POLICIES AND STRATEGIES FOR REGIONAL DEVELOPMENT: A SHIFT IN PARADIGM?

John Bachtler and Douglas Yuill

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European Policies Research Centre
University of Strathclyde
40 George Street
Glasgow G1 1QE
United Kingdom

Tel: +44-141-548-3339/3222
Fax: +44-141-548-4898
e-mail: john.bachtler@strath.ac.uk
d.yuill@strath.ac.uk

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Preface

This paper was originally prepared for the Scottish-Nordic Regional Co-operation Seminar held at Skibo Castle, Caithness, Scotland, on 28 February- 3 March 2001. The authors are grateful to Irene McMaster and Rona Michie for their help in preparing this paper, in particular the literature review and preparation of statistical and programme information on the Structural Funds. The authors are also grateful to the Seminar participants for the comments received on the paper, in particular to Hallgeir Aalbu.

JFB, DY

Abstract

The thesis of this paper is that there is a shift in the paradigm of regional development underway, with respect to theory, policy goals and implementation mechanisms. The traditional approach to regional development was undertaken by central governments using the levers of subsidies to firms, infrastructure and the location of public sector activity. In part, this has been superseded by a 'contemporary' approach, characterised by decentralised intervention based on integrated regional development plans and strategies, designed and delivered by partnerships of regional and local actors. Using the examples of Scotland and the Nordic countries, the paper explores this trend in detail, highlighting the differences between traditional regional policies and contemporary regional policies. The paper also discusses some of the key changes in the institutional infrastructure for economic development before concluding with an outline of some key policy questions and issues for debate.

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1. INTRODUCTION

Regional policy in Western Europe has been in existence for over fifty areas. In some countries, special assistance for social and economic groups particularly affected by the Great Depression dates back as far as the 1930s. Over subsequent years, regional policy became a prominent part of the widening economic and social policy intervention undertaken by all Western European governments from the 1950s to 1970s. From the mid-1970s, regional policy began to change, in the wake of slower economic growth and a new political orthodoxy. The redistribution of economic activity was superseded by a focus on endogenous development. Economic development became 'multi-level', first with the formation of regional development agencies and then a widening range of special-purpose regional and local bodies. The European Union developed a regional policy of its own, with progressively more resources devoted to economic and social cohesion.

In recent years, it is possible to identify a significant shift in the 'paradigm' of regional development. The traditional approach to regional development was undertaken by central governments using the levers of subsidies to firms, infrastructure and the location of public sector activity. In part, this has been superseded by a 'contemporary' approach, characterised by decentralised intervention based on integrated regional development plans and strategies, designed and delivered by partnerships of regional and local actors.

The regional development policies of Scotland and the Nordic countries contain elements of both these approaches. They reflect the need to promote balanced regional development across the national territory and to attract international investment, while at the same time enabling regional and local actors to participate in the development of region-specific solutions to regional problems and the mobilisation of local resources. However, there is a lack of clarity about the best way forward. For example to what extent should national governments continue to operate a regional policy? How feasible are regional aid policies given the ever-tightening constraints of EU State aid controls? How should regional development strategies be organised and funded?

This paper begins with a discussion of how the concepts and practice of regional development are changing across Western Europe. It then examines the trends in 'classical' regional policy in Scotland and the Nordic countries, with a comparison of the different national regional aid policies, followed by a similar review of the 'contemporary' regional policies in these countries and the use of strategic regional development planning under EU and domestic regional policies. The paper also discusses some of the key changes in the institutional infrastructure for economic development before concluding with an outline of some key policy questions and issues for debate.

2. CHANGING PARADIGMS OF REGIONAL POLICY

To establish a framework for discussion, the starting point is that regional development has been undergoing a shift in 'paradigm' (see Table 1). It is argued that there has been a fundamental change in all aspects of how regional development is conceptualised and how regional policy is conceived and delivered. This shift begins with the theoretical underpinnings of regional development and the factors that are considered to explain the geography and economy of development. It proceeds through the aims, objectives, sphere of action and mode of operation of policy, and is evident in the changing organisation of how policy is developed, managed, delivered and assessed.

The shift is by no means universal; not everyone subscribes to the new theories of regional development. Nor is it complete; in many countries and regions, the shift in policy is partial and may turn out to be transient. In this context, it would be rash to proclaim the merits of the new policy paradigm as an inherently superior way of organising regional development. Nevertheless, it is clear that there are major changes in regional policy thinking and practice underway.

As noted above, regional policy dates back to the early government intervention of the inter-war years. The United Kingdom is often credited with establishing the first regional policy, with the Special Areas Act being introduced in response to a three-fold increase in unemployment, providing special support for Western Scotland, South Wales, North-East England and West Cumberland[1]. At this time, some of the Nordic countries were also providing similar help to social groups affected by the Depression, *de facto* a form of regional aid.[2]

After 1945, following the period of emergency reconstruction of physical infrastructure and production capital, regional concerns gradually moved on to the policy agenda. There were a number of reasons for this. One was an increasing emphasis across Europe on equality issues and questions of distribution. At the same time, the severity of the regional problem increased in many countries, with moves out of agriculture and downturns in traditional heavy industry resulting in both unemployment in problem regions and significant migratory flows to major urban centres, particularly in more prosperous areas. As a result, serious concerns arose about congestion levels and infrastructure provision in many of the major agglomerations, with attendant inflationary pressures. In such a situation, the economic case for regional policy was often heard. The argument was that regional policy would enhance national development by taking up the employment slack in the problem regions whilst relieving inflationary and other pressures in more prosperous, congested areas. At the time, too, there was a general confidence in government intervention, a conviction in many parts of Europe that the problems facing

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[1] McCrone G (1969) *Regional Policy in Britain*, George Allen & Unwin, London.

[2] Monnesland J (1994) *Regional Policy in the Nordic Countries*, Nordic Institute for Regional Policy Research, NordREFO, Copenhagen.

government could be solved if only the appropriate planning was undertaken and the correct policies adopted.[3]

The central pre-occupation of regional policymakers at this time was regional convergence – reducing economic disparities between regions, especially core-periphery differences. Conceptually, regional policies were based on traditional theories of regional development – models of land prices (von Thünen), industrial location (Weber, Marshall) and settlements (Christaller, Lösch). The common characteristic of these theories was that they were concerned with explaining variations in the location of economic activity with reference to the *attributes* of regions or urban areas, such as the cost of land, transportation costs, market size and the availability of workers. Policies to reduce disparities were, therefore, generally developed to influence these factors eg. reducing investment or employment costs, subsidising transport costs, providing cheap land and premises in the problem areas, while (in some cases) increasing the costs of development in the core or congested areas.

The major issues of concern to regional policymakers across Western Europe were primarily underdevelopment and depopulation in rural areas (eg. the Highlands & Islands of Scotland, the 'desertification' of the Massif Central in France, southern Italy), especially in peripheral regions (eg. the northern parts of Norway, Sweden and Finland, the Zonal Border Area in western Germany). Particularly severe problems existed in parts of northern Finland and northern Norway following the 'scorched earth' destruction of buildings and the need for resettlement arising from the war. In addition, regional policy also attempted to address problems of geographically concentrated unemployment ("keeping the peace in the face of economic rationalisation"[4]) especially in Scotland and northern England, where throughout the 1960s unemployment was around twice the UK average.

Although there were significant differences in policy emphasis among Western European countries, the approach to regional policy was broadly similar. The main policy objective was equity, equalising variations in standards of living, infrastructure or employment across the national territory. Problem areas were designated on the basis of administrative or data collection units generally suffering from slow economic growth, low incomes and high unemployment. In these regions, policy instruments comprised four main types: *financial incentives* in the form of grants, loans, tax concessions, depreciation allowances, employment premia, removal cost allowances, transport subsidies, labour-training aids and rent subsidies; *infrastructure investment*, especially in rural and sparsely populated areas; the use of investment targets or other social obligations on the part of *state-owned or state-controlled industries*; and the diversion of development from congested areas through *development controls* on manufacturing industry or the relocation of private and

[3] Yuill and Nicol (1982) 'Regional Problems and Policy' in A Boltho (Ed.*) The European Economy: Growth and Crisis*, Oxford University Press, Oxford.

[4] Weaver C (1984) *Regional Development and the Local Community: Planning Politics and Social Context,* John Wiley and Sons Ltd.

public sector offices.[5] A particular focus in some countries was on so-called growth centres, serving as a focus for geographic concentrations of public investment and stimulation of growth opportunities which would then spread to the surrounding areas.

Despite the broad range of policy instruments, the focus of policy was essentially a narrow one, concerned with influencing economic activity through industrial location. Assistance was generally provided in the form of business aid and hard infrastructure. The mode of organisation was essentially top-down: the design of policy, the delimitation of assisted areas and the delivery of instruments were undertaken by central government (with the exception of some federal countries).[6] Particularly in the case of regional financial incentives, policy was essentially demand-driven and reactive, responding to individual project applications from companies in the problem areas.

After the oil shocks of the early 1970s, the importance of regional policy diminished; indeed, some British commentators refer to the 'death of regional policy' during this period. Economic conditions in Western Europe were characterised by a long-term slowdown in economic growth, with sluggish increases in productivity, inflationary pressures, restricted investment, persistent widespread unemployment and pressures on state budgets. Crucially, the long-term period of economic convergence came to an end. Recession or low-growth conditions in richer countries and regions limited the opportunities for 'trickle down' or backwash effects from the core centres and regions. The scope for government intervention was constrained, and the potential for compensating migration flows - of particular importance for relieving labour market pressures in the poorer countries – was curtailed.

