

New European territorial challenges and regional policy

Annual Review of Regional Policy in Europe



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EXECUTIVE SUMMARY

Regional development and **the regional policy context in Europe have been shaped by macro-level forces in 2015-16** including: the aftermath of the 2008 economic crisis, the refugee/migration crisis, the United Kingdom's vote to leave the EU, and environmental/climate change.

Following the introduction of new EU Cohesion policy and EU regional aid frameworks in 2014-15, which set EU-related maps and funding arrangements until 2020, the main changes in 2015-16 have been driven by **national/regional decisions to re-shape objectives, maps, budgets, instruments and institutional frameworks** to meet domestic circumstances and political needs.

This report provides a comparative overview of the current situation of regional policies in 30 European countries, as well as a review of changes in 2015-16.

How should regional inequalities be measured?

Organisations such as the OECD and European Commission are developing **alternative measures of regional disparity** (e.g. social progress indicators, SPI), alongside traditional indicators such as GDP per capita and unemployment rates.

Although regional SPI scores are strongly correlated with GDP per capita, they show **different results for some countries/regions**, particularly capital city regions and peripheral regions

Alternative indicators such as SPI could have significant impacts on policy funding allocations and strategic decisions for some countries and regions.

Regional policy objectives focus more on inequalities and innovation

Regional policy **objectives are set in constitutional, legal or strategic documents**. Countries focus either on reducing interregional disparities, mobilising resources in all regions with a view to supporting national growth, or both objectives in parallel.

Changes in 2015-16 include a renewed **emphasis on reducing interregional and interpersonal inequalities**, as well as a stronger **focus on technological innovation and economic growth**.

Cohesion policy funding levels have fallen over time in poorer countries

Trends in domestic allocations of regional policy funding depend on the broader fiscal situation and on domestic policy priorities, with many countries seeing **funding constraints in 2015-16**.

In 2014-20 **Cohesion policy funding allocations to many poorer Member States have fallen** compared to 2007-13, although funding levels to most wealthy countries are stable (in constant prices and as a percentage of national GDP).

There is no clear correlation between regional aid spending as a percentage of GDP and indicators of national prosperity, although this may be partly due to data weaknesses.

Regional policy maps depend on EU frameworks & domestic decisions

The main shift in EU regional policy frameworks in 2015-16 was the European **Commission mid-term review of regional aid maps**, where changes may come into play in a number of Member States from January 2017.

Domestically-driven changes in 2015-16 include: an enhanced focus on peripheral or rural areas; revised regional targeting; new enterprise/economic zones; and adjustments in eligibility criteria.

EU and domestic factors are also shaping revisions to instruments

Changes to regional policy instruments in 2015-16 include the ongoing launch and adjustment of regional aid schemes for the 2014-20 period. There are also concerns over the impact of **EU State aid constraints on scope to award aid to large firms in 'c' areas**.

Other **revisions of instruments** are due to domestic budgetary circumstances and political decisions, as well as domestic evaluation and review findings. Changes have been made in the following fields: support for business investment, innovation and experimentation, infrastructure, place-based approaches, and capacity-building.

Countries are also in the process of planning **future regional policy reforms** of instruments, particularly in Germany, where a major review is underway of existing regional policy.

Institutional changes have mainly been driven by domestic decisions

In 2015-16, the institutional arrangements of regional policy have remained stable in a number of countries. Where reforms have been introduced, they have focused on (i) **central-level regional policy frameworks** and (ii) the **reallocation of responsibilities between central, regional and local levels**.

Key issues for discussion

- **Should further work on regional social progress indices be pursued** - and should these alternative indicators be used within national or EU regional policy-making?
- **Does regional policy need stronger thematic goals** – or could this lead to a lack of focus on regional disparities and/or to a lack of differentiation vis-à-vis sectoral policies?
- **Does regional policy need new instruments** (e.g. innovation support, place-based strategies, social integration...) to address new challenges related to the refugee crisis or the unequal impact of austerity and globalisation?
- **Is the proliferation of geographies helpful** (macro regions, functional regions, restructuring, urban, rural regions) - or does it lead to a lack of focus in regional policy?
- **Is there a need for more work to demonstrate the capacity of regional policy** to contribute to major challenges – or to increase its effectiveness?

1. INTRODUCTION

The context of regional policy-making in Europe has been turbulent in 2015-16. Governments are facing **major challenges which directly affect regional inequalities and regional policy**, notably macroeconomic difficulties, slow economic growth and fiscal constraints; the refugee and migration crisis; the United Kingdom's vote to leave the EU; and environmental/climate change.

Regional policies have been responding to these challenges in 2015-16, notably by **re-orienting towards particular social/regional inequalities or towards innovation/experimentation**, by incorporating additional thematic goals, and by adjusting the spectrum of regional policy instruments. Core **EU Cohesion policy and EU regional aid frameworks have been stable**, although changes are anticipated following the mid-term review of the EU regional aid map in 2016.

In this context, this report provides a **comparative overview of regional development policies** across 30 European countries (i.e. the EU28, Norway and Switzerland), including recent changes,¹ focusing on six main dimensions of regional development and regional policy:

Chapter 2 assesses regional disparities in Europe in the context of the economic and social challenges facing European countries, drawing on traditional indicators (e.g. GDP per capita and unemployment) as well as newer indices of social progress and well-being.

Chapter 3 examines the formal objectives of regional policy across European countries.

Chapter 4 gives an overview of comparative data on funding for regional policy in Europe.

Chapter 5 assesses the geographical focus of regional policy, which is shaped partly by the EU regional aid maps and EU Cohesion policy, and partly by domestic regional targeting.

Chapter 6 explores the main domestic regional policy instruments in European countries.

Chapter 7 outlines the institutional frameworks of regional policy in Europe.

Last, **Chapter 8** concludes and sets out issues for discussion.

The report draws on a programme of research on regional development and regional policy in 2015-16, including interviews with senior policy-makers responsible for Cohesion policy, regional aid and domestic policy in 30 European countries. Detailed country-specific information is available in:

- (i) a report on regional policy for each of 30 European countries,
- (ii) comparative tables of regional policy instruments, including changes in 2015-16,
- (iii) fiches on domestic regional policy instruments,
- (iv) fiches on Cohesion policy in the EU28 in 2014-20,
- (v) fiches on regional aid maps for 2014-20 in the EU28 and Norway, and
- (vi) fiches on the institutional frameworks of regional policy in 30 European countries.

¹ This is the latest in a series of annual overviews of regional policy in Europe produced as part of the EoRPA project. The most recent report is: S. Davies, M. Ferry and H. Vironen (2015) *Regional Policy in Europe Targeting Growth and Inequality*, European Policy Research Paper, European Policies Research Centre, Glasgow

2. HOW SHOULD REGIONAL INEQUALITIES BE MEASURED?

KEY FINDINGS

Regional GDP per capita and unemployment figures provide valuable benchmarks for measuring regional development. Yet increasingly social progress indices are used alongside existing measures to offer further insights into regional disparities and inform policy.

The latest available data for European countries shows that 2015-16 has been an extremely complex period across the EU-30, with many diverse macro-issues (e.g. macroeconomics, refugee crisis, Brexit) also having a regional development or regional policy dimension.

Perceptions of regional disparity are based on a wide range of factors, with challenges such as regional demographic pressures and migration being highlighted in 2015-16. More comprehensive overviews of regional disparities, such as the European Commission's Regional Social Progress Index, published in April 2016, offer insights in a wide range of issues and add to the traditional benchmark indicators of regional GDP per capita and un/employment rates.

While there are strong correlations between traditional measures of regional disparity and alternative measures, such as social progress indicators (SPI), these indicators also show different results for some countries/regions, particularly for capital city regions / agglomerations and for some peripheral / structurally weaker regions. Questions therefore remain over the use of SPI for practical policy and funding decisions.

2.1 Introduction

Since 2008, the effects of the economic crisis have dominated the context for regional development at EU levels and in a range of countries. Along with long-term structural challenges, the impacts of the crisis continue to be felt across Europe and to shape regional development disparities. However, regional disparities are also influenced by political, social and environmental concerns, with issues such as refugees/migration increasingly prominent in 2015-16.

GDP per capita and unemployment figures are the long established benchmarks for measuring regional development disparities. However, they offer a narrow view of the nature of inequalities on the ground. Perceptions of regional disparity are based on a wide variety of factors: geographical circumstances, levels of national economic development, extent of social problems, and the scale of internal regional disparities.² Related, regional policies address a wide range of social, cultural, environmental, as well as economic, issues and, in the drive for policy accountability, increasingly require new approaches to measuring and reflecting policy impact.

The range of challenges facing regional policy-makers has stimulated the development of more comprehensive overviews of regional disparities based on a wider range of economic, environmental and social indicators. In April 2016 the European Commission published a draft 'Regional Social Progress Index', which aims to measure social progress for each region as a complement to traditional

² Wishlade, F. and Yuill D. (1997) Measuring Disparities for Area Designation Purposes: Issues for the European Union, Regional and Industrial Policy Research Paper Number 24, EPRC, University of Strathclyde, June

measures of economic progress.³ This section begins by reviewing regional disparities based on GDP per capita, and unemployment and demographic data (Section 2.2). Subsequently, new approaches to understanding and measuring regional disparities are considered and applied (Section 2.3). The section concludes with an overview and discussion (Section 2.4).

2.2 Development in the EU-30

2.2.1 Economic indicators

The year 2015-16 has been an extremely **complex period across the EU-30, with many diverse macro-issues also having a regional development or regional policy dimension**. A period of modest economic growth in the EU economy⁴ has been accompanied by major political debates, notably relating to macroeconomic difficulties, Brexit,⁵ inflows of refugees/migrants, and debates continue on how to tackle the long-standing issues of climate and demographic change.

