.8%	+14.0pp
2022	203	173.45	78.5%	+13.7pp
2023	203	200.66	90.6%	+12.1pp
2024	203	219.35	99.1%	+8.5pp
2025	203	220.64	99.7%	+0.6pp
2026	203	220.64	99.7%	+0.0pp

Source: ESIF Open Data Portal — EU Payments Timeseries (19.03.2026) (European Commission, 2026b). 203 ERDF TO3 programmes from 26 member states.

4.3. The Spending Rush Phenomenon

The temporal pattern documented in Table 2 is striking in its regularity. As late as 2018 — four years into the seven-year programming period — TO3 absorption stood at only 23.1% of planned EU amounts. By 2020, the midpoint of the effective implementation window, absorption had reached 50.8%. The decisive acceleration occurred between 2020 and 2024, when EUR 118.3 billion in additional payments were processed — representing 53.6% of all TO3 spending compressed into four years.

This pattern is consistent with the n+2 decommitment rule, under which unspent ERDF commitments are automatically cancelled two years after the year of budgetary commitment (European Parliament and Council, 2013; European Parliament and Council, 2021). Administrative systems that are slow to launch calls, process applications and certify expenditure in the early years face intensifying pressure in the final years, leading to the relaxation of quality criteria and the approval of projects that would not have passed more rigorous assessment under less time-constrained conditions. The COVID-19 amendments — CRII, CRII+ and REACT-EU — further distorted this pattern by introducing exceptional flexibility provisions in 2020, effectively enabling member states to reallocate unspent TO3 funds to emergency SME support without the usual competitiveness focus.

4.4. Geographic and Structural Patterns

Cross-member-state analysis reveals three structural patterns with direct implications for programme effectiveness.

First, the critical-mass problem is geographically differentiated. Member states that distributed TO3 support among the largest numbers of SMEs — Ireland (67,000+), France (161,200) and Spain (299,200) — achieved the lowest average support per beneficiary, mathematically reducing the likelihood of reaching investment thresholds that generate measurable competitiveness improvements (ECA, 2022).

Member states with more concentrated approaches — Austria (435 SMEs), Estonia (approximately 1,200 SMEs) and Luxembourg — delivered substantially higher per-firm support, consistent with the ECA finding that an average of EUR 42,000 per project across the EU is insufficient to fund the combination of investments required for competitiveness improvement.

Second, the development cluster analysis reveals that less developed member states systematically direct a higher proportion of their TO3 funds toward individual productive investment — primarily equipment replacement — rather than toward the combination of R&D capacity building, internationalization support and management development that the literature identifies as drivers of sustainable competitiveness (Boschma, 2005; Rodriguez-Pose, 1999). This reflects both the lower baseline capacity of SMEs in these regions and the incentive structure created by high co-financing rates, which make any eligible expenditure attractive regardless of strategic value.

Third, the grant-versus-instruments imbalance is universal but more pronounced in less developed regions. The weighted average co-financing rate of 72.4% in less developed regions — compared to 50–55% in more developed regions — amplifies the 'free money' effect documented by Tirole (Tirole, 1987), under which beneficiaries make investment decisions they would not make with own funds, systematically reducing investment quality.

5. Discussion: The Structural Causes of the Absorption-Effectiveness Gap

5.1. The Absence of Strategic Alignment

The root cause of the absorption-effectiveness gap identified in this analysis is structural: for the 2014–2020 period, the ERDF regulation (European Parliament and Council, 2013) did not require member states to align their TO3 programs with national or regional SME competitiveness strategies. In contrast, Thematic Objective 1 (Research and Innovation) required member states to develop Smart Specialization Strategies (RIS3) as a precondition for funding access — a requirement that demonstrably improved the strategic coherence of TO1 interventions. The absence of an equivalent enabling condition for TO3 meant that managing authorities designed programs to disburse funds within eligibility deadlines rather than to address the specific factors limiting SME competitiveness in their regions.

This structural weakness is confirmed by the ECA finding (ECA, 2022) that the Commission had only limited means to ensure that ERDF TO3 funding targeted sectors with the highest growth potential. In multiple member states, programme calls were designed to fund any eligible SME investment rather than investments addressing identified competitiveness bottlenecks. The result, documented across our full 26-country dataset (European Commission, 2026a; European Commission, 2026b), is a convergence of absorption rates that masks a divergence of strategic intent and programme quality.

5.2. The Non-Competitive Selection Problem

A second structural cause is the systematic use of non-competitive selection procedures. The ECA Special Report 8/2022 (ECA, 2022) found that ERDF project funding mostly took place through open calls in which every application meeting

minimum selection criteria received financing. Non-competitive selection procedures, however administratively expedient and legally sound, are structurally incompatible with the allocation of scarce public funds to SMEs with the highest growth and competitiveness potential. The empirical consequences of this incompatibility are documented throughout the dataset. In member states adopting broad-coverage approaches — Ireland, France, Spain — the per-SME support amounts fall below any threshold of strategic relevance. France exemplifies the critical-mass problem most acutely: distributing EUR 1.62 billion across 30 operational programs and 161,200 beneficiary SMEs reduces the average intervention to EUR 10,050 per firm, a sum insufficient to finance any investment with a credible prospect of altering competitive position in a sustained manner. A competitive selection procedure that directed the same total amount to the 10% of SMEs with the highest growth potential would, by definition, have delivered a tenfold increase in per-firm intensity.

5.3. The Grant Dominance and Moral Hazard

The preference for non-repayable grants over financial instruments represents the third structural cause of effectiveness shortfalls. The ECA (ECA, 2022) found that ERDF financing took the form of grants in most cases, despite evidence from the EIB and COSME programs that loan guarantees and equity instruments generate higher leverage effects and better investment discipline.