In the course of the late 1970s, and particularly during the 1980s, the political agenda across Western Europe moved against active government economic intervention, especially through subsidies to firms. Instead, the policy focus shifted towards privatisation, deregulation and the liberalisation of markets. In a number of countries, the effectiveness of regional policy was questioned and criticised. Regional policy moved progressively down the policy agenda, downgrading the policy goals of reducing disparities and promoting regional convergence. Policy took on more limited objectives, focusing in some countries on the maintenance of settlement structures in sparsely-populated areas, in others on attempting to ameliorate the economic and social consequences of job losses in those regions suffering the highest levels of unemployment and, in a few, on the attraction of inward investment to the problem regions. The budgets for regional policy were cut back, and the coverage of problem areas was reduced.

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[5] Yuill D, Allen K and Hull C (Ed.) (1980) *Regional Policy in the European Community*, Croom Helm, London.

[6] But even in federal countries, the need for a significant national role in the administration of policy was strongly felt. In Germany, for instance, a joint federal-*Land* committee was established in 1969 to provide an operational framework for regional policy in a policy area which, constitutionally, is the responsibility of the *Länder* but where the damaging effects of inter-regional competition for potentially-mobile investment had become apparent.

The 'retreat' of central government from active regional and industrial policies was accompanied by the rise of a new regional and local dimension to economic development. This was partly attributable to regional institution-building which accompanied the increasing delegation of authority for certain economic development activities (eg. the formation of the Scottish Development Agency and the Highlands & Islands Development Board) with a view to enhancing local identification with policies and increasing local responsibility for economic development. The trend was also due to a growth in 'bottom up' initiatives, as local authorities and other groups began to develop and implement their own measures to deal with growing economic and social problems. At the same time, regional policy thinking was shifting towards the promotion of endogenous development – by definition regional or local - with a (re)discovery of the importance of entrepreneurship and SMEs.[7] Technology was increasingly seen as decisive factor for growth and prosperity, leading to a regional focus on high-tech zones and science parks.[8]

From the mid-1980s onwards, new concepts of regional development began to be evident. The competitiveness of economies was increasingly attributed to the ability to innovate, particularly within the context of environments that facilitated learning, interaction and networking between enterprises. Technological and organisational changes were altering the way in which companies organised their activities, both internally and with suppliers and customers. The progressive removal of trade barriers and other constraints on the free movement of labour and capital was leading to an accelerated internationalisation of economic activity through foreign investment, trade and interfirm links, such as acquisitions and mergers.

In this context, new theories of regional development came to the fore, especially those concerned with industrial milieux (Storper, Camagni) and the role of clusters and networks (Porter, Morgan). It was recognised that competitive advantage increasingly implied the ability and capacity of regions to facilitate the generation, acquisition, control and application of knowledge and information, in the interests of innovation and marketing. The spatial interrelationships between organisations were recognised as critical - for example, participation in information and research networks, supply chains, SME collaboration, government-industry links.

Research at the European level highlighted an economic geography of a limited number of leading regions characterised by dense networks of 'learning economy' institutions - high-tech firms, research centres, technical colleges, service centres, universities, training centres, technopoles, information and knowledge networks etc. The argument was that such regions have been able to restructure and upgrade production structures to promote innovation complexes and create new clusters of comparative advantage. In contrast to this 'archipelago' of leading regions, larger, often peripheral, areas of the EU were viewed as lacking many of the basic pre-conditions of successful development. These regions were considered to have a weakly developed skills base, few training opportunities, poor supplier capacity and

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[7] Dekker J (1989) 'Regional Development Policy in Europe in J Allesch' (Ed.) *Regional Development in Europe: Recent Initiatives and Experiences,* Walter de Gruyter, NY.

[8] Ewers J-J (1989) 'Technical and Market Changes and Regional Development Potential', in J Allesch (Ed.) *op.cit.*

limited institutional infrastructure, thereby running the risk of being trapped in low-grade, low potential, branch plant activity.[9]

The challenge for regional development has been to respond to this increasingly complex map of regional and local problems. There is seen to be a requirement to develop a more sophisticated approach to improving both regional capabilities and attributes with measures that are socio-cultural as well as economic. The policy response has been a new type of regional policy concerned with the strategic management of regional development, termed ‘contemporary regional policy’ in Table 1.

In some respects, this policy approach is not new. Regional economic planning was actively pursued in the 1950s and 1960s in several countries (including the UK) and regional physical planning has been promoted in various forms – for instance, *Raumordnung* in Germany, *amenagement du territoire* in France. However, it was the 1988 reform of the Structural Funds which marked a new era in regional strategic planning. Picking up on French experience with *contrats du plan* (State-region planning contracts), the European Commission developed a new approach to implementing the growing resources devoted to EU regional policy. All eligible regions were required to prepare regional development plans for spending EU resources, at the heart of which were development strategies created and delivered through partnerships of regional and local actors. Although much of the early spending was on traditional infrastructure over successive programming periods in the 1990s, these have become more sophisticated in terms of their design, management, delivery and evaluation. Moreover, experience with Structural Fund programming has been transferred into domestic regional policies with the increasing use of integrated, strategic development plans, programmes and agreements.

The characteristics of these contemporary approaches to regional development are fourfold. First, they have a broad sphere of action, covering a range of policy sectors: physical and economic infrastructure, business development, RTD, human resources, tourism, environment etc. Second, the national policy versions tend to encompass economic development in all regions, not just those designated for regional policy purposes (eg. the regional strategies in England, regional growth agreements in Sweden). Third, they tend to take a pro-active approach to development, with a multi-annual programme of measures targeted at the business environment and soft infrastructure. Lastly, they have a distinctive approach to policy implementation which is collective/negotiated, led by regional authorities and involving a wide range of partners from local government, the voluntary sector, business and social communities.

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[9] Amin A and Tomaney J (1995) The Regional Dilemma in a Neo-Liberal Europe, *European Urban and Regional Studies*, 2(2), 171-188

Morgan K (1997) The Learning Region: Institutions, Innovation and Regional Renewal, *Regional Studies*, 31(5), pp.491-504

Table 1: The Changing Paradigm of Regional Policy

Criteria	**Classical**	**Modern**
CONCEPTUAL BASIS		
	Industrial location theories Key factors are regional attributes eg. production costs, availability of workers	Learning region theories Key factors are regional capabilities eg. innovative milieux, clusters, networks
POLICY CHARACTERISTICS		
Aim(s)	Equity ***or*** efficiency	Equity ***and*** efficiency
Objectives	Employment creation Increased investment	Increased competitiveness (eg. entrepreneurship, innovation, skills)
Sphere of action	Narrow (economic/industrial)	Broad (multi-sectoral)
Mode of operation	Reactive, project based	Pro-active, planned, strategic
POLICY STRUCTURE		
Spatial focus	Problem areas	All regions
Analytical base	Designation indicators Regional exporting	Regional SWOT analysis
Key instrument	Incentive scheme	Development programme
Assistance	Business aid Hard infrastructure	Business environment Soft infrastructure
ORGANISATION		
Policy development	Top down/centralised	Collective/negotiated
Lead organisation	Central government	Regional authorities
Partners	None	Local government Voluntary sector, Social partners
Administration	Simple/rational	Complex/bureaucratic
Project selection	Internalised	Participative
Timescale	Open-ended	Multi-annual planning periods
EVALUATION		
Stage(s)	Ex post	Ex ante, interim, ex post
Outcomes	Measurable	Difficult to measure

3. TRENDS IN CLASSICAL REGIONAL POLICY

In order to consider the above trends in more detail, the following sections focus on the specific situations of Scotland and the Nordic countries. Although not necessarily representative of other European countries, they provide some practical examples of how the shift in paradigm is taking place. This section first reviews the background to the traditional regional policies operated in the Nordic countries and Scotland, their objectives and trends, before considering the main features of current policy. Subsequent sections then examine the contemporary trends and the policy challenges.

3.1 Policy objectives and trends

In Scotland/the Nordic countries, the initial rationale for introducing a regional policy was a combination of economic factors (reducing unemployment), politics (regional cohesion, social justice) and spatial planning considerations (related to settlement structures and the spatial distribution of the population). In *Norway*, regional policy was closely identified with "periphery policy" in order "to maintain the existing settlement pattern and to ensure equality in living conditions in all parts of the country".[10] Current Norwegian regional policy still retains these objectives, focusing on the viability of all aspects of peripheral communities, taking account of demographic as well as economic factors. The importance of the social element is reflected in the attention given to encouraging women and young people to remain in peripheral regions and the effort to maintain public services and generous welfare benefits in all parts of the country. Concern at the out-migration of women and young people has led to a series of recent measures, involving revisions to the income tax system and special (as yet, small) programmes designed to encourage greater involvement by these groups in local community activities. The importance of this social focus is such that it is now considered a third 'pillar' (or strand) of Norwegian regional policy, complementing the traditional distinction between 'broad' and 'narrow' regional policies.[11] In the Norwegian context, it should be mentioned that, in recent years, regional development issues have had a greater influence on government policy. Ministries are committed to ensuring that all new policy changes are accompanied by 'pre-evaluations' of the consequences of such changes to peripheral regions. Also of note is a renewed interest in 'growth-pole' approaches to developing peripheral areas (in which resources are targeted at the main urban centres in these regions).

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[10] Halvorsen K (1991) 'Regional Problems, Areas and Policies: Norway', in Bachtler J, Clement K and Halvorsen K (Eds.) *A Comparative Assessment of Norwegian and EC Regional and Small Firms Policies*, Studies in European Policy, European Policies Research Centre, University of Strathclyde, Glasgow.