Against this background, **strong developmental disparities between European countries and regions remain**. GDP per capita (PPS) levels remain particularly high compared to EU-28 averages in **Luxembourg, Switzerland** and **Norway**, while real economic growth has been persistently above the EU28 average in several countries in 2011-15 (including **Poland** and the **United Kingdom**). Yet, national economies continue to face:

- on-going structural change, in particular in the **Central East European** Member States,
- the lasting effects of the economic crisis, notably in **Spain** and **Greece**; and
- looking forward, a weakening global economy poses a challenge, with developments in China and other emerging markets leading to a slow-down in global demand.

National development disparities within the EU remain pronounced, with a gap of 225 percentage points between **Luxembourg** and **Bulgaria**, in terms of GDP per capita (PPS, as a percentage of the EU average) (see Figure 1). National economic difficulties can translate into public finance constraints which limit intervention by regional policy and other investment- or employment-oriented policies.

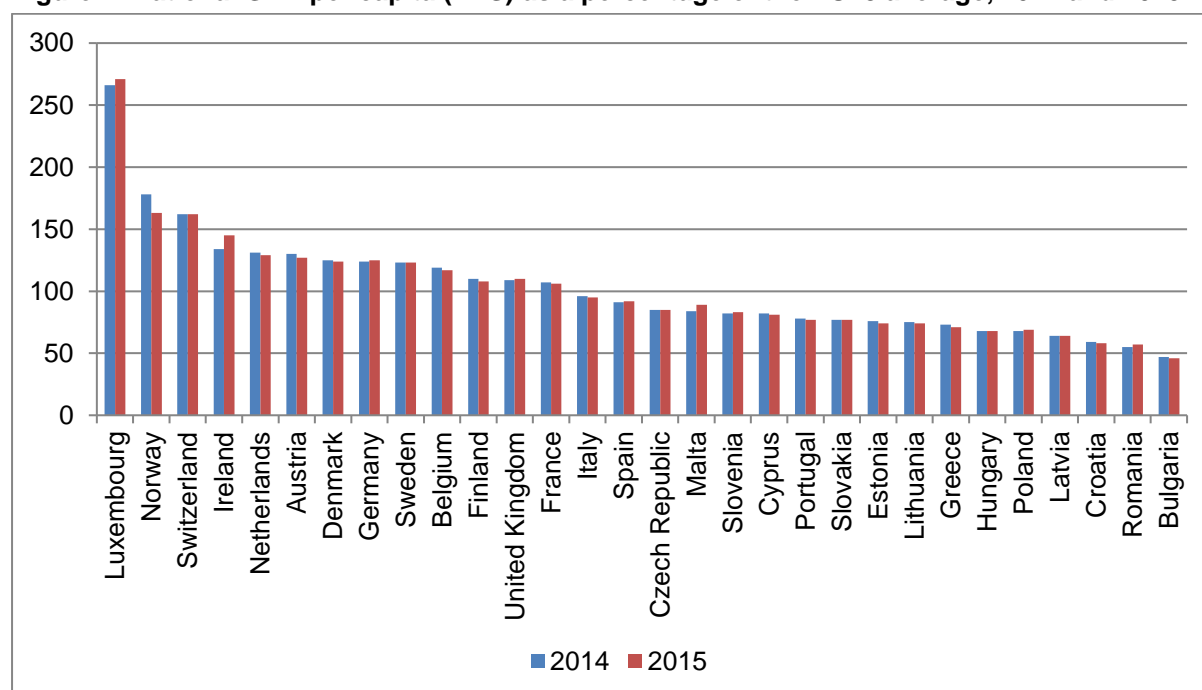
Similar to national development trends, regional disparities in GDP per capita remain substantial across the EU, ranging from 30 percent of the EU average in the North West Region of **Bulgaria** to 539 percent of the average in Inner London-West in the **United Kingdom**. The extent of regional disparities is illustrated in Figure 2, with the sharp disparities apparent between major urban centres, such as London, and more peripheral regions and areas facing major industrial restructuring.⁶

³ CEC (2016) 'Moving Beyond GDP: New Regional Social Progress Index', http://ec.europa.eu/regional_policy/en/newsroom/news/2016/02/16-02-2016-moving-beyond-gdp-new-regional-social-progress-index accessed, 30 April 2016

⁴ European Commission (2016) European Economic Forecast Spring 2016, *European Economy*, May 2016, <http://ec.europa.eu/economy_finance/eu/forecasts/2016_spring_forecast_en.htm>, accessed 24 May 2016

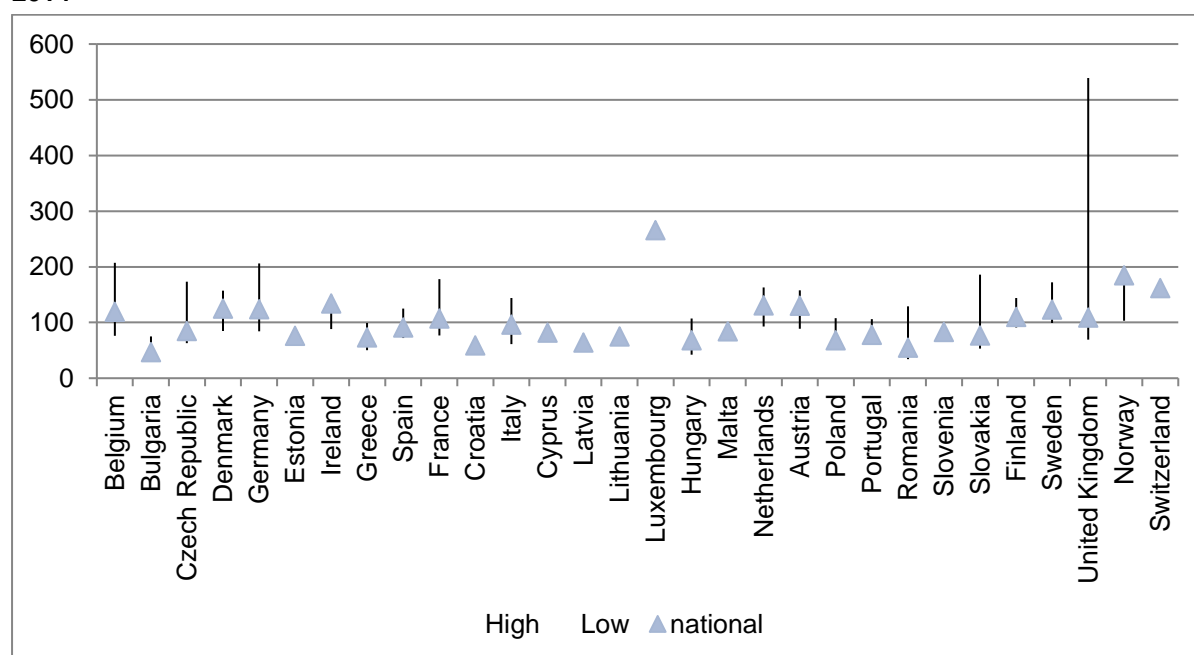
⁵ S. Davies (2016) Brexit and regional disparities in the UK, EoRPA Policy Briefing, August 2016

⁶ Eurostat (2016) 2014 GDP per capita in 276 EU regions twenty-one regions below half of the EU average... and five regions over double the average, 30/2016 - 26 February 2016 <<http://ec.europa.eu/eurostat/documents/2995521/7192292/1-26022016-AP-EN.pdf/602b34e8-abba-439e-b555-4c3cb1dbbe6e>>, accessed 25 May 2016

Figure 1: National GDP per capita (PPS) as a percentage of the EU28 average, 2014 and 2015

Source: EPRC calculations based on Eurostat data, National GDP per capita (PPS) as a percentage of EU28, <http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tec00114&plugin=1>

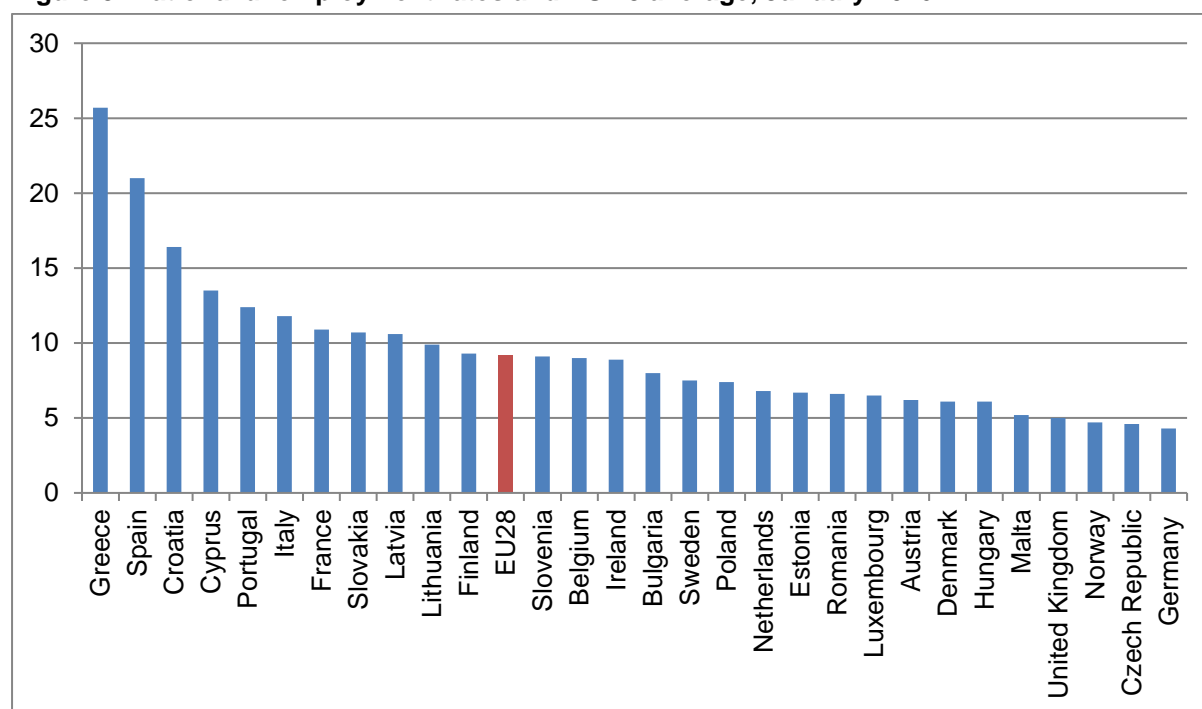
In terms of internal regional disparities, some of the sharpest disparities are apparent in the **United Kingdom, Slovakia and Romania**, reflecting the dominance of capital city regions, (see Figure 2). Countries with notable drops below the national average include Norway and Ireland reflecting a generally comparatively balanced pattern of development, but the presence of peripheral regions facing particular developmental challenges.