Our data reveal an important nuance: none of the audited SMEs cited difficulty accessing external financing as a principal obstacle to competitiveness. This undermines the standard market failure justification for grant support — that SMEs cannot access credit markets on reasonable terms (European Commission, 2006; European Commission, 2010). If credit access is not the binding constraint, then non-repayable grants are poorly targeted: they subsidize investments that would have been made without public support (the deadweight problem documented in 74 of 22 ECA projects (ECA, 2022)), while failing to create the financial discipline that repayable instruments would impose.

The displacement effects documented in five of the 22 ECA projects (ECA, 2022) — where ERDF support to one SME measurably reduced the market share of competing non-beneficiary SMEs in the same regional market — further illustrate the perverse consequences of indiscriminate grant provision. In such cases, ERDF support does not create net competitiveness improvement at regional level but merely redistributes existing competitive positions, reducing the overall social return on public investment.

5.4. The COVID-19 Disruption and Its Implications

Superimposed on these structural weaknesses, the COVID-19 pandemic introduced a further confounding variable whose effects on programme absorption and investment quality are difficult to disentangle from the underlying programmatic dynamics. The CRII, CRII+ and REACT-EU regulations, adopted in 2020, provided exceptional flexibility that allowed member states to redirect unspent TO3 funds toward emergency SME support — working capital, liquidity provision and employment retention — without the usual competitiveness focus. Italy illustrates this dynamic most sharply: the revision of programme targets saw the number of supported SMEs expand from approximately 130,000 to over 630,000, with the

inevitable consequence that average per-firm support fell from EUR 51,000 to under EUR 10,000 — a fivefold dilution of intervention intensity.

While the emergency justification for this redirection is understandable, its legacy for competitiveness outcomes is negative: the bulk of COVID-19 ERDF support funded activities — working capital, hygiene equipment, and remote working infrastructure — that do not contribute to the sustained competitiveness improvements that TO3 was designed to deliver (European Commission, 2020). Our timeseries data (European Commission, 2026b) show the financial footprint of this disruption clearly: the exceptional acceleration of payments in 2020–2021 coincides precisely with the COVID-19 emergency reallocation period.

6. Conclusions and Policy Recommendations

6.1. Summary of Main Findings

This article has demonstrated, through the first comprehensive comparative analysis of ERDF TO3 implementation across all 26 participating member states, that financial absorption and policy effectiveness are largely orthogonal dimensions of structural fund performance. A 98.4% average absorption rate — one of the highest in ERDF history — coexists with documented effectiveness shortfalls at project level (ECA, 2022), structural design weaknesses at programme level and systematic misalignment between fund distribution and competitiveness targeting at member state level (European Commission, 2026a; European Commission, 2026b).

Six structural findings emerge from the analysis. First, the critical-mass problem is pervasive: the EUR 42,000 average support per SME at EU level is insufficient to fund the combination of investments required for durable competitiveness improvement (Buckley et al., 1998). Second, the spending rush is universal: 53.6% of all TO3 payments were compressed into 2020–2024, systematically reducing investment quality under deadline pressure (Dabla-Norris et al., 2012). Third, the grant dominance creates moral hazard: high co-financing rates reduce beneficiary investment discipline and generate deadweight and displacement effects (Tirole, 1987). Fourth, the absence of strategic alignment allowed managing authorities to prioritize administrative absorption over economic targeting (Milio, 2007). Fifth, geographic concentration in less developed regions — while consistent with cohesion policy logic — amplifies all four structural weaknesses (Boschma, 2005; Rodriguez-Pose, 1999). Sixth, COVID-19 emergency reallocations further diluted the competitiveness focus of an already weakened instrument (European Commission, 2020).

6.2. Recommendations for the 2028–2034 Programming Cycle

Four policy recommendations follow from these findings, targeted at the ongoing design of the next ERDF programming period (European Parliament and Council, 2021).

First, mandatory strategic alignment should be introduced as an enabling condition for TO3 funding — analogous to the RIS3 requirement for TO1. Managing authorities should be required to demonstrate, *ex ante*, that their SME competitiveness programs address identified structural bottlenecks in their regional economy and target sectors with measurable growth potential.

Second, competitive selection should be made the default procedure for ERDF SME grants. Non-competitive selection — funding all applications meeting minimum criteria — should require explicit justification and Commission approval. This single reform would, by design, concentrate available resources on the SMEs with the highest competitiveness potential.

Third, the instrument mix should shift systematically toward repayable aid. The Commission's recommendation to prioritize financial instruments over grants for SME competitiveness support has been consistently confirmed by the evidence (Bosi and Seegmuller, 2010; Tirole, 1987). A minimum allocation threshold — analogous to the low-carbon economy instrument requirement — should be introduced for financial instruments within TO3 budgets.

Fourth, the $n+2$ decommitment rule should be complemented by front-loading incentives that reward early and high-quality project approval rather than penalizing only late spending (Dabla-Norris et al., 2012). Performance bonuses for member states that demonstrate above-average competitiveness outcomes in mid-term evaluations would create incentives for quality-oriented rather than absorption-oriented programme management.

6.3. Directions for Future Research

This article establishes the financial-analytical foundation for the research programme. Two directions for subsequent work are identified. First, Article 2 of the planned series will examine the grant-versus-instruments question in depth, drawing on the ESIF categorization dataset to map the instrument mix per member state and correlate it with competitiveness outcome indicators from the ESIF common output indicators. Second, a case study of Romania — the largest beneficiary among EU-13 member states with a 96.9% absorption rate but significant documented implementation challenges — will provide a NUTS-2 regional analysis within the framework established here.

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