[11] The distinction made in the Nordic countries between 'narrow' and 'broad' regional policy distinguishes between business-oriented regional economic development measures and the wide range of state administrative actions which impact on regional development – what, has been referred to as "the spatial dimension of the Nordic welfare state". Eskelinen, H (1994) The Nordic Model of Regional Policies in the 1990s Crisis: Collapse or Reorientation, in S Sountas & B Kennelly (Eds.) *European Integration and Regional Policy*, Centre for Development Studies, Social Science Research Centre, University College Galway

As in Norway, regional policy in *Sweden* had its roots in social welfare policy, with the aim of giving everyone equal access to employment opportunities, community services and a healthy environment, irrespective of their location. In addition, policy had the goal of sustaining a balance between regions in terms of population and employment.[12] In more recent years, legislation has identified the need to support sustained economic growth, equality of opportunity for different regions and the even distribution of wealth. This reflects a more general trend which has seen regional policy in Sweden become less concerned with equity and more driven by questions of efficiency. Related, differentiation between 'narrow' regional policy (ie. essentially, regional incentives in assisted areas) and 'broad' regional policy (ie. the spatial implications of other state activities) has been highlighted in recent years, and several public reports have proposed moving more towards the 'broad' policy approach.

The initial objectives of regional policy in *Finland* focused on the need to stem out-migration from rural areas and to respond to the destruction of settlements and communities during the war. As elsewhere, the Finnish philosophy towards regional policy has progressively changed in recent years and traditional regional policy approaches are being re-evaluated. The goal of regional policy is now seen to be *national* economic competitiveness, growth and employment. Regional problems are no longer considered to be concentrated in sparsely-populated areas, a change of emphasis which has created an entirely new challenge for regional policy. In recent years, rapid technological change and the specialisation of production have enhanced the advantages of geographical concentration, increasing the attractiveness of urban areas for high technology enterprises. The policy focus has shifted from stemming out-migration from rural areas towards maintaining population and development in the main urban areas in each region - a focus on regional growth poles. In this regard, the main regional problem has become the conjunction of the growth – and, indeed, overheating – of the largest urban areas in Finland with on-going decline in the majority of other urban areas.

In *Denmark,* the declared purpose of policy in the 1960s and 1970s was to promote equality between the regions with regard to economic welfare. Intervention was, in other words, justified mainly in the name of social equity - although economic arguments about avoiding congestion in Copenhagen and other urban areas were also invoked, albeit far less frequently and prominently. From the mid-1980s, the case for a national regional policy in Denmark has been put primarily in economic terms, its *raison d'être* being the mobilisation of indigenous regional resources in support of the general attempt to improve the international competitiveness of Danish firms.[13] This is also echoed by the host of 'bottom-up' initiatives in economic development found at or below the regional level - although social and fiscal arguments focusing on employment levels and taxable income are also clearly in evidence at the sub-national

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[12]Ekberg T (1994) *Swedish Regional policy – priorities and effects,* in Swedish Industry and Industrial Policy, NUTEK, Stockholm.

[13] Bogason P and Jensen L (1991) 'Statens ansvar for regional udvikling i Danmark', *NordREFO* (3): 51-82; Erhvervsministeriet (1995) *Regionalpolitisk Redegørelse 1995*, København: Erhvervsministeriet.

level.[14] Most recently, developing the competitiveness of Danish firms has become the overriding objective of central government policy, implying the promotion of growth in both the stronger and weaker regions of the country.

For *Iceland* the main regional problems result from a combination of geographical periphery, migration to the capital and, to a lessor extent, unemployment. The central policy objectives are: to secure population settlements in areas of natural resource; to strengthen population settlements in areas that offer the potential for a varied and profitable local economy and the development of modern services; and to reduce migration flows to the capital.

Lastly, in *Scotland,* until the establishment of the Scottish Parliament, regional economic development policy was a UK government responsibility. The original objectives of UK regional policy had both economic and social components, the latter being emphasised for most of the post-war period, but the former also being highlighted, especially in periods of low nationwide unemployment. In recent years, the economic case for policy has once more been given increased weight, in part due to the emphasis given to the attraction of inward investment but also reflecting the growing stress attached to national and regional competitiveness.

3.2 Policy characteristics

In all countries, the classical form of regional policy has been subject to significant cutbacks in recent years, in terms of both spatial coverage and expenditure.[15] With respect to spatial coverage, the population coverage of the designated aid areas in the countries under review has fallen significantly over the past two decades, with declines of more than one-third in the UK, Denmark and Sweden and around one-fifth in Norway and Finland. Similar cutbacks can be found in most European countries. The look of problem region maps has also changed markedly – from a position where whole regions within countries were usually designated, many regional aid area maps have become ever-more fragmented. To a degree this is due to the reduced population ceilings available to countries for area designation purposes under the Regional Aid Guidelines. It reflects, too, the growing pressures to designate areas which are not only disadvantaged but which also provide suitable locations for development generally and inward investment in particular. Increasingly, assisted area maps have become a reflection of regional opportunity as much as regional disparity. Current coverage (ie. the coverage agreed with the competition policy authorities for the 2000-06 period) ranges from 42.3 percent in Finland, through 30.7 percent in the UK (but 48 percent of the Scottish population) and 25.5 percent in Norway to 17.1 percent in Denmark and 15.9 percent in Sweden.

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[14] Damborg C and Halkier H (1998) *Development Bodies, Networking and Business Promotion in North Jutland*, European Studies Series of Occasional Papers, European Research Unit, Aalborg University (28). Industriministeriet (1987) 'Lokal erhvervspolitik - debatoplæg om forholdet mellem statslige og lokale initiativer', *Arbejdsnotat,* 7.

[15] For a detailed review, see Yuill D, Wishlade F and Bachtler J (1999) *European Regional Incentives 1999, 18th edition,* Bowker-Saur, London

Declines in regional aid expenditure have also been significant in most European countries. For instance, of the countries under review (see Table 2), gross expenditure on all regional aids in Denmark fell from DKK 182 million in 1986 (with around DKK 120 million devoted to the main incentive, the regional development grant) to zero following the withdrawal of the regional aid package in 1991. In Britain, regional aid spending in the mid to late 1990s was much less than half its level a decade earlier, reflecting in particular the demise of the regional development grant which had represented the automatic base of the British regional incentive package in the 1970s and 1980s. In Sweden, too, spending on the main regional aids (the regional development grant and the employment grant) in the late 1990s was only about half the level of the mid to late 1980s in real terms. Finland has also experienced regional aid reductions as spending priorities have shifted towards R&D support, although expenditure levels for regional investment aid did not experience any major decline over the 1990s in real terms. In Norway, regional investment grant spending has also been relatively stable in recent years.

Table 2: Regional policy coverage and spending

Country	Spatial coverage 2000-06 (% of national population)	Expenditure on main regional incentives in 1999 (€ million, 1997 prices)
Denmark	17.1	-
Finland	42.3	51.4
Iceland	-	-
Norway	25.5	73.5
Scotland	48.0	102.4
Sweden	15.9	54.3

As far as policy instruments are concerned, regional grants represent the core element of the regional incentive packages on offer (see box below). The exceptions are: Denmark where, following the withdrawal of regional aid schemes in 1991, the focus of policy for the past decade has been on framework measures rather than on direct business aid schemes; and Iceland, where there has never been a tradition of regional investment grants. Other incentive types tend to be restricted to one or other of the remaining countries under review, apart from transport subsidies which are found in Finland, Norway and Sweden. Thus, risk loans (and loan guarantees) are part of the Norwegian regional incentive package, providing venture capital support to higher-risk investment projects; an employment grant is available in Sweden, offering assistance in respect of additional labour taken on by problem region companies (but not available to firms in receipt of regional grant aid); and regional tax relief can be found in Finland in the form of an increased depreciation allowance in the worst-off aid areas.

While grant schemes are at the core of the available regional aid, there are some interesting differences in respect of the degree to which eligible investment extends beyond fixed capital investment. For instance, in Norway, support is available for ‘soft’ expenditure in the form of business development consultancy relating to strategic planning and export advice, as well as in respect of eligible RTD costs (including the wage costs of RTD personnel within businesses). In Sweden, the regional development grant supports both hard investment (eg. buildings and machinery) and soft investment (eg. product development, patents and licences, information dissemination and training). In Finland, the recently-introduced Aid to Business Act divides the available grant types into investment aid (support for fixed asset investment), business start-up support (including subsidies on rent and other service costs incurred within incubator units and, also start-up aid related to the number of new jobs created), business environment development aid (involving assistance for measures to improve the business environment) and development aid for SMEs (assisting projects which enhance the competitiveness or internationalisation of small and medium-sized enterprises). Most such business aid support is available nationally, though the designated aid areas benefit from higher award ceilings. In addition, aid to large corporations is restricted to the assisted areas. Finally in Scotland, regional selective assistance (for projects of over £100,000) and the invest for growth scheme (for smaller projects) are generally related to the capital costs of aided projects; running costs are not supported. However, certain costs of a non-recurring nature may qualify for assistance – patent rights, professional fees, installation and removal costs.

Finally, the point needs to be made that regional incentives are only a part of the business aid scene in designated aid areas. Other categories of support are also found including, most obviously SME aid, RTD support and rural development assistance. The existence of such diverse funding opportunities, often co-financed in the EU Member States through the Structural Funds, has led to considerable stress being placed on policy co-ordination at the regional level. This is discussed further in Section 5.

KEY REGIONAL POLICY INSTRUMENTS IN THE SCOTLAND-NORDIC AREA (REGIONAL INCENTIVES)

Denmark. Regional incentives were abolished in 1991.

Iceland. There is no tradition of regional investment grants. Financial support under the four-year development plans take the form of general development assistance to the regions via aid for development companies and specific projects.

Finland. The Aid to Business Act which came into force in 2001 divides the available grant types into: *investment aid* (support for fixed asset investment), *business start-up support* (including subsidies on rent and other service costs incurred within incubator units and, also start-up aid related to the number of new jobs created), *business environment development aid* (involving assistance for measures to improve the business environment) and *development aid for SMEs* (assisting projects which enhance the competitiveness or internationalisation of small and medium-sized enterprises). Most such business aid support is available nationally, though the designated aid areas benefit from higher award ceilings. In addition, aid to large firms is restricted to the assisted areas. Support is also available in the form of a regional transport subsidy and regional tax relief (an increased depreciation allowance).