Figure 2: NUTS 2 regional GDP per capita as a percentage of national GDP per capita (PPS), 2014

Source: EPRC calculations based on, Eurostat data, Regional gross domestic product (PPS per inhabitant in % of the EU28 average) by NUTS 2 regions <http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tgs00006&plugin=1>

As with GDP per capita figures, **unemployment rates vary significantly between European countries and regions, with particularly high rates in those countries most affected by the financial crisis and subsequent downturn** (see Figure 3). At the outset of the economic crisis in 2008, 16.8 million people were unemployed in the EU-28. In 2013 the figure rose to 26.1 million (10.6 percent). By June 2016 the number of unemployed had fallen to 21.0 million.⁷ The highest unemployment rates remain in **Greece, Spain** and **Croatia** (see Figure 3), and the lowest (below five percent) in **Germany, the Czech Republic, Norway** and **Switzerland**.

Figure 3: National unemployment rates and EU 28 average, January 2016

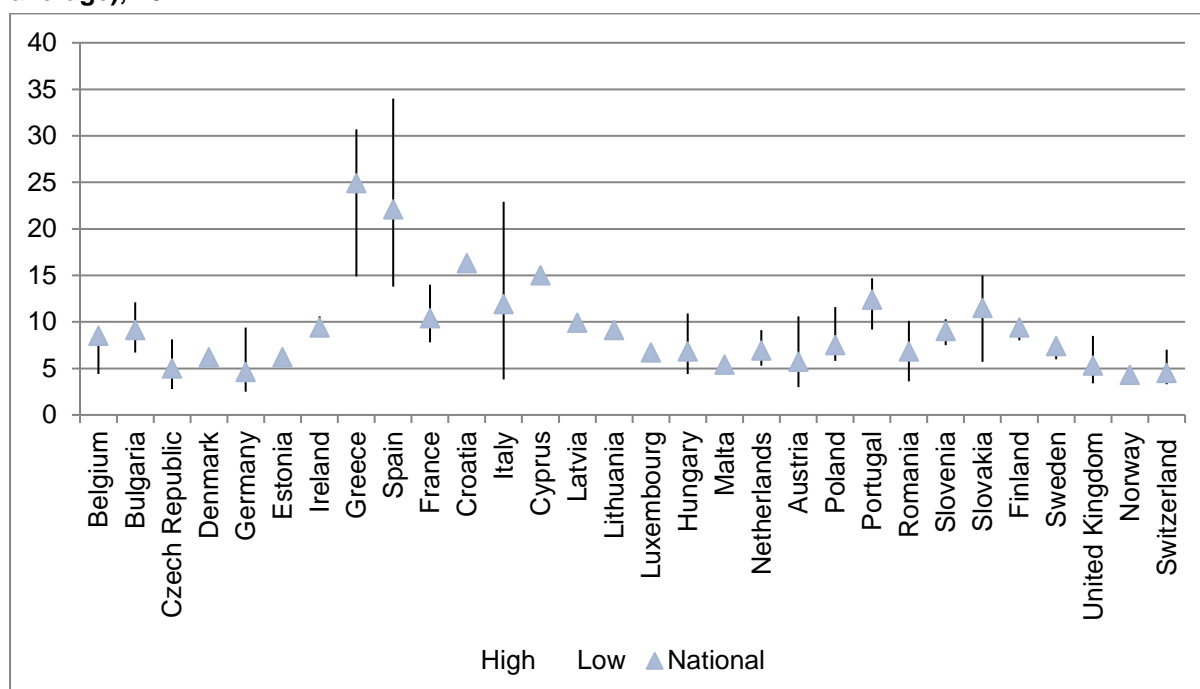


Source: EPRC calculations based on Eurostat data, harmonised unemployment rates %, <<http://ec.europa.eu/eurostat/web/products-datasets/-/tgs00010>>

At regional levels, high unemployment rates remain concentrated in regions in **Greece**, all but five **Spanish** regions (Region of Madrid, and regions in Northern Spain), and regions in the South of **Italy**. Some of the lowest unemployment rates were recorded in **German** regions, notably Upper Bavaria (3.4 percent), Swabia (4.6 percent) and Freiburg (4.7 percent).⁸

⁷ Eurostat, (2016) 'Unemployment Statistics', http://ec.europa.eu/eurostat/statistics-explained/index.php/Unemployment_statistics accessed 28 July 2016

⁸ http://ec.europa.eu/eurostat/statistics-explained/index.php/Unemployment_statistics_at_regional_level

Figure 4: NUTS 2 regional unemployment rates (highest and lowest rates, compared to national average), 2014

Source: EPRC calculations based on Eurostat data, Unemployment rates and NUTS 2 regions (%), <<http://ec.europa.eu/eurostat/web/products-datasets/-/tgs00010>>

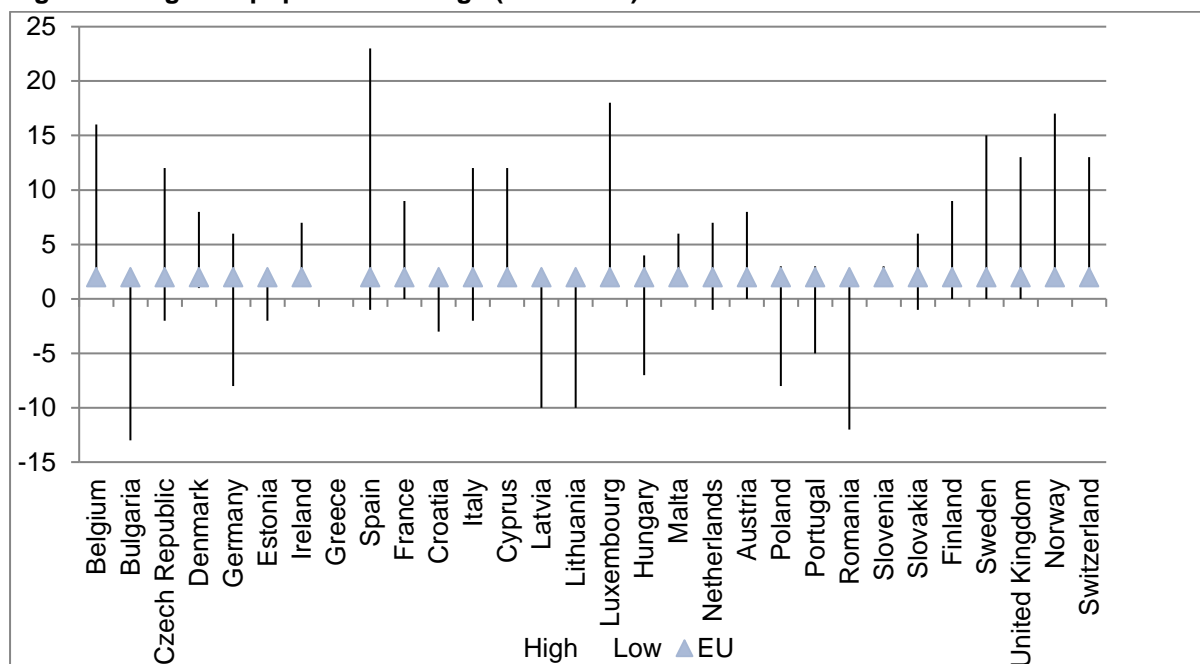
2.2.2 Demographic indicators

Demographic change is another driver of regional inequalities in Europe (see Figure 5). The structure and profile of the EU's population is changing due to: lower fertility rates; variations in patterns of family formation; a desire for greater personal independence; shifts in the roles of men and women; higher levels of migration; greater geographic mobility; and increases in life expectancy.⁹ A significant challenge in regions such as eastern **Germany**, northern **Sweden**, northern and eastern **Finland**, and interior areas of **Portugal** relates to **population decline, low population density, and ageing**, which generates self-fuelling difficulties in terms of attracting business investment, creating employment and sustaining public and private services.

Elsewhere, the focus of attention and debate is on migration between **regions, between EU Member States, or from non-member countries**. The refugee crisis has clear geographical dimensions, with countries and regions on the southern and eastern borders of the EU most strongly affected by the need to process and manage inflows of people. Regional impacts are also seen in other countries which have accepted large numbers of refugees (such as **Germany** and **Sweden**).

In peripheral areas or those with falling or ageing populations and concerns over workforce supply and skills (e.g. areas of **Portugal, Sweden, Scotland**), refugee inflows are sometimes seen to bring opportunities and new potential resources for economic development, although even here there is a need for efforts to match skills and labour market needs, and to address housing and public service provision and ensure social integration.