Norway. SND financial assistance consists of an aid package centred around investment grants, loans and guarantees and business development grants. Support can take several forms: grants can be awarded to companies for capital investment; and risk loans (and loan guarantees) can provide venture capital to higher risk projects in areas with special development problems. In addition, there is a social security concession which has been transformed into a transport subsidy under pressure from the competition policy authorities.

Scotland. There are two regional aid schemes in Scotland: regional selective assistance, for projects of over £100,000, and invest for growth which is targeted at smaller projects (less than £100,000). Both focus mainly on support to capital costs, though certain costs of a non-recurring nature may also be assisted.

Sweden. The regional development grant supports both hard investment (eg. buildings and machinery) and soft investment (eg. product development, patents and licences, information dissemination and training). In addition there is an employment grant in respect of additional labour taken on (but not available to projects in receipt of a regional development grant) and a transport grant.

4. CONTEMPORARY REGIONAL POLICY

Alongside the changing role of regional aid instruments under the traditional form of regional policy, a parallel development - particularly over the past decade - has been the growing importance accorded to regional and local strategic planning. Multi-annual planning, combining the interests of different political, sectoral and local groups in a strategic programme of measures with explicit (and sometimes measurable) objectives, has become a central feature of regional and local development.

The most prominent examples of this trend are the regional development programmes developed for implementing EU Structural Funds, as well as EU-funded regional innovation plans (RTPs, RITTS, RIS) and territorial employment pacts. This approach to regional strategic planning is also evident in the domestic economic development policies of Denmark (DATI-supported regional development programmes), Finland (the Regional Council development strategies), Norway (county development programmes), Scotland (the Framework for Regional Development in Scotland and local economic strategies) and Sweden (regional growth agreements), as well as the growing interest in regional and local cluster strategies.

4.1 EU regional development strategies

EU regional development strategies only apply to four of the countries under review: Denmark, Finland, Scotland and Sweden. Scotland has the most extensive experience with Structural Fund programmes dating back to the Integrated Development Operations of the mid-1980s and designation of much of the national territory and population throughout the 1990s. In Denmark, EU-funded regional development programmes were also implemented over the past decade and in Finland and Sweden since 1995. As indicated in Table 3, the resources available for the 2000-2006 period vary markedly: ranging from €1,455 million in Finland to around €1,150 million in Sweden and Scotland and €189 million in Denmark.

Table 3: EU regional development programmes 2000-2006

	Objective 1			***Objective 2***		
	Coverage (%)	***No. of programmes***	***Total Structural Fund allocation (€ mill)***	***Coverage (%)***	***No. of programmes***	***Total Structural Fund allocation (€ mill)***
Denmark	-	-	-	10.2	1	189
Finland	21	2	948	30.9	3	507
Scotland	7	1	308	61.0	3	807
Sweden	11	2	748	13.8	4	423
EU15	22		135,954	18.2	95	22,454

Given the long period over which Structural Funds have been available, particularly in Scotland, the approaches to programme design and management over successive programming periods illustrate how regionalised and strategic economic development can develop over time.[16] At the outset, in the late 1980s, there was little or no experience with integrated regional strategies. EU regional development plans were drafted – without analysis or evaluation – by small groups or committees in central government departments. The 'strategies' were essentially collections of schemes or projects (focusing on physical infrastructure and business aid), project appraisal procedures were weak or non-existent and beneficiaries tended to view programmes in terms of 'grant opportunities'.

Comparing the latest generation of Structural Fund programmes (2000-2006) with the early versions, it is evident that there has been a 'sea change' in approach. In Denmark, Finland, Scotland and Sweden, programme development is underpinned by interactive processes of analysis, consultation and feedback involving a wide range of partners with sophisticated planning techniques. Strategies incorporate a wider range of priorities, with increasing attention being given to RTD, human resources and development of the business environment, as well as explicit responses to the European Commission's 'horizontal priorities' of sustainable development and equal opportunities. Programme management has been increasingly decentralised (although payment responsibility is still largely a central government function) with growing resources being allocated to management information and monitoring systems.

Each country has a different approach to implementing the Funds, although there are common features.[17] In *Denmark*, Structural Funds are co-ordinated by central government, in particular by the Danish Agency for Trade and Industry, but operational management is undertaken at county level (through regional executive committees). In *Finland*, EU regional policy is co-ordinated by the Ministry of the Interior working in collaboration with several sectoral ministries. Although the preparation and management of programmes is led by the regional councils, the regional offices of the national government ministries (T&E Centres) have a major influence on spending decisions, especially with respect to business aid. In *Scotland*, national government (the Scottish Executive) also co-ordinates the implementation of Structural Funds, but operational authority for programme management is delegated to regional 'programme executives' which administer the project generation, appraisal and selection process. Lastly, in *Sweden*, central government is progressively decentralising Structural Fund implementation. Although the Ministry of Industry, Employment and Communications and NUTEK have an co-ordination function, the management and delivery of the 2000-06 programmes have been fully regionalised, with the County Administrative Boards adopting the responsibilities of both managing and paying authority.

Examining the most recent programmes among the four EU countries (see Table), the strategies continue the trends of 1994-99: a shift away from physical infrastructure spending and a focus on business competitiveness factors (entrepreneurship,

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[16] Bachtler J and Taylor S (1999) *Objective 2: Experiences, Lessons & Policy Implications*, Report to DGXVI, European Commission, Brussels.

[17] Taylor S, Bachtler J and Rooney M L (2000) *Implementing the New Generation of Programmes: Project Development, Appraisal and Selection*, IQ-Net Paper, European Policies Research Centre, University of Strathclyde, Glasgow.

innovation etc) with a commitment to sustainable development. The general aim of the Danish Objective 2 programme is typical: “improving the conditions for development and change in order to ensure welfare, employment, equal opportunities and a sustainable environment in regions with structural problems”. The targeting of resources is again a feature of several programmes, either through geographical targeting on communities or areas (the Scottish programmes have 20-25 percent of resources devoted to community economic and social development in urban or rural areas), or sectoral targeting, focusing on sectors with growth potential (Norra Norrland, Sweden). The need to leave a durable legacy is a feature of several programmes (especially in Scotland) as well as a commitment to focusing more on the direct needs of the private sector (Sweden, Finland). Lastly, it is notable that among the ‘cross-cutting themes’ of the programmes, the development of the information society features strongly, especially in the Danish, Finnish and Swedish programmes. The EC estimates that 20-30 percent of Nordic Structural Fund programme resources may be devoted to the information society, especially support for knowledge industries and encouraging access to information technologies.

Table 4: Priorities and themes of the Structural Fund programmes in Denmark, Finland, Sweden and Scotland (2000-2006)

Programme	***(€ mill)***	**Programme priorities**	***Cross-cutting themes***
Denmark			
O2: 5 regions	189	1. Development of the region (43%) 2. Business development (24%) 3. Development of competencies (28%)	Transition towards the global economy and the knowledge based society
Finland			
O1: E. Finland	321	1. Business development (40%) 2. Rural development and fisheries (31%) 3. Skills and employment (26%)	Information society Application of new technologies, esp. in urban centres and encouraging IT access
O1: N.Finland	627	1. Business development (35%) 2. Knowledge and employment (29%) 3. Rural development (21%) 4. Infrastructure (14%)	Information society Application of new technologies, especially helping urban centres in high-technology sectors and encouraging access to information technologies
O2: Åland Islands	5	1. Economic development and the islands	Information society
O2: S.Finland	218	1. Business development and economic restructuring (40%) 2. Development of skills and new technologies (21%) 3. Infrastructure modernisation and improvement of the living environment (36%)	Cluster and growth sector strategies Information society New focus on urban problem areas
O2: W. Finland	284	1. Business development and attractiveness of the business environment (40%) 2. Development of know-how and human resources (33%) 3. Development of sub-regions, urban areas and attractiveness of the local communities (24%)	Cluster and growth sector strategies Information society New focus on urban problem areas
Sweden			
O1:Norra Norrland	391	1. Development of infrastructure (26%) 2. Commercial and industrial development (27%) 3. Development of skills and employment (22%) 4. Rural development, fishing and aquaculture (13%) 5. Nature, culture and human environment (9%) 6. Sami programme (2%)	Developing high-tech companies Information society
O1:Södra Skogslän	357	1. Industrial development (46%) 2. Lifelong learning and development of human resources (19%) 3. Development of rural areas, agriculture, forestry, fishing and aquaculture (18%) 4. Development of human environment and infrastructures (13%) 5. Sami programme (1%)	Developing high-tech companies Information society

O2:Norra	185	1. Business development (85%) 2. Knowledge driven development (12%)	Modern technology Innovation. Information society
O2:Öarna	30	1. Living environment (30%) 2. Development of human resources (13%) 3. Economy and infrastructure (53%)	Modern technology Innovation Information society
O2:Södra	84	1. Attractive living environment and development of the economic sector (81%) 2. Development of human resources (14%)	Modern technology Innovation. Information society
O2:Västra	124	1. Development of industry and business climate (89%) 2. Cooperation between industry and educational institutions (7%)	Modern technology Innovation. Information society
Scotland			
O1: Highlands & Islands (transition)	308	1. Increasing business competitiveness, creating employment and increasing incomes (21%) 2. Creating the conditions for regional competitiveness (34%) 3. Developing the region's human resources (19%) 4. Assisting rural communities (24%)	Equal opportunities Protection and improvement of the environment Information society
O2: East of Scotland	250	1. Strategic economic development (37%) 2. Strategic locations and sectors (38%) 3. Community economic development (22%)	
O2: South of Scotland	73	1. Competitive enterprises (37%) 2. Competitive locations (38%) 3. People and communities (19%)	
O2: West of Scotland (draft)	483	1. To develop the competitive and innovative capacity of the regions SMEs (32%) 2. To develop the region as a competitive location (36%) 3. To increase the economic and social cohesion of the region (29%)	

4.2 National regional development strategies

Although the most prominent, long-standing examples of regional strategies are provided by the Structural Funds, it is notable that the past decade has seen growing interest in, and also some use of, economic development strategies within national regional policies (see Table 5). The impetus behind these developments is threefold.

First, as noted above, there has been a degree of disillusionment with traditional regional policy measures. Partly this reflects the ideological shifts in economic thinking of the 1980s and the distaste for direct subsidisation of firms and other large-scale intervention by central government. It is also symptomatic of a view that such measures are not effective under current conditions.[18] A recent evaluation of Swedish regional policy was frank: "Regional policy has succeeded in distributing welfare but has not been able to create growth and attractive environments in the recipient regions".[19]

Second, as noted earlier, economic development has increasingly focused on endogenous factors where interfirm and inter-institutional networking and the quality of the business environment or industrial milieu are central to improving entrepreneurship, SME performance, innovation and exporting and thereby regional competitiveness. Endogenous development strategies are seen as inherently regional or local in scale, requiring area-specific policies and initiatives. As the Swedish Government noted in its last reform of regional policy, "There are development opportunities in every region, but there are differences in the terms on which enterprise can be developed".[20]

Third, strategic planning originates in the need for effective policy co-ordination. It has long been recognised that most public policies have spatial implications and that the resources of 'classical' regional policy are very limited. For example, in the early 1990s, Jan Monnesland[21] noted that explicit regional policies may only account for 5-10 percent of total public regional assistance in Sweden and Norway, the remaining 90-95 percent supplementing (or in some cases contradicting) explicit regional policy measures from other sources.[22] Strategic planning is a means for achieving co-operation and co-ordination between public policy, a process which generally appears to be easier at regional than at national levels.

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[18] Pinder D (1993*) Regional Economic Development and Policy: Theory and Practice in the European Community,* George Allen & Unwin Ltd.

[19]Norberg H (1999) *Regionalpolitken - en ESO-rapport om tro och vetande*, Expertgruppen för studier I offentlig ekonomi, DS 1999:50 (quoted in Hedegaard L (1999) Regional Aid Wasted, *North*, 10(5), 28-29.

[20]Ministry of Industry and Trade (1998) *Regional growth - for jobs and welfare*, Summary of Swedish Government Bill 1997/98:62, Stockholm.

[21]Monnesland J (1994) *op. cit.*

[22]As mentioned earlier, Nordic experts and officials have often drawn a distinction between 'narrow' regional policy (for example regional financial incentives and local infrastructure) and 'broad' regional policy (the regional impact of sectoral policies).

Table 5: National regional development strategies

Country	*Strategies*	*Level*
Denmark	Regional development plans/programmes Objective 2 programmes	County County
Finland	Strategic regional plans/programmes Objective 1 & 2 programmes	Regions Regions
Iceland	National regional development plan Regional development plans	National Regions
Norway	Regional development plans	County
Scotland	National economic development framework Local area strategies Objective 1 & 2 programmes	National County Regions
Sweden	Regional growth agreements Objective 1 & 2 programmes	County Regions

In *Denmark*, regional development programmes have become progressively more important over the past decade. Since the early 1990s, when regional financial incentives were abolished, there has been a broad policy consensus around framework measures rather than direct financial subsidies and a gradual decentralisation of economic development. In the first instance, national support was provided for the countries to develop basic regional development programmes. By the end of the 1990s, the national support was shifted to promote certain thematic or functional priorities within programmes such as business services, the use of IT, interaction with private firms and monitoring.

From 1994 onwards, the counties in *Norway* were encouraged to adopt EU-style programme-based planning procedures to improve their business development expenditure planning. Counties set up expenditure plans for the 1995-1998 period specifying their aims and objectives and an annual Action Programme setting out their concrete strategies. At the same time, county responsibilities for co-ordinating regional development strategies were progressively enhanced, with the counties taking responsibility not just for their block grant but also the co-ordination of the regional activities of various national government departments and agencies. However, the recent discussion of administrative reorganisation and redistribution of policy responsibilities (in particular between the counties and SND) could change the degree to which the counties are able to undertake strategic regional development programmes.

As a consequence of constitutional change in the UK, involving devolution to *Scotland*, there has been a wholesale review of all aspects of economic development over the past two years, encompassing structures and policies. At national level, the Framework for Economic Development in Scotland (FEDS) was introduced in 2000 “to provide an integrated and coherent framework within which the promotion of Scottish economic development may be taken forward”. Although not a prescriptive strategy, it sets out a vision and hierarchy of objectives for economic development in Scotland, embodying many of the standard principles - long-term planning, inclusiveness, a partnership approach and comprehensive consideration of economic development factors. Perhaps revealingly, it also aims to be “evidence-based” meaning that policy should be underpinned by analysis rather than anecdote and *ad hoc* assessment. At a lower level, governmental and parliamentary reviews of the delivery of economic development have led to a requirement for local development actors to produce local strategies (predominantly at local authority level) to improve the integration of business support and other economic development services.

For *Sweden,* regional growth agreements are a recent innovation. Introduced in 1997, they were conceived with the aim of promoting regional growth and employment. Fundamental to the policy, described by Lars Hedegaard as "a radical transformation of regional development work in Sweden", is an emphasis on long-term growth, an active co-ordination of regional societal resources and wider responsibility for the implementation of economic development actions. Like the Structural Funds, the growth agreements must be formulated within a framework of broad partnership; gender equality must be considered; and the accords must encompass analysis, programme strategy and financing. Unlike the Structural Funds, geographical delimitation was originally considered as being based on natural or functional regions, although in practice the county area is the starting point. The first generation of growth agreements was drawn up in early 1999 by the county governments in conjunction with municipalities.

STRATEGIC REGIONAL PLANNING IN THE SCOTLAND-NORDIC AREA

Denmark. From the early 1990s, when regional financial incentives were abolished, the Danish Agency for Trade and Industry has provided support for the counties to create regional development programmes to promote a more co-ordinated and programme-oriented approach to economic development at regional level and to bring some coherence to the large number of regional and local bodies involved in 'bottom up' initiatives. In 1998-99, a second phase was launched with a shift away from support for basic regional development programmes to assistance for 'thematic' orientations within the programmes, focusing on areas such as business services, the use of IT and interaction with private firms.

Iceland. Regional development is based on a four-year regional development plan for Iceland prepared by the Institute of Regional Development for parliamentary approval. The Institute also prepares regional development plans for the various regions in co-operation with local authorities.

Finland. Regional development programmes have emerged slowly in Finland since the creation of Regional Councils in 1994. The Councils have responsibility for drawing up strategic regional development programmes and reconciling them with the regional development measures of the (powerful) regional State offices. Although the regional councils have responsibility for presenting objectives for the development of regional infrastructure and the framework for business activity and skill development, they have limited financial resources and develop strategies by concluding programme agreements with the State offices, the business community and non-governmental organisations.

Norway. From 1994, the government encouraged the countries to adopt 'programme-based' planning procedures (based on the EU Structural Funds model) to improve the management of spending on business environment and project grants. Subsequently, the county responsibilities for co-ordinating regional development strategies were increased with a view to improving collective economic development action.

Scotland. At national level, the Framework for Economic Development in Scotland (FEDS) was introduced in 2000 "to provide an integrated and coherent framework within which the promotion of Scottish economic development may be taken forward". At a lower level, governmental and parliamentary reviews of the delivery of economic development have led to a requirement for local development actors to produce local strategies (predominantly at local authority level) to improve the integration of business support and other economic development services.

Sweden. Regional growth agreements were introduced by the Swedish government in 1997 with the aim of promoting regional growth and employment. Emphasising long-term growth, the agreements are required to be formulated within a framework of broad partnership, to take account of gender equality and to encompass analysis, programme strategy and financing. Geographical delimitation is supposedly based on natural or functional regions, although in practice the county area is the starting point. The first generation of growth agreements was drawn up in early 1999 by the county governments in conjunction with municipalities.

Finally, it is worth noting that several of the countries under review have begun to promote the use of cluster policies and strategies in recent years[23]. In *Norway*, the Ministry of Local Government and Labour has submitted a White Paper on regional policy, which is likely to reflect the presence of a stronger 'cluster' approach in Norwegian regional policy. Interest in this approach is long-standing - indeed, it was briefly discussed in the previous White Paper - but it has been more actively pursued over the past year. It complements a parallel, renewed interest in 'growth-pole' approaches to developing peripheral areas (in which resources are targeted at the main urban centres in these regions). A large-scale analysis of Norwegian clusters at the national level is underway - part-funded by the Ministry - and this is expected to influence proposals of new measures or new guidelines to Ministry policies in the White Paper. A clearer cluster-sector bias to measures may be introduced into some award criteria or through new measures in 2001. However, to date, it is not clear whether such cluster responsibilities will be transferred to a local level, or remain centralised as with much of regional policy-making in Norway.

In *Sweden*, the development of cluster strategies features more at the regional level against a background of wider policy decentralisation. These trends have reinforced the ability of regional and local authorities to take advantage of local competitive advantage. In the case of one region – East Sweden – this has led to the emergence of a fully-fledged cluster strategy as part of the regional growth agreement. The East Sweden cluster policy developed out of initial and widespread local authority agreement on a series of cluster mapping exercises in 1999. As well as identifying local clusters, these studies highlighted the role of the local university and science park in catalysing growth in the region's information/communications technology and software clusters. Both the clusters and the factors supporting them have been given explicit focus in the East Sweden regional growth agreement. While the agreement contained no new measures, it has provided strategic co-ordination of existing policies and set aside financial resources for developing cluster policy in target sectors.