⁹ http://ec.europa.eu/economy_finance/publications/european_economy/2014/pdf/ee8_en.pdf

Figure 5: Regional population change (2007-2015)

Source: EPRC calculations based on Eurostat data, Population on 1 January by five years age group, sex and NUTS 2 region <http://ec.europa.eu/eurostat/en/web/products-datasets/-/DEMO_R_PJANGROUP>

2.3 New perspectives on regional disparities

2.3.1 Indicators of social progress and well-being

A wide range of factors shapes regional capacities, resilience and development, such as human, knowledge and physical capital, geographical location, migration patterns, trust and interaction, and governance structures.¹⁰ GDP and unemployment figures continue to provide valuable benchmarks for measuring regional development. However, some studies argue that these traditional indicators offer little insight into how to boost economic competitiveness, resilience and citizens' well-being.¹¹

Responding to this challenge, **social progress indices are increasingly used in an effort to create a robust and holistic measurement framework**,¹² which can complement more traditional measures and help governments set priorities and formulate development strategies. The aim of these initiatives is to look 'beyond' economic statistics and develop a fuller picture of overall regional development based

¹⁰ Wilson, G (2012) *Community Resilience and Environmental Transitions*, Hoboken, Taylor and Francis. p. 24; Hovelsrud, G. et al. (2010) *Community adaptation and vulnerability integrated. Community Adaptation and Vulnerability in Arctic Regions*, Springer: 335-348; Plummer, R. and D. Armitage (2010) *Integrating perspectives on adaptive capacity and environmental governance. Adaptive capacity and environmental governance*, Springer: 1-19; Smit, B. and J. Wandel (2006) Adaptation, adaptive capacity and vulnerability, *Global environmental change* 16(3): 282-292.

¹¹ Gedmin, J. (2013) Our Mania for Measuring (and Remeasuring) Well-being, *Harvard Business Review*, September 2013; Nordregio et al (2007) *Regional Disparities and Cohesion: What Strategies for the Future*, Report to the European Parliament, <http://www.europarl.europa.eu/hearings/20070625/regi/study_en.pdf>, p. ix; Dunlop S, Davies S and Swales K (2016) Metropolitan misery: why do Scots live in 'bad places to live'? *Regional Studies* 3: 717-736

¹² Porter, M. et al (2015) Social Progress Index 2015, *Social Progress Imperative*

on a broader understanding of inclusive growth, including quality of life, environmental protection and opportunity for inhabitants.¹³

2.3.2 OECD Index of regional well-being

The OECD has developed an internationally comparable system of measuring regional wellbeing, arguing ‘comparable measures of regional well-being offer a new way to gauge what policies work and can empower a community to act to achieve higher well-being for its citizens’ (see Table 1).¹⁴

Table 1: OECD Regional Well-Being Measures¹⁵

		Environment	Income	Health	Safety	Housing	Access to services	Civic Engagement	Education	Jobs	Community	Life
Switzerland	Central Switzerland	4.8	5.3	9.4	9.1	4.4	9.0	1.5	8.5	9.9	9.5	10.0
	Zurich	2.3	6.3	9.2	10.0	3.9	9.9	0.1	8.8	9.8	8.7	9.6
	North Western Switzerland	2.3	5.4	9.3	10.0	4.4	10.0	0.3	8.9	9.7	9.5	8.5
	Eastern Switzerland	3.6	4.8	8.8	10.0	5.0	9.0	0.1	8.4	10.0	9.6	10.0
	Ticino	2.2	4.5	9.9	10.0	4.4	7.5	1.8	7.9	7.1		8.1
	Lake Geneva Region	3.7	4.9	9.6	9.1	3.3	8.7	0.0	8.2	8.1	9.0	8.5
	Espace Mittelland	4.3	4.6	8.6	9.3	4.4	8.1	0.4	8.5	9.7	9.4	8.9
Norway	Oslo and Akerhus	8.0	5.9	8.3	9.5	5.0	10.0	8.1	8.6	9.6	8.8	9.3
	SE Norway	8.3	5.1	6.9	9.1	6.7	9.1	7.2	7.7	9.2	9.3	9.3
	Agder and Rogaland	8.6	5.4	7.6	10.0	6.1	8.6	7.4	8.0	9.5	8.2	9.3
	W. Norway	8.9	5.3	8.3	8.3	6.1	9.0	7.6	8.3	10.0	8.7	8.9
	Hedmark and Oppland	8.9	4.9	6.5	10.0	6.7	7.5	7.0	7.9	9.2	8.8	8.5
	Trøndelag	9.8	5.1	7.9	10.0	6.1	8.4	7.5	8.4	9.3	9.8	9.6
	Northern Norway	9.5	5.1	6.8	9.1	6.7	9.4	6.5	7.6	9.1	7.4	8.9

Source: EPRC calculations based on <http://oecdregionalwellbeing.org/>

The system combines indicators covering e.g. income, jobs, health, access to services, environment, education, safety, civic engagement and housing. A score is calculated for each topic allowing for cross-regional comparisons. A composite well-being index is not provided.¹⁶ The scores are based solely on

¹³ Costanza, R. et al (2009) Beyond GDP the Need for New Measures of GDP, The Pardee Papers, No 4. Boston University <<https://www.bu.edu/pardee/files/documents/PP-004-GDP.pdf>>; CEC, Beyond GDP, Measuring progress, true wealth, and well-being <http://ec.europa.eu/environment/beyond_gdp/index_en.html>; Stewart, H., (2015) Beyond GDP: Greens spark debate on a better measure of progress, the Guardian, 31 January, <<http://www.theguardian.com/business/2015/jan/31/abandon-gdp-growth-at-all-costs-green-party-furore>>; BCG, Sustainable Economic Development Assessment, <<https://www.bcg.com/expertise/industries/public-sector/sustainable-economic-development-assessment.aspx>>; Social Progress Initiative, <http://www.socialprogreessimperative.org/data/spi#data_table/countries/spi/dim1,dim2,dim3> Office for National Statistics Measuring National Well-being: Personal Well-being in the UK, 2014 to 2015 <<http://www.ons.gov.uk/peoplepopulationandcommunity/wellbeing/bulletins/measuringnationalwellbeing/2015-09-23>>

¹⁴ OECD Regional Well-being <<http://www.oecdregionalwellbeing.org/>>

¹⁵ Data from OECD Well-being data file version Sept 2014, <<http://www.oecdregionalwellbeing.org/>>

¹⁶ OECD Regional Well-Being: A User's Guide, OECD, Paris, Version June 2016

objective statistical indicators, as the tool does not measure subjective well-being with perception-based data (due to the lack of comparable regional data). There are some unusual results e.g. Switzerland has an extremely low score for civic engagement despite the country's strong direct democracy practices (e.g. referenda), largely because a key indicator used for measuring civic engagement is voter turnout.

2.3.3 The European Commission's Regional Social Progress Index

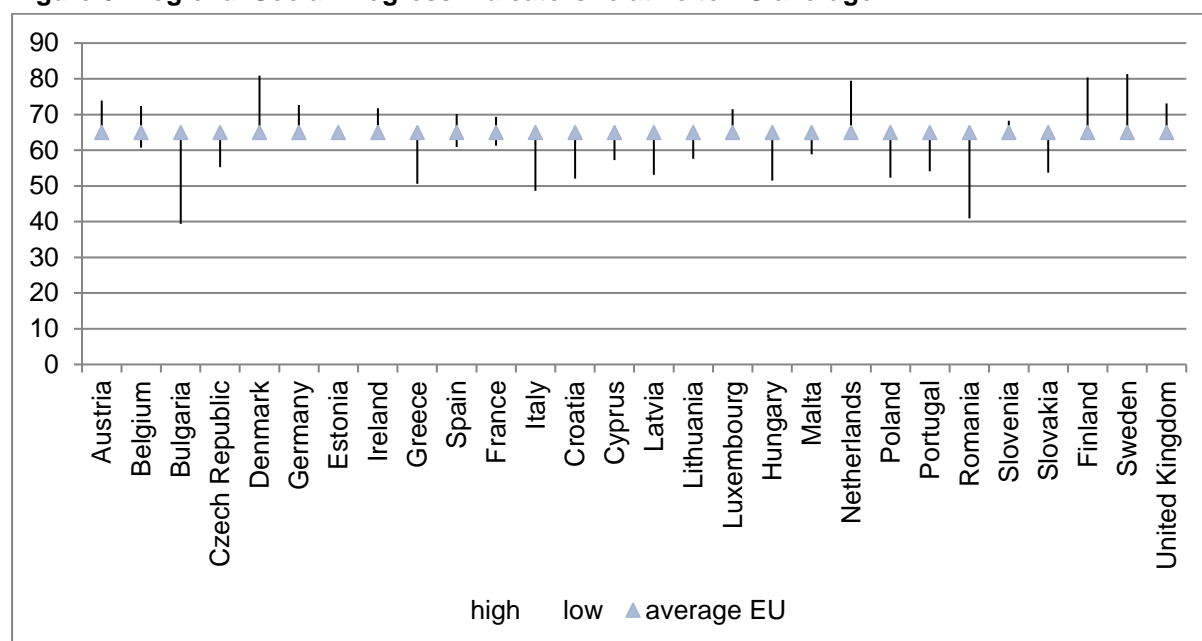
Taking into account preceding debates, in April 2016 the European Commission's **DG for Regional Policy released a draft Regional Social Progress Index (SPI)** for stakeholder feedback and comment.¹⁷ The SPI is intended to complement measures based on GDP, income or employment and purposely excludes these indicators. **The Index is based on fifty indicators, primarily based on Eurostat data. It is built up from three dimensions: 1) basic human needs; 2) foundations of well-being; and 3) opportunity** (see Table 2). Each dimension has thematic components, covering topics such as access to health care, the quality and affordability of housing, personal safety, access to higher education and environmental pollution. The Index currently covers the EU-28 but not **Norway** or **Switzerland**.

Table 2: Composition of Regional SPI Indicators

Dimensions	Indicator Group	Indicators
Basic Human Needs	Nutrition and Basic Medical Care, Shelter, Personal Safety, Water and Sanitation	Mortality rate before age 65, Infant mortality, Unmet medical needs, insufficient food, Satisfaction with water quality, Lack of toilet in dwelling, Uncollected sewage, Sewage treatment, Burdensome cost of housing, Satisfaction with housing, Overcrowding, Lack of adequate heating, Homicide rate, Safety at night, Traffic deaths
Foundations of Well-being	Access to basic Knowledge, Access to Information and Communication, Health and wellness, Ecosystem sustainability	Secondary enrolment rate, Lower secondary completion only, Early school leaving, Internet at home, Broadband at home, Online interaction with public authorities, Life expectancy, General health status, Premature deaths from cancer, Premature deaths from heart disease, Unmet dental needs, Satisfaction with air quality, Air pollution-pm10, Air pollution-pm2.5, Air pollution-ozone, Pollution, grime or other environmental problems, Protected land (Natura 2000)
Opportunity	Personal rights, personal freedom of choice, Tolerance and inclusion, Access to advanced education	Trust in the political system, Trust in the legal system, Trust in the police, Quality and accountability of government services, Freedom over life choices, Teenage pregnancy, Young people not in education, employment or training, Corruption, Impartiality of government services, Tolerance for immigrants, Tolerance for minorities, Attitudes toward people with disabilities, Tolerance for homosexuals, Gender gap, Community safety net, Tertiary education attainment, Tertiary enrolment, Lifelong learning

The EU-28 average SPI is 65.0. The region with the highest SPI level is Upper Norrland in **Sweden** (81.3) and lowest is the South East Region of **Bulgaria** (38.4). Figure 6 illustrates that 19 Member States have some regions where SPI figures fall below the EU average.

¹⁷ CEC (2016) The EU Regional Social Progress Index: Methodological Note, DG Regio, Economic Analysis Unit Brussels <http://ec.europa.eu/regional_policy/sources/information/maps/methodological_note_eu_spi.pdf>

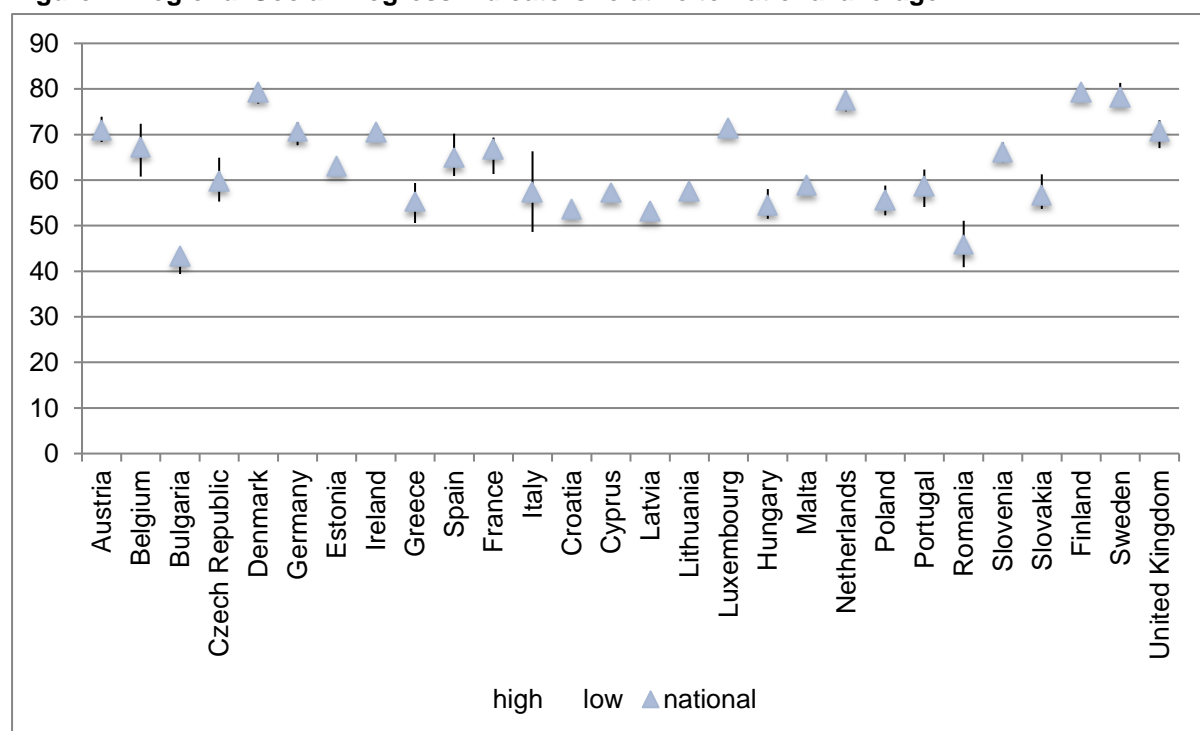
Figure 6: Regional Social Progress Indicators relative to EU average

Source: EPRC calculations based on CEC, Social Progress Indicator, http://ec.europa.eu/regional_policy/en/information/maps/social_progress

2.4 How useful are alternative indices of regional disparities?

2.4.1 Why develop regional (rather than national) indices?

One criticism of **regional indices of SPI** is that they are more difficult to build than national indices due to the lack, or weakness, of regional data on a wide range of indicators.

Figure 7: Regional Social Progress Indicators relative to national average

Source: EPRC calculations based on: CEC, Social Progress Indicator, http://ec.europa.eu/regional_policy/en/information/maps/social_progress

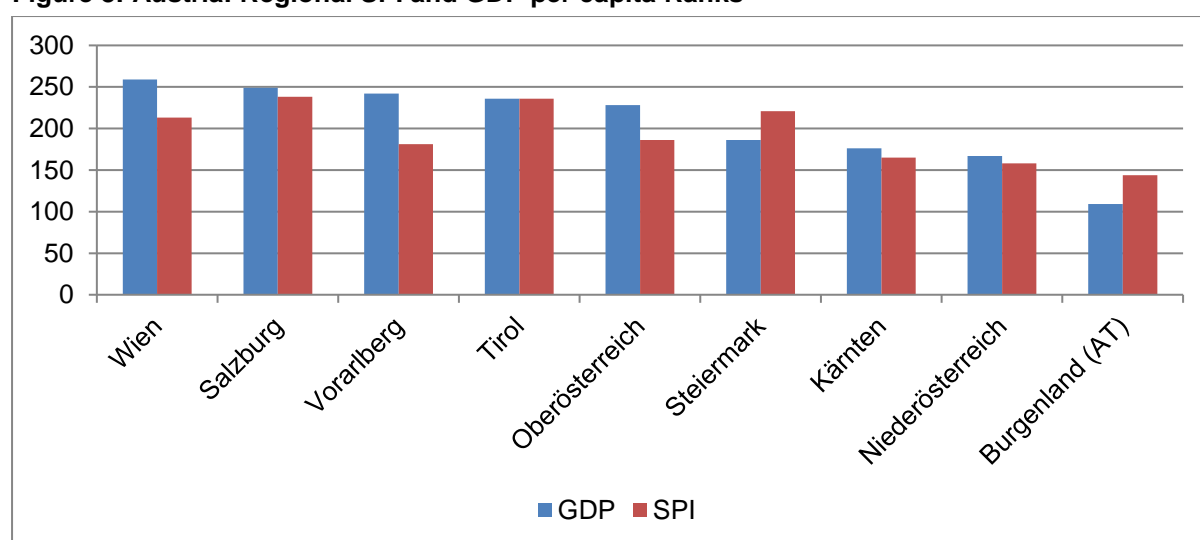
Yet Figure 7 shows that regional SPI results cluster around national averages i.e. **the main differences are between countries rather than within countries**, with clear differences between **Denmark, Finland, Sweden** and **the Netherlands** on the one hand, and **Bulgaria** and **Romania** on the other. The widest divergence between the highest and lowest scoring regions is seen in **Italy** - between Bolzano/Bozen region (62.9) and Campania (48.6) (see also the more detailed country-by-country analysis in Annex 1).

2.4.2 Does regional SPI add to knowledge of regional disparities?

A more general critique of composite indicators is that they are complex and opaque but do not provide more reliable or richer information than do simpler indicators such as GDP per capita or un/employment rates. Figure 7 and the country-by-country analysis in Annex 1 show that:

- **There are significant correlations between regional rankings for SPI and regional GDP per capita** in most countries and regions;
- SPI scores are generally higher than GDP per capita rankings in **Finland, the Netherlands** and **Sweden**;
- SPI scores are lower than GDP per capita rankings in Italy, and in some regions of **Germany** and **Portugal**.

Figure 8: Austria: Regional SPI and GDP per capita Ranks



Source: EPRC calculations, based on CEC, Social Progress Indicator, http://ec.europa.eu/regional_policy/en/information/maps/social_progress

However, Figure 8 and Annex 1 (which includes Graphs for other countries) also suggest **some regional differences between SPI rankings and GDP per capita**, notably:

- **Capital city regions and some other major agglomerations often show significantly lower SPI scores than GDP per capita scores**, due e.g. to a range of social problems. For example Bucharest, Bratislava, Prague, Brussels, Île de France, London and Vienna (e.g. see Figure 8, Figure A 7, Figure A 8, and Figure A 10) all have relatively low SPI rankings compared to their rank for GDP per head.
- Conversely, **peripheral or structurally weaker regions may show stronger scores for SPI than for GDP per capita**, for example in Burgenland in **Austria** (Figure 8), as well as

Mecklenburg-Vorpommern in **Germany** (Figure A 6), West Wales and Highlands & Islands in the **United Kingdom** (Figure A 7), and Podlaskie in **Poland** (Figure A 10).