In *Scotland*, a more overt cluster-based approach was undertaken in the mid-1990s. Following a comprehensive cluster mapping exercise (by the Porter consultancy group, Monitor), there was prolonged internal debate over the merits of the model within Scottish Enterprise, which ultimately led to the development of an explicit cluster strategy. The strategy identified four pilot sectors within the Scottish economy for cluster policy intervention: food/drink; semi-conductors; biotechnology; and oil/gas (the latter has been subsequently dropped from the pilot list). This has been supplemented by a series of action plans, co-ordinated by special sectoral teams within Scottish Enterprise but produced in wider consultation with other agents in the local economy (notably industry associations, other public sector bodies and universities).

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[23] Raines P (2001) *Local or National Competitive Advantage? The Tensions in Cluster Development Policy*, Regional and Industrial Research Paper, 43, European Policies Research Centre, University of Strathclyde, Glasgow.

Lastly, in *Finland*, the national government has initiated a centrally-funded scheme to develop local competitive advantage at regional level by encouraging networking within clusters. The Centres of Expertise programme is funded and managed centrally by the Ministry of Interior. However, it requires the different regions to submit programmes in support of their local clusters in a competitive funding exercise. The programmes tend to be put together by groups of local actors, and once funded, are often managed through a provision of services applied across the network.

5. THE DELIVERY OF ECONOMIC DEVELOPMENT

Associated with the above policy developments concerning both traditional and contemporary forms of regional policy is a degree of dynamism in the institutional arrangements for delivering regional and local development policies. These concern the relationships between central government and sub-national tiers of government as well as the way in which regional and local development is undertaken at local level[24].

Traditionally, it has been possible to make a relatively simple distinction between the delivery of economic development on the basis of constitutional arrangements. In the UK, the Nordic states and southern European countries, economic development was 'top-down', with responsibility for the design and delivery of economic development policies and services wholly or mainly in the hands of central government institutions. The role of the Department of Trade and Industry in England, operating through its regional offices, was similar to the way its State counterparts operated in Norway, Finland, Sweden, France, the Netherlands, Greece, Portugal, Spain and Italy. In these countries, regional government was weak or non-existent and local authorities tended to have limited responsibilities for economic development. At the other extreme were the federal countries – Austria, Belgium, Germany and Switzerland – where the approach to economic development was essentially 'bottom up'. The Belgian regions/communities and the *Länder* (states) in Germany and Austria planned their own economic development programmes, delivered through local authorities; in Switzerland the cantons and municipalities took the lead in addressing regional problems. Under these systems, the role of central government was mainly to provide the basic legislative framework, to undertake inter-regional co-ordination and (in some cases) intervene where regional/local authorities were unable to do so.

Over the past 10-15 years, this distinction between the top-down approach of unitary countries and the bottom-up approach of federal states has become blurred. In some EU federal states, national governments have taken a more prominent (co-ordinating) role following the reform of the Structural Funds and the changes to State aid regulation, while 'unitary' countries have been engaged in the devolution and decentralisation of economic development responsibilities to regional authorities. For example: in France, 22 regional governments were created in the mid-1980s; in the Netherlands, the provinces have been given increasingly autonomous responsibility for economic development; in Spain, the Autonomous Communities (especially Catalonia and the Basque Country) have been granted significant control over economic development; and in Italy, the regional governments have taken over wide-ranging responsibilities for delivering economic development. The main impact of these trends, however, has been at the regional level, where sub-regional authorities have been created or strengthened to take over State economic development responsibilities; the role of local authorities has often not changed significantly.

[24] This section is derived from: Bachtler J (2000) *Economic development systems in Western Europe: A comparative review of experiences and lessons*, Report to the Enterprise & Lifelong Learning Committee Local Economic Development Inquiry, Scottish Parliament.

Apart from devolution trends, policy shifts have also been associated with a 'regionalisation' and 'localisation' of economic development actions, and this in four ways. First, national governments gradually decentralised the administration of industrial, labour market and environment policies to regional offices or agencies to enable a more integrated and regionally targeted response to economic development problems, while still retaining State control over policy administration. (A good example is the creation of Government Offices in the English regions and the recent creation of RDAs). Second, there was an explosive growth of 'bottom up' local and regional initiatives, involving local authorities, voluntary groups and community-based movements. Third, the private sector was drawn more into local development, partly as result of pressure on businesses to take corporate responsibility for the welfare of local communities following plant closure or rationalisation. Lastly, from 1988 onwards, the reformed Structural Funds required investment in regional and local delivery mechanisms to comply with the EU regulatory requirements for programming and partnership in the planning and implementation of the Funds. The outcome is that most regions across Western Europe now have a complex mix of public, private and public/private intermediaries engaged in economic development.

Historically, economic development systems in France, Austria and (southern) Italy have placed great emphasis on (national, regional and sectoral) planning usually to provide guidelines for territorial development. Over the past two decades, this type of planning mechanism has been given more substance - in two ways. First, there has been increased *vertical co-ordination* of economic development between different levels of government. The most well-known example is the French system of State-Region planning contracts *(contrats de plan* – the inspiration for the Structural Fund approach to programming), involving a bilateral, five-year agreement between central and regional government which governs the funding and delivery of economic development measures. Similar approaches operate in Austria *(Bund-Länder Verträge)* and Italy *(contratti di programma).*

Second, there has been an upsurge in the use of regional and local strategies and partnerships to improve *horizontal co-ordination* between different economic development actors. While they are integral to the Structural Funds delivery model, they also feature increasingly strongly in national systems of local and regional development as a means of agreeing common priorities and defining economic development roles. Examples include the regional/local area contracts in Italy *(contratti d'area* and *patti territoriali)* and France *(contrat de pays)*; the regional growth agreements recently introduced in Sweden; the sub-regional 'conferences' *(Regionalkonferenzen)* of local development organisations, universities/institutes and community groups in Germany; the operation of regional development programmes and 'business nodes' in Denmark; and the regional strategies developed by RDAs in England and the Netherlands. It is notable that the design and delivery of Structural Fund programmes have been more successful where the programmes are 'nested' within a local/regional strategic context.

Table 6: Economic development organisations

Country	Pop.	Key development body	Local delivery arm	Local authorities
Denmark	5.31	Danish Agency for Trade and Industry (DATI)	County councils	14 counties 275 municipalities
Finland	5.16	Ministry of Trade and Industry (MTI)	Regional T&E Centres	19 regions 452 municipalities
Iceland		Institute of Regional Development		
Norway	4.45	Development Fund (SND)	SND county offices County councils	19 counties 435 municipalities
Scotland	5.1	Scottish Enterprise (SEN) Highlands & Islands Enterprise (HIE)	Local Enterprise Companies (LECs)	32 unitary authorities
Sweden	8.85	National Development Board (NUTEK)	County Administration Boards	21 counties 288 municipalities

Examining the current institutional position in Scotland and the Nordic countries in turn (see Table 6), regional development policy in *Denmark* is the responsibility of the Ministry of Trade and Industry, managed on the ministry's behalf by the Danish Agency for Trade and Industry. The distinctive aspect of the Danish system is that sub-national organisations are prohibited from providing financial assistance to individual firms (this was made explicit in 1992 as part of a wider rationalisation of government aid to business), and all business aid decisions are made centrally. Although economic development is not one of the statutory functions of local government, over the past 20 years the 14 county councils and the municipalities have increasingly developed an active role in this area - since 1992 focused on the provision of 'collective business services' eg. advisory services, technological support, joint marketing initiatives - as well delivering Structural Fund programmes. Given the emerging multiplicity of *ad hoc* regional and local economic development organisations and initiatives, central government has encouraged county councils: to prepare regional development plans as a general framework for bottom-up initiatives in each region; and to create 'business nodes' to limit the duplication of economic development activities by providing a permanent forum for discussion between development organisations in each area.

The delivery systems of economic development and business support in *Finland* are the most centralised of the three Nordic countries, the pre-eminent role of central government ministries having similarities with the pre-1999 situation in England. While the overall co-ordination of regional development (especially regional policy) is undertaken by the Ministry of the Interior, the implementation of business development is the responsibility of the Ministry of Trade and Industry (MTI) operating through a network of 20 regional offices. Since 1995, the MTI has shared regional offices with two other government departments to promote collaborative State approaches to economic development in the regions. These so-called regional Employment & Economic Development Centres (T&E Centres) are similar to the integrated Government Offices in England.

Apart from the regional offices of central government, the Finnish economic development system involves several specialist boards or agencies responsible for delivering venture capital, SME support, technology assistance etc. One of the most important bodies has been KERA, a State development bank established in 1971 to promote SME development and now specialising in risk financing, new firm formation, and analysis and development of SMEs; in 1999, the role of this body was strengthened by merging it with the SME Guarantee Board to create Finnvera.

Local authorities in Finland are very weak. The municipalities undertake some limited business advisory functions locally (eg. finding suitable premises and acting as a referral service on government assistance), but businesses would generally approach the regional State offices for government support. In 1994, 19 regional councils were established to promote regional economic development, but their main role is restricted to administering the Structural Funds and they are secondary to the State T&E Centres.

In *Iceland*, regional policy is formally carried out by the Regional Development Institute, an independent state-owned institute which was formally part of the portfolio of the Prime Minister, and is now under the Ministry of Industry, with a board of directors chosen by parliament. The institute has regional offices in four rural centres. More generally, Iceland lacks a regional level administration. Apart from in large urban centres, the state fulfils many of the functions run by municipalities in other countries.

Regional development factors inform most aspects of central government policy in *Norway*, and nearly all ministries actively take account of the 'regional dimension'. The Ministry of Local Government and Regional Development has the primary responsibility for regional and local development, but several other ministries also pursue 'regional development policies'. The Ministry of Local Government's role in economic development tends to be restricted to policy design/supervision and the allocation of budgets to SND and local authorities (counties and municipalities). Implementation of policy measures is mainly undertaken by the Industrial and Regional Development Fund *(Statens Nærings- og Distriktsutviklingsfond, SND),* established in 1993 to co-ordinate the delivery of all business support. Whereas previously it was the local authorities (notably the county councils), which undertook the main business support role at local levels, SND has largely taken over this function by establishing branch offices covering all counties. These regional offices are used to channel all support to the business sector, each office being overseen by a board set up by the county council. Some other government ministries also deliver local economic support through regional offices (eg. rural development funding from the Ministry of Agriculture).