A more detailed analysis of the main dimensions used to calculate SPI is provided in Annex 2 i.e. **(i) basic human needs, (ii) well-being and (iii) opportunity**. This analysis and shows that:

- Among EoRPA countries, **regional scores for basic needs are generally higher than the scores for well-being and opportunity**, although in **Poland** lower scores for basic needs means that scores for well-being and basic needs are at similar levels in a number of regions, e.g. Podlaskie, Lubuskie and Podkarpackie (Figure A 17);
- **Scores for opportunity spike in many capital city regions, yet well-being scores are lower** (e.g. Vienna and Berlin, see Figure A 11, Figure A 14);
- In **Sweden** and **Finland**, and to an extent in **the Netherlands**, **values for opportunity are generally higher than for well-being** (see Figure A 12, Figure A 19, Figure A 16) – whereas the reverse is seen in all or most regions in **Austria, Germany, France, Italy, Poland** and **Portugal**. In the **United Kingdom**, scores for well-being and opportunity overlap in many regions.

2.4.3 How could alternative indices inform policy-making?

Measures such as SPI are sometimes seen to offer more depth than simpler indicators such as GDP per capita and are viewed as a possible tool to inform the targeting of policy interventions. For example, it has been argued that EU institutions should consider all aspects relevant to quality of life when deciding funding allocations and project eligibility.¹⁸

Our analysis suggests that **alternative indicators such as SPI could have significant impacts on policy funding or strategic decisions**, particularly in the case of:

- **Capital city regions / agglomerations** (which perform more poorly on SPI than on traditional indicators) **and, conversely, for some peripheral / structurally weaker regions** (which sometimes perform better on SPI measures than on indicators such as GDP per capita);
- **Countries/regions where SPI is less strongly correlated with traditional measures** (notably **Italy** and, to an extent, in **Finland, the Netherlands** and **Sweden** (where SPI scores are generally higher than GDP per capita rankings) and some regions of **Germany** and **Portugal** (where SPI scores are lower than GDP per capita rankings).
- **Where policy-makers wish to address specific dimensions of regional inequalities**, relating either to basic human needs, well-being, or opportunity.

¹⁸ Committee of the Regions (2016) Beyond GDP: allocation of EU funds should also consider environmental and social indicators, Regions and Cities of Europe No 94, Committee of the Regions Press Department, p. 14

3. THE OBJECTIVES OF REGIONAL POLICY

KEY FINDINGS

The formal objectives of regional policy (set in constitutional, legal or strategic documents) can be grouped as follows:

- **Promoting national growth through regional ‘competitiveness’.** This is pursued in countries with a limited regional dimension in development policy, in countries that pursue the development of all regions, or in countries that supporting ‘lagging’ regions while also prioritising national development
- **Reducing structural regional economic disparities.** This objective is found in countries with significant macro-regional differences. Often based on constitutional commitments, prominent policy goals are equitable living standards and balanced economic development in structurally weaker regions.
- **Combining a focus on growth and regional disparities.** This approach is found in countries where support is targeted on all regions, but with a differentiated approach according to area-specific potential and needs; in countries operating policies focused on peripheral areas alongside policies for economic development in all regions; and in countries where domestic regional policy aims to reduce internal disparities, while Cohesion policy mainly targets national economic growth.

The primary emphases of regional policy objectives have remained stable in 2015-16. Nonetheless, shifts in focus are evident in some countries, partly in response to domestic pressures but also due to the influence of EU Cohesion policy and EU State aid rules. These shifts include:

- A renewed emphasis on reducing interregional disparities;
- The broadening of objectives to include social as well as economic aspects;
- Territorial specialisation; and,
- A stronger focus on science and technological innovation;
- Demographic shifts and environmental sustainability.

3.1 Introduction

Regional policy objectives in European countries share some fundamental characteristics. In most countries, these objectives include inter-regional cohesion and equality i.e. traditional regional policy goals that involve a more equal distribution of income, employment or infrastructure between regions. Regional policy objectives also emphasise innovation and growth, involving a more efficient allocation of regional resources to maximise net national benefit. New challenges are affecting countries’ regional policies to varying degrees, notably the global financial crisis, demographic changes, including the refugee crisis; and environmental sustainability.

This chapter assesses approaches to regional policy objectives, whether the primary focus is on ‘national growth’, or ‘reducing regional disparities’, or a combination of the two (Section 3.2). It then discusses changes in objectives and related themes (Section 3.3). This assessment is based on formal objectives as stated in constitutional, legal or policy documents, which may or may not be fully reflected in the actual allocation of funding. The aim is to group countries, depending on current objectives, while

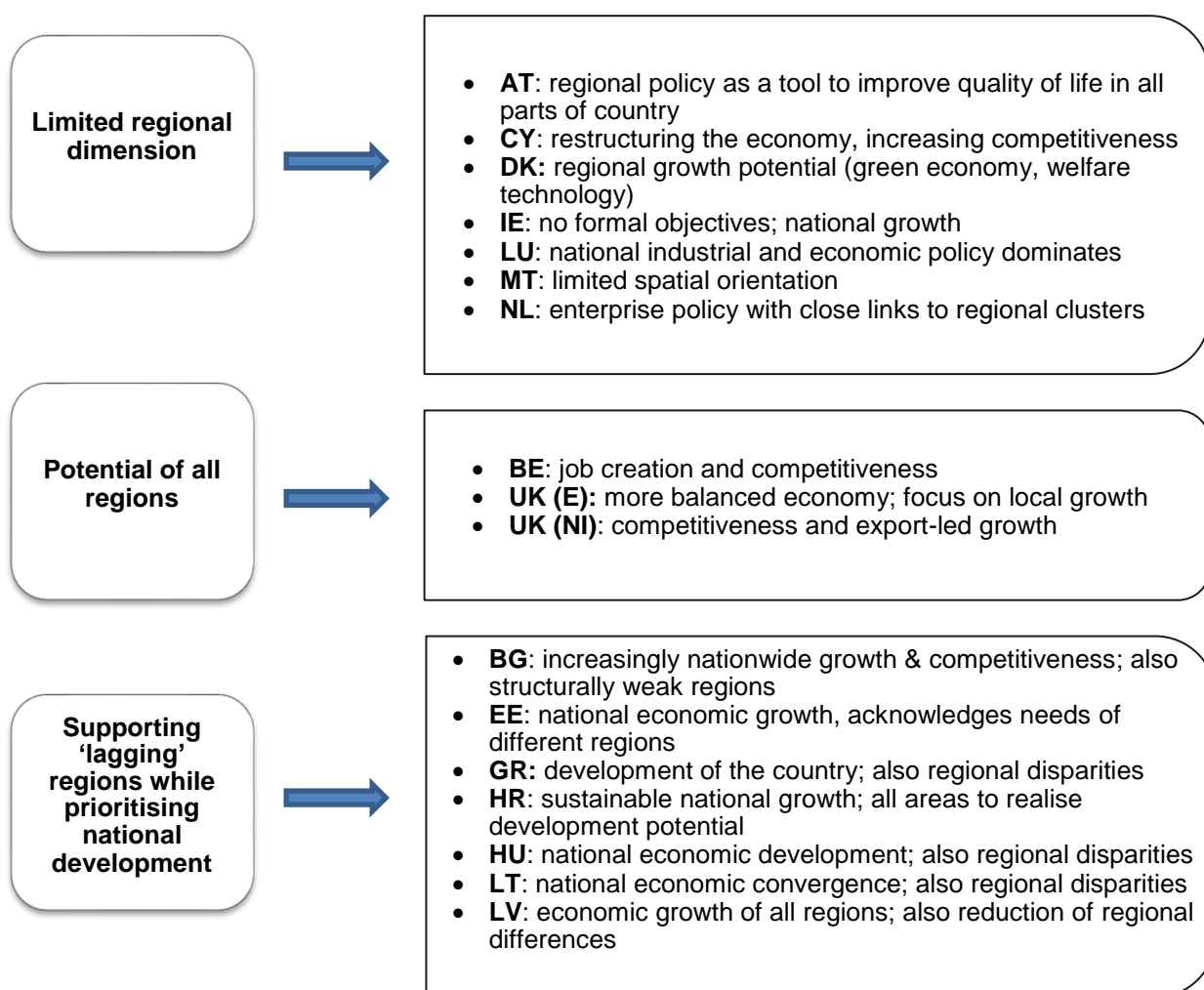
also exploring shifts in the weighting of objectives in 2015-16, depending on domestic circumstances or external factors.

3.2 Categorising regional policy objectives

3.2.1 Promoting national growth through regional 'competitiveness'

Several European countries give primacy to the objective of regional 'competitiveness' or economic growth in support of national economic development. This approach prioritises a more efficient allocation of regional resources to maximise overall national growth and stresses the quality of human capital, public capital and innovation, agglomeration effects, and the efficiency of public and private institutions. Countries under this heading can be grouped into different sub-categories (see Figure 9).

Figure 9: Promoting national growth through regional competitiveness



First, there are **smaller, comparatively affluent countries where regional disparities are limited**, where there is no explicit national policy framework or objectives for regional policy and where the focus is on supporting the competitiveness of key industrial or business sectors.

- In **Austria**, there are no specific regional policy goals. Development objectives reflect *Land* strategies and are perceived as a tool to improve quality of life in all parts of country.
- In **Denmark**, the national Government and regional and local partners have a common responsibility for promoting growth and business development.

Second, there are **countries with stronger territorial disparities, where the aim is to mobilise the potential of all areas in order to boost national growth**. Regional policy has an ‘all region’ focus, sometimes combining decentralised policy responsibilities with central-level commitment to ensuring favourable market conditions that facilitate economic competitiveness, focusing especially on the business environment, supporting SMEs, cutting red tape and taxes.

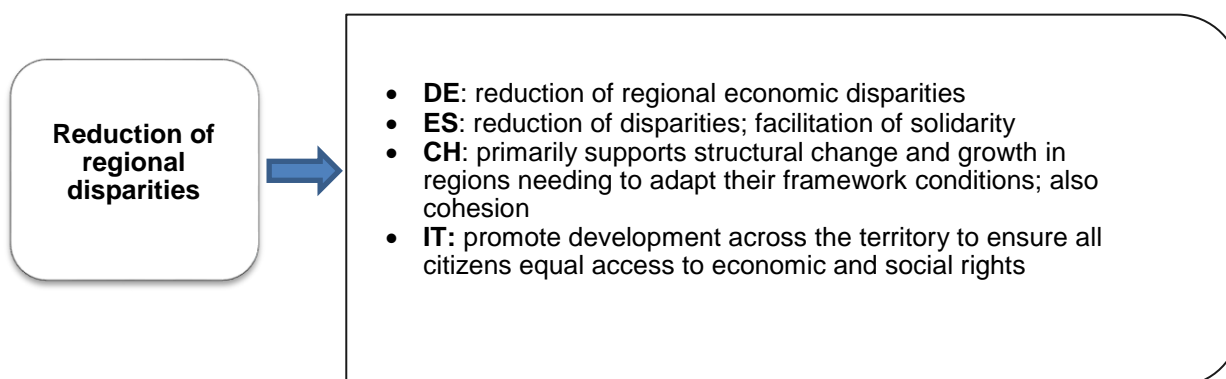
- In **Belgium**, there is a shared objective between the national government and the regions to promote a strong and competitive industrial base.
- Regional policy in the **United Kingdom** (England, Northern Ireland) has emphasised an ‘all region’ perspective, local autonomy, and central government’s role in strengthening the business and innovation environment.

Third, this heading also includes (often poorer) **countries with significant territorial disparities and where regional policy objectives include support for less developed regions but where the decision has been taken to prioritise national growth**. This is often pursued through a commitment to polycentric development (support for urban areas), as well as balanced growth and the growth of lagging regions.

- In **Bulgaria**, for instance, there is emphasis on growth and competitiveness in the National Regional Development Strategy, including a focus on the growth potential of the country’s towns and cities.
- In **Estonia**, the regional policy goal of national economic growth, acknowledges the needs of different regions, including border regions.
- In **Greece**, the regional policy goal of the balanced development of the country as a whole is enshrined in the Constitution, alongside the goal of promoting the economy of mountainous and border areas.
- In **Lithuania**, regional policy goals are to promote the development of the entire territory of the State and the reduction of social and economic disparities.

3.2.2 Reducing structural regional economic disparities

Other countries retain a strong ‘problem region’ focus in regional policy, focused on reducing structural economic disparities. This regional policy orientation is found in countries with significant macro-regional differences. Often based on constitutional commitments, prominent regional policy goals are equivalent living standards and balanced economic development across the country, including structurally weaker regions (see Figure 10). In practice, these countries may often implement policies (e.g. funded by sub-national authorities) which aim to boost growth and competitiveness in all regions.

Figure 10: Reduction of regional disparities

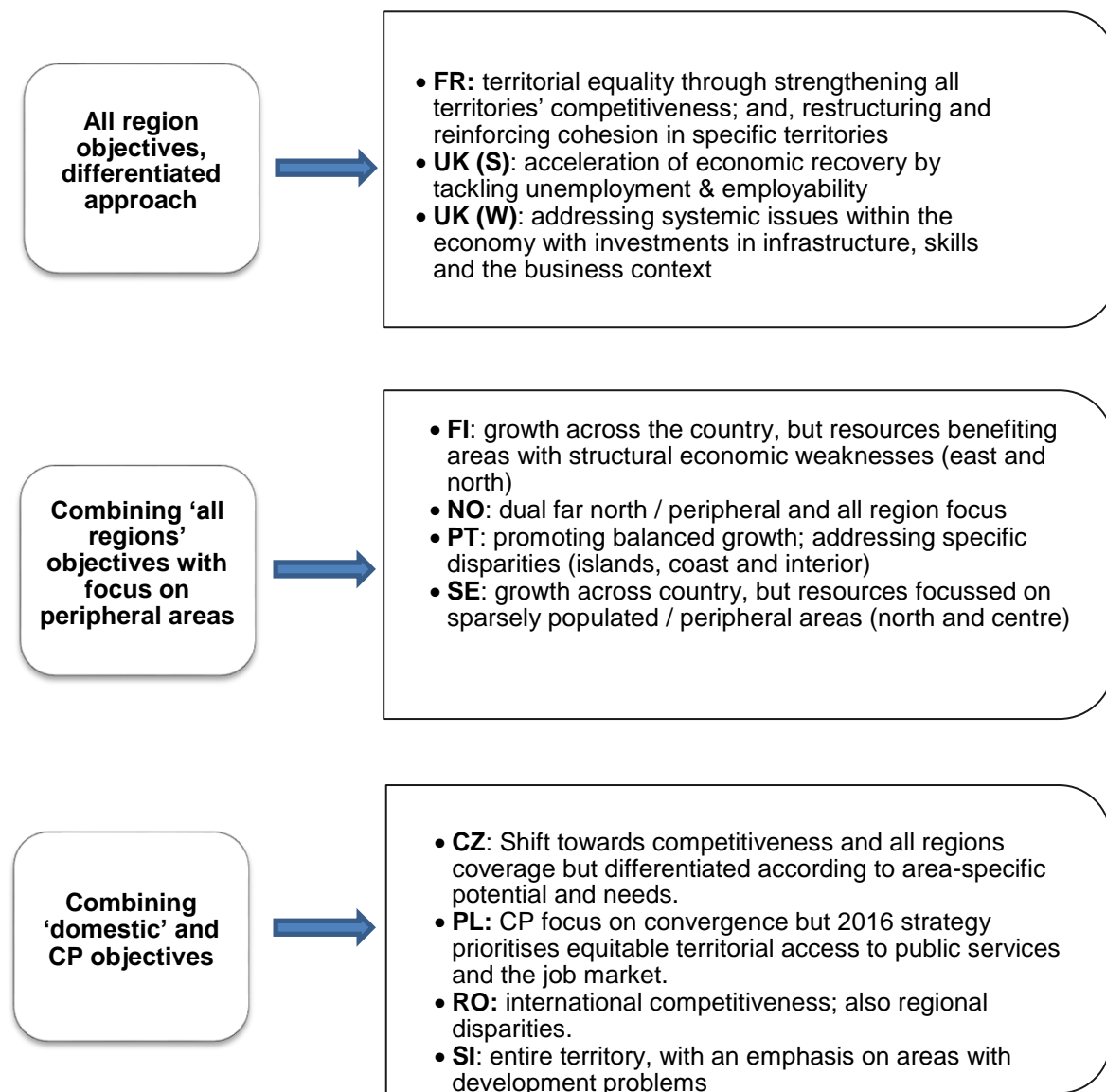
- In **Spain**, the overarching objectives of the Inter-Territorial Compensation Fund and the Regional Investment Grant are anchored in a constitutional commitment to balanced development and solidarity.
- In **Germany**, there is constitutional commitment to equivalent living standards across the national territory, which is translated into a nationwide fiscal equalisation mechanism, the Solidarity Pact for the eastern *Länder*, and the Regional Joint Task, whereby the federal and *Land* levels cooperate to support the development of structurally weak regions.
- In **Italy**, the objectives underlying regional policy are set out in the Constitution, which includes a commitment to State intervention to promote socio-economic development across the territory to ensure all citizens equal access to economic and social rights. This objective is translated into specific goals relating to structurally weaker regions, especially in the South.
- In **Switzerland**, regional policy interventions are based on the federal Constitution, which states that the federal government can support areas under threat of economic downturn. The Federal Policy for Rural and Mountainous Areas was produced after increasing concerns about the future role of regions outside the main agglomerations.

3.2.3 Combining competitiveness and equity objectives

Many European governments have a relatively equal approach to two strands of regional policy objectives, relating to nationwide/regional growth and the reduction of regional disparities (see Figure 11).

Countries may target support on supporting the growth of all regions, but with a differentiated approach according to area-specific potential and needs:

- In **France**, territorial equality remains the ultimate regional policy objective. This translates into two basic goals: strengthening all territories' competitiveness and attractiveness; and assisting in economic restructuring and reinforcing territorial and social cohesion in specific territories.
- In the **United Kingdom**, devolved arrangements in Scotland and Wales are increasing the scope for the pursuit of objectives differentiated according to specific territorial needs.

Figure 11: Growth and reduction of disparities

Elsewhere, policies combine a focus on peripheral, sparsely-populated areas and on the economic development of all regions, depending on specific regional needs.

- In **Norway**, an ongoing commitment the needs of peripheral areas is accompanied by a focus on the contribution of different regions to national economic growth.
- In **Finland**, the overall aim is to move the economy onto a sustainable growth path by using the resources of the entire country. Alongside this, a key focus is to secure the welfare of all people through equal access to services and quality living conditions in peripheral areas.
- In **Portugal's**, regional policy there is a commitment 'to promote the economic and social cohesion of the whole country'. Explicit references are made to disparities between towns and

between the coast and interior, along with the locational disadvantages faced by the two autonomous island regions (Azores and Madeira).

- In **Sweden**, regional growth policy supports the development of all parts of the country. Although resources continue to focus on peripheral and sparsely-populated territories, these are no longer perceived as the main 'problem' areas.

In several countries, regional policy emphasises equity-related goals that are associated with 'domestic' regional policy, and efficiency-oriented objectives that are pursued under Cohesion policy. Here, moves to combine domestic and Cohesion policy (CP) objectives are being facilitated by increasing emphasis on differentiating territories according to specific potential and needs (e.g. main growth poles, peripheral areas, restructuring areas).

- In **Poland** and the **Czech Republic**, efforts to combine 'domestic' and CP-supported objectives are apparent in regional development strategies. These include a focus on the identification of growth centres that can contribute most to the development, but also cover the individual needs potentials of different territories outside of the main 'drivers'.
- In **Romania**, the government has stressed the importance of ensuring complementarity between EU and national development strategies and objectives.
- Regional policy in **Slovenia** is partly place-based, focusing on the coordination of different policies affecting regional development.