Notwithstanding the 'top down' nature of business support, it should be noted that the county councils are important providers of non-business economic development services, particularly support for the 'business environment' eg. industrial property development, tourism projects, technology transfer and community development. (At time of writing, a government committee report reviewing the role of the counties was being debated.

Within the United Kingdom, it is important to recognise that England, Scotland, Wales and Northern Ireland have distinctive administrative structures relating to regional development. The distinctive nature of the approach adopted in *Scotland* has increased following the establishment of the Scottish Parliament since economic development is a devolved responsibility. In principle, the Scottish Parliament (and the same is true of the Welsh Assembly) has the authority to change regional policy as it sees fit, so long as its proposals do not touch on the Assisted Areas map (a reserved matter) and remain within Community guidelines. In practice, devolution is being viewed as providing an opportunity for the deepening of inter-departmental collaboration. Discussions between the relevant Scottish and Welsh policy-makers and the DTI have been ongoing with regards to changes to Regional Selective Assistance and a long-promised Memorandum of Understanding on financial assistance to industry was finally published in October 1999. Economic development within Scotland is led by Scottish Enterprise (urban/industrial areas) and Highlands & Islands Enterprise, each working locally through networks of Local Enterprise Companies. In addition, local authorities have become increasingly active in the economic development field, providing a range of business and development services.

The governmental system in *Sweden* is characterised by small ministries, which concern themselves exclusively with political and high-level policy issues, and a series of national and regional boards responsible for developing and implementing policy for economic development, labour market services, agriculture, fisheries, rural development, spatial planning etc. These boards are not attached to individual ministries but are accountable to the government as a whole. The main national economic development body is the National Board for Industrial and Technical Development *(Närings- och teknikutvecklingsverke NUTEK),* established in 1984 with a wide-ranging remit for delivering industrial policy in fields such as R&D, new firm formation, SME development, regional policy, environment and energy.

At regional level, most government services are delivered through County Administration Boards (CABs), one in each of the 21 counties. These are important and powerful State bodies, staffed by civil servants and headed by county governors appointed by the government. As part of a wide range of functions and services, the CABs are also responsible for the regional delivery of NUTEK economic development measures and business support. The economic development function of local authorities (the elected county councils and municipalities) is very weak by comparison with the CABs, although the increasing access of county councils to Structural Funds is leading to a struggle with the CABs for regional and local development responsibilities. In four counties, regional government has taken over CAB economic development functions until 2002 on a trial basis. The main role of the municipalities is to provide (non-business) economic development services, such as local infrastructure; they do provide some local advice and small-scale support for new start-ups and SMEs, but business-people would generally go straight to the CABs to get access to government assistance. The county councils do not normally have any role in providing economic development or business support services.

6. POLICY CHALLENGES FOR THE NEXT DECADE

The countries on the north-west rim of Europe - Denmark, Finland, Iceland Norway, Scotland and Sweden - all have distinctive histories, cultures and societies and separate political and economic systems. However, they also share common features. They are all open and small economies, located some distance from the centres of economic growth; they have limited influence on the pace and direction of European integration; and in some cases they have large internal disparities, particularly between the urban/industrial centres and peripheral rural areas. They also have many advantages, not least high levels of education; they are among the leaders in responding to the potential of the information revolution; and, in certain market sectors, they have produced internationally competitive companies. Small size also offers opportunities, in particular the potential for coherence and co-operation and speed of reaction to economic trends.

6.1 Policy issues

In its assessment of the future challenges and institutional preconditions for regional development policy, the Nordic Research Programme[25] identified four sets of challenges, some of which also feature in the analysis underpinning FEDS in Scotland. First, there are the implications of *globalisation*. National economies are increasingly open to international economic developments, but national governments are more and more constrained in their policy response. The growing exposure of countries and regions to international events and the speed at which change is happening, and transmitting its effects globally, demands new thinking about economic development. In particular, it requires different levels of government - European, national, regional, local - to reconsider their roles, their inter-relationships and their wider relationships with other economic and social actors.

Second, there are the challenges of *social welfare*. From a Nordic perspective, the question is how the traditional commitment to social equality and a collectivist approach to universal welfare policies could or should be reconciled with the need to adapt social security and labour market policies to the pressure for regional and national competitiveness. In Scotland, there is a similar debate, but within a context where the combined failure of past social security, labour market, regional and industrial policies has left some significant groups excluded from prosperity.

Third, it is argued that the implications of *sustainable development* have yet to be fully grasped. While economic development policies and strategies may be using the language of sustainability, many plans have minimal practical impact because of the transregional or transnational nature of the challenges and the need for fundamental changes in culture and cultural patterns on the part of both politicians and people (for which both are arguably not yet ready).

Lastly, the future challenges and preconditions encompass the promises of a new *information and communications technology*. Developments in hardware and software

[25] Karppi I (Ed.) (2000) *Future Challenges and Institutional Preconditions for Regional Development Policy*, Nordregio, Stockholm

technologies have the potential both to assist and counteract the goals of regional development (for example, the decentralisation or centralisation of tasks and jobs). Critical factors are, of course, the distribution of infrastructure but also the availability and accessibility of services and the ability of individuals, communities and organisations to exploit opportunities.

Against this background, the implications for regional policymakers are many and varied. As FEDS notes, it is the dynamism and competitiveness of the individual enterprise in domestic and global markets which lies at the heart of economic development. This requires companies continuously to work to secure a competitive edge through the application of knowledge, innovation and efficiency. In order to support this, Peter Maskell[26] argues that the State must place more emphasis on ensuring well-functioning institutions, in particular focusing on enhancing the capacity and capability of regional and local actors. Further, local and regional action will have to vary from one region to another to establish 'unique' features for each region but with a decision-making system that can establish strategic priorities. However, it is evident that many regions are far from being able to achieve this. As Christian Saublens has pointed out, regional development policy has often tended to be reactive rather than prospective, with regions lacking the financial assets or institutional capability "to take a quantum leap in development and move from the status of a less-favoured region in the traditional economy to that of a strong region in the new economy".[27]

Equally, in the face of the above influences on economic development - globalisation, environmental impact, the information revolution, societal change – many key decisions lie outside the sphere of regional and local action and require national and European policies. While regions may need to develop unique, strategic clusters of competitive advantage, this has to take place within a national framework that can ensure 'balanced development'. Further, the remit of regional policy action has to be clear. There are valid questions about the increasing breadth of regional and local development strategies, which are addressing issues such as education, training and high-tech support that could be more appropriately addressed by non-spatial policies directed at specific groups.[28] This underlines the importance of thinking about regional and local development as a co-ordinated, multi-tiered approval rather than a "decentralisation or deactivation" of higher levels of government.[29]

6.2 Regional policy

As far as traditional regional policy is concerned, there are a number of challenges which emerge from the above review of the Nordic countries and Scotland. A key

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[26] Maskell P (2000) *Future challenges and institutional preconditions for regional development policy posed by economic globalisation*, in Karppi I (Ed.) *op. cit*., 27-88.

[27] Saublens C (2000) *Does the New Economy Call for a New Regional Policy Concept?*, EURADA.

[28] Rhodes M (1995) *The Regions and the New Europe*, Manchester University Press.

[29] Hansen N (1995) Addressing regional disparity and equity objectives through regional policies: a sceptical perspective, *Papers in Regional Sciences*, 74(2), 89-104.

issue is the extent to which it is possible to reconcile policy effectiveness with increasingly constraining State aid rules. Over the past two decades, the competition policy authorities have had more and more impact on the types of aid on offer, the coverage of the designated aid areas and the available aid ceilings. As far as aid types are concerned, the influence of the competition policy authorities has been a contributory factor to the withdrawal of many large-scale automatic aid schemes (including automatic regional development grants in Britain); in addition, State aid rules have led to the demise of social security concessions in the Nordic countries and to increasing constraints being placed on transport subsidies – two incentive types which traditionally have been viewed as effective counters to the cost disadvantages associated with many remote northern locations.

As far as problem region coverage is concerned, the population ceilings introduced under the 1998 Regional Aid Guidelines have created significant problems in many countries where it has proved to be difficult to reconcile national regional policy goals with the available population ceilings. The pressures have been particularly acute in countries where foreign direct investment is a priority, creating obvious tensions between areas of opportunity and areas of need. In similar vein, following the (sometimes significant) recent cutbacks in regional aid award ceilings, questions have been raised in some countries about the degree to which aid schemes will be able to have any practical influence on the investment and location decisions of firms if aid maxima are reduced any further. An interesting consequence of these points is that a number of countries are actively considering whether their regional development goals might be more effectively met in other ways – that is, by using policy instruments (including aid schemes) which do not fall within the definition of State aid.

A further challenge for regional aid administrators is to determine how policy can be effectively implemented in the more devolved policy environment now found in most countries. There are two important issues to consider in this regard. One relates to the need to ensure that equivalent projects are treated in an equivalent way irrespective of location (without totally invalidating the devolved nature of policy delivery). This is a particular problem in countries where there may be competitive bidding between regions for potentially mobile investment. The second issue concerns the difficulty of achieving meaningful coordination with sectoral and horizontal aid schemes. It is in this context that regional programmes and strategies may have a potentially significant role to play.