3.3 Changes/adjustments in regional policy objectives in 2015-16

Regional policy objectives continue to evolve, responding to domestic circumstances such as legislative or political change or policy reviews, and external influences, including EU Cohesion policy and EU regional aid objectives and frameworks. Table 3 summarises key changes or adjustments in objectives introduced or planned in 2015-16. Trends include:

- A renewed emphasis on reducing interregional disparities;
- The broadening of objectives, to incorporate social as well as economic aspects;
- Territorial specialisation; and
- A stronger focus on science and technological innovation.

Table 3: Changes and adjustments in regional policy objectives

Country	New strategy	Significant changes in 2015-16	Significant forthcoming changes
BE		Flanders: new government terminates Flanders in Action policy.	Flanders: funding to be streamlined and merged.
CH		Report on location promotion 2016-19. NRP lists key strategies: Spatial Concept; Policy for Rural and Mountainous Areas; Agglomeration policy; and, Innovation policy.	SECO developing strategy for all economic promotion activities to strengthen synergies.
CY	Action Plan Growth	Focus on sustainable economic growth.	Regional policy dimension in strategy to be clarified.
CZ			Review of RDS 2014-20 as a resource for planning Cohesion policy 2021+.
DE			Reform of regional policy from 2020 aims to integrate support of structurally weak regions for whole of Germany, includes focus on innovation.
FI		Regional development priorities 2016-19: growth through renewal; vitality through regional networks; welfare through partnerships.	
GR			Regional Frameworks of Spatial Planning under revision, stressing synergies in spatial planning.
HR			Strategy for Regional Development being revised.
HU			Government analysis of territorial trends to be discussed by the Parliament early autumn 2016.
IE		Action Plan for Jobs 2016, Capital Investment Plan 2016-21 reflect revised approach to balanced regional development	New Planning Framework, including Regional Spatial and Economic Strategies.
IT	Masterplan for the Mezzogiorno (2015)	Renewed focus on: environment, infrastructure, social cohesion, culture as engine for development & smart specialisation.	
LU	Fourth SME Plan	Increasing diversification of the economy, including via RTDI	
NL			Urban Agenda programme for collaboration between private and public partners being developed.
PL	Plan for Responsible Development (2016)	Emphasis on 'sensitive areas', equal access to jobs, services, integrated approach, territorial specialisation.	

PT		Increased emphasis on the potential of interior territories. Creation of the Task Force for the Valorisation of the Interior.	A National Programme for Territorial Cohesion under development
RO		New priorities: rural development, e-government, administration.	
UK (Sco)	Revised Economic Strategy	Scotland's economic strategy was refreshed in 2015, aims are increasing competitiveness and tackling inequality	

3.3.1 *Renewed emphasis on reducing interregional disparities*

The goal of supporting the structurally weakest regions has been given renewed emphasis in following the crisis in some countries, in the context of greater caution over the automatic tendency for economic growth to reduce disparities. There is now a focus on linking regional growth with territorial balance as interconnected objectives.

- The new Plan for Responsible Development in **Poland** includes some rebalancing of objectives. The previous National Strategy for Regional Development prioritised areas seen as able to spur economic growth but the new strategy includes 'sensitive areas' for development processes (e.g. rural areas and small and medium-sized towns and cities).
- In **Finland**, welfare issues have come to the fore in regional policy as a result of population ageing and local economic constraints. New national regional development priorities in 2015 include a clear emphasis on balanced regional development, whereas the overall focus under the previous Government was on growth and innovation.
- In **Ireland**, the Action Plan for Jobs 2016 places a particular emphasis on addressing regional imbalances that have deepened as particular areas have proved slower to recover from the economic crisis. The Capital Investment Plan 2016-21, seeks to address regional disparities by improving the connectivity of less developed regions.

3.3.2 *Broadening of objectives, including social as well as economic aspects*

A rebalancing of strategies that from economic growth alone to incorporate social issues has been noted for some time (e.g. Norway) and has been evident in other countries in 2015-16:

- In **Italy**, the recent Masterplan for the Mezzogiorno and the ensuing 15 Pacts for the South have introduced a renewed emphasis on social cohesion (including the social integration of immigrants, and social integration in the peripheries of metropolitan areas).
- In **Scotland**, the economic strategy was revised in 2015. It is founded on two key pillars - competitiveness and equality. Competitiveness is seen as key to economic growth, but competitiveness and equality are seen as interdependent, with reducing inequality viewed as important in itself and also as vital to creating the conditions for sustainable economic growth. Thus, socially 'inclusive growth' is one of the four broad priority areas where actions will be targeted (the others being 'investment', 'innovation' and 'internationalisation').

3.3.3 *Territorial specialisation*

Objectives related to the identification of and support for specific territorial strengths are also prominent in strategic frameworks in 2015-16. They include the concept of 'place-based' territorial development which emphasises the identification and mobilisation of the potential of specific territories. This approach is often linked to the Cohesion policy emphasis on 'smart specialisation' but also reflects domestic priorities and a move towards economic growth based on innovation, building on local assets and comparative strengths:

- In **Finland**, the new decision on the national regional development priorities for 2016-19 includes 'growth through renewal' as a key priority, which includes a focus on 'smart specialisation' based on regional strengths. The aim is to identify new, sustainable growth areas in the regions, which in turn requires continuous reassessment of strengths.
- In **Norway**, a new White Paper will be published in spring 2017 and it is anticipated that it will include emphasis on devising more explicit regional development strategies than in the past, based at least loosely around 'smart specialisation' strategies.
- In **Poland's** new Plan for Responsible Development, regional 'smart specialisation' is seen as important in measures to address sensitive areas threatened with exclusion and in a broader push for increased use of regions' own resources.
- In **Italy**, 'smart specialisation' at national and regional levels is viewed as fundamental to the Masterplan for the South. The process of preparing the national and regional 'smart specialisation' strategies has mobilised a wider group of stakeholders than has traditionally occurred within Cohesion policy and this is anticipated to have a positive impact in terms of implementation and impacts.

3.3.4 Revised focus on science and technological innovation

A further trend is the focus on **science and technological innovation**. This is already a key component of policy objectives in several countries (e.g. **Finland**, the **Netherlands**). Although this is sometimes linked to the alignment of Cohesion policy with the Europe 2020 Strategy's themes, as well as with greater flexibility under EU State aid rules for R&D than for regional aid, there are also domestic reasons for this emphasis: science and technological innovation is an important driver of productivity growth and is typically weaker in structurally weaker regions.

- In **Germany** the reform of active regional policy from 2020 includes the aim of creating an integrated system of support for structurally weak regions for the whole of the country, focused on economic growth and innovation. This could lead to the broadening of GRW interventions, for example in the fields of innovation and infrastructure.
- In the **United Kingdom**, increasing focus on science and technological innovation in regional development objectives is reflected in pilot regional science and innovation audits that are being launched to identify specific strengths and potentials.
- In the **Netherlands**, ahead of a planned evaluation of the Top Sectors initiative, there are concerns to ensure that the Top Sectors approach is more explicit about its contribution to innovation in relation to themes which are seen to be of major importance, including climate change, ageing population, and health.

3.3.5 Emerging policy issues

More broadly, **regional policies are incorporating other themes**, partly in response to major economic, social and environmental challenges, and partly in response to EU Cohesion policy influence in 2014-20 (via the Thematic Objectives and Conditionalities. These themes include (see also Table 4):

- **Demographic issues**, including migration which is incorporated in recent regional policy objectives as a potential source of economic development (e.g. in **Finland**) and as a dimension of social cohesion or security (e.g. **Italy**).
- **Environmental sustainability**, in particular the use of renewable energies and new technologies and energy security (e.g. in **Austria**).

Table 4: Prominent issues in regional policy, 2015-2016

Innovation & R&D	<ul style="list-style-type: none"> • Stronger focus generally due to 'smart specialisation'. • Specific themes highlighted, e.g. welfare technology (DK). • Increased focus on innovation in reform of active regional policy from 2020 (DE).
Energy & environment	<ul style="list-style-type: none"> • Low-carbon, climate change, environment and resource efficiency, energy security, e.g. AT, BE (Wall).
Equality & cohesion	<ul style="list-style-type: none"> • Gender equality: e.g. AT, CY, SE. • Social cohesion: e.g. HU, SE, CY, PT. • Integration & disadvantaged communities: e.g. SK, IT. • Wellbeing: e.g. FI, UK (Scotland).
Territorial issues	<ul style="list-style-type: none"> • Attractiveness / living environment: e.g. FR, SE, EE (in travel-to-work areas), NL (territorial 'shrinkage'). • Rural focus: e.g. FR, LT, SE, SK, PL. • Urban focus: FR, IT, NL, UK (Eng, Sco, Wal). • Territorial cooperation: e.g. BG, HR, RO.
Governance & capacity	<ul style="list-style-type: none"> • Improvements to public admin: e.g. CY, CZ, EE, PT. • Administrative capacities: e.g. IT, LT.
Education & skills	<ul style="list-style-type: none"> • Labour skills: e.g. AT, SE, NO, SK, UK. • Education & learning: e.g. BE (Wall), DK, SK. • Human capital: e.g. BG, PL, PT, IT (South).
Sector focus	<ul style="list-style-type: none"> • Various sectors: e.g. UK piloting of regional science and innovation audits; in Italy, modernisation of 'made in Italy' & focus on high-technology sectors (Centre-North).
Labour market	<ul style="list-style-type: none"> • Labour markets in a knowledge economy: e.g. NO (larger labour markets) • Employment: e.g. PT (including skilled jobs). • Mis-match of labour: e.g. NO • Youth employment: e.g. CY

4. THE FUNDING OF REGIONAL POLICY