6.3 Regional strategies

In addressing the above policy agenda, regional strategies would appear to offer a coherent method of unifying regional resources and maximising regional potential. However, reflecting on the experience to date, there are several questions or issues that need to be addressed. The first issue is the theoretical base on which current regional development thinking is built. While the industrial district/milieux and clusters/networks literatures shed some important light on how economic development operates, some of the concepts such as the ‘learning region’ have weak or tenuous underpinnings. In particular, it is not clear whether processes such as innovation or learning have a territorial (as opposed to functional) dimension that can be realistically addressed by regional and local policymakers.[30]

Second, although regional strategies are seen as a better policy for delivering regional growth and employment, their ultimate impact has not yet been demonstrated. While they may represent a more efficient method of delivering regional development support, and the consensual nature of agreements provides a 'warm glow' of partnership, it is not yet clear whether the regional strategies will lead to more effectiveness, in terms of impact on job creation, entrepreneurship, SME activity and innovation. Given that partnerships often involve people from groups already active in regional and local economic development, it is not evident whether there is a tangible difference to the design and delivery of policies.[31] The critical factors are twofold. One is the degree to which the business community is involved – not the representatives of employers associations but the enterprises themselves – in the partnership. Insofar as the oft-quoted examples of 'dynamic regions' like Baden-Württenberg, Emilia-Romagna or Rhône-Alpes have a wider relevance, it is that the SME networks and the SME trade associations have been integral to the strategy. The other factor is leadership: in each of the above four regions, the combination of institutional autonomy and key political figures able to set strategic priorities *and* mobilise change have been important contributors to effective economic development.[32]

Lastly, regional strategies rarely operate within a wider framework whereby they can be co-ordinated with national economic development policies (such as large-scale infrastructure planning). Scotland is the main exception, although even here it is not clear how the FEDS will relate to or influence local economic development strategies. In this respect, there is frequently an institutional tension between regional offices of the State and regional/local authorities. In all of the countries discussed here, regional development has historically been run by central government, although in an increasingly decentralised manner via regional/local offices. Sub-national, elected authorities have often been weak and have lacked institutional and financial capacity to play a major role in economic development. Although regional development strategies are emerging in all countries, it is notable that in several cases (Finland, Scotland, Sweden), they are based on agreements to reconcile the State and local interests where the elected local authorities are usually the junior or weaker partner.

6.4 Institutional tensions

Reviewing recent developments in the delivery of economic development in the Scotland-Nordic area (and elsewhere in the EU), three issues stand out. First, the

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[30] Lovering J (1999) Theory led by policy: the inadequacies of the "New Regionalism", in *International Journal of Urban and Regional Research*, 23,379-396. Fürst D (2001) Die "learning region", in H-F Eckey et al (Eds.) *Ordnungspolitik als konstruktive Antwort auf wirtschaftspolitische Herausforderungen*, Lucius & Lucius, Stuttgart.

[31]Oscarsson G (1999) *A national industrial policy*, Swedish Industry and Industrial Policy, NUTEK, Stockholm

[32] Rhodes M (1995) *op. cit.*

reorganisation of regional administration has been extensively discussed in all the larger countries over the past decade. In Denmark, Finland, Norway, Scotland and Sweden there have been reforms of territorial public administration, experiments in selected regions or governmental reviews. The countries differ in the degree to which they rely on a large number of local administrations or a limited set of regions, or a combination of the two. There is little consensus on the need for regions, how many there should be in relation to population, what their optimal tasks should be and whether they should have elected or appointed authorities.[33]

Second, there has been vigorous debate on the perceived competition between 'top down' and 'bottom up' systems[34]. This is evident in Scotland, with respect to the local rivalry between Local Enterprise Companies and local authorities; in Norway, between the county councils and the (State) regional offices of the Industrial and Regional Development Fund; in Sweden between the county councils and the County Administration Boards; and in Finland between the State district offices and the regional councils. In most of these countries, the role of the local authorities is clearly subordinate to the State offices in the delivery of economic development. However, the situation is certainly not permanent; as mentioned, several systems are in flux with the more powerful local authorities acquiring increased responsibilities and governmental/parliamentary reviews of the delivery of economic development. One of the problems of the debate in some countries is the way in which it has become polarised, suggesting that economic development should be the responsibility of either State-run (top-down) bodies or autonomous local/regional authorities.[35]

Insofar as it is possible to generalise, there appears to be a pattern of separating administrative responsibility for business aid and non-business support in the delivery of economic development. Apart from the smaller SME assistance schemes, financial incentives for business are delivered by central government offices/agencies. Often this reflects the need for eligibility rules, appraisal, award, payment and monitoring procedures to be applied consistently across the country. It is also a consequence of the increasingly tight State aid controls of the EU policed by the EC Directorate-General for Competition Policy to which Member State governments are accountable. Non-business support for economic development, on the other hand, tends to be provided by local authorities or other region/locality-specific organisations. Support for the 'business environment' is more complex to deliver and usually needs to be tailored to the particular requirements of regions, communities or target groups. This distinction is not rigid and, even where the role of State offices is very strong, local authorities do play some role in business support but usually restricted to helping new entrepreneurs and the smallest firms with very small-scale assistance.

A third issue of concern for policymakers is the perceived congestion and competition in economic development among regional and local economic development organisations[36]. Across Scotland and the Nordic area, there is an on-going debate

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[33] Aalbu H (2000) Do We Need Regions? *North*, II (4), 5-9.

[34] Bachtler J (2000) *op. cit.*

[35] Oscarsson G (1999) *op. cit.*

[36] Bachtler J (2000) *op. cit.*

about 'too many actors' in the local development field'. As one example, the northernmost Danish county (North Jutland) is reported to have over 40 organisations involved in business promotion in a region with fewer than half-a million inhabitants. A parliamentary review of economic development in Scotland was highly critical of the congestion and competition in the economic development fields. Since rationalisation is often difficult to achieve without institutional upheaval, most efforts to reduce congestion have concentrated on providing effective referral or signposting services, sometimes termed 'one-stop shops'. Examples include the proposed creation of 'single windows for business' in Norway, the creation of Business Nodes in Denmark and the Small Firms Gateway in Scotland.

6.5 Enlargement and Structural Funds

Finally, it is worth drawing attention to the challenges relating to EU regional policy. Structural Funds have been a feature of the economic development landscape since the mid 1980s. By the time the current funding period ends, Scotland will have operated Structural Fund programmes for 20 years, Denmark for more than 15 years, and Finland and Sweden for a decade.

Looking to the future, enlargement will significantly redraw the map of regional disparities. As the Second Cohesion Report notes, in an EU of 27, over one third of the population would live in countries with an income per head less than 90 percent of the EU average, compared to one sixth in the present EU15. At regional levels, the average income per head for the bottom 10 percent of the population, living in the least prosperous regions of an enlarged EU would be only 31 percent of the EU27 average, with some of the worst-off regions in eastern Bulgaria, Romania or Latvia as low as 15-25 percent of the EU27 average.[37]

The implications for the current Structural Fund recipients in Scotland and the Nordic countries are mixed. Clearly, widening of the EU will lead to a substantial diversion of EU regional policy resources eastwards; virtually all of the Candidate Countries would qualify as Objective 1 regions in their entirety, with the exception of some capitals (Prague, Bratislava). On the other hand, the impact of this shift on the EU regional policy budget may be qualified by several factors.

First, there is a limit on the absorption capacity of the Candidate Countries. Although their GDP growth rates are relatively high, the size of their economies is still small compared to EU Member States. If their absorption of EU transfers is limited to four percent of national GDP, then most are unlikely to be able to benefit from the levels of EU support currently enjoyed by the EU's poorest recipients (€348 per head in Portugal). Second, the EU budget already contains substantial provision for assistance to the Candidate Countries in the form of pre-accession and post-accession aid (ie. the transfer of resources eastwards has already begun). These provisions will meet a significant proportion of Structural Funds requirements in Central and Eastern Europe. Third, it is unlikely that all 12 Candidate Countries will be EU members by 2007 which again would limit the need for Structural Funds in Central and Eastern

[37] CEC (2001) *Unity, solidarity, diversity for Europe, its people and its territory*, Second Report on Economic and Social Cohesion, Commission of the European Communities, Brussels

Europe; Poland is of course the key country, given its population and economic size and current growth rate.

Apart from aid to Central and Eastern Europe, EU regional policy would also have to meet the demands for support from the current Objective 1 recipients in southern Europe. Even in an EU 27, significant parts of Greece and Portugal, parts of Italy, Spain and eastern Germany would probably still be below the Objective 1 threshold and qualify for Structural Funds. In addition, the southern European Member States are arguing that, since they will have to bear the costs of enlargement, there is a strong argument for retaining EU Structural/Cohesion Fund intervention also in regions which exceed the Objective 1 threshold in an enlarged EU. Elsewhere in the EU, support might still be available under Objective 2 (and under Objective 3 and the Community Initiatives). The size of the Objective 2 budget is so small, relative to the Objective 1 resources, that an abolition of Objective 2 would save relatively little.

Projections of funding scenarios for future EU regional policy suggest, therefore, that the EU budget for structural operations over the period 2007-2013 might accommodate both a sizeable allocation of funding (up to national absorption limits) in Central and Eastern Europe as well as continued allocations to the current EU Member States.

This would offer Scotland and the Nordic countries a choice. On the one hand, they could – as in the past – opt for a strategy of maximising their shares of the Structural Funds after 2006. The Nordic countries could argue for continued retention of sparsely-populated areas as part of Objective 1 and all countries could advocate retention of Objective 2 or at least generous transition periods for de-designated areas. Given that QMV has been delayed for Structural Fund decisions, the ‘something for everyone’ scenario would be plausible. On the other hand, Scotland and the Nordic countries could advocate options that would effectively end EU regional policy intervention in the more developed regions of the EU. This would potentially give their negotiation stance more weight in reforming the Structural Funds so that it becomes a more spatially concentrated, policy focused intervention. From a practical perspective, this approach would avoid further involvement in the complex area designation process and bureaucratic programming methods of the Structural Funds. Lastly, it would also build on the widespread perception among Scottish and Nordic regions that 2000-06 is the last period of Structural Funds support and the recognition of the need to plan for ‘exit strategies’ and ‘durable legacies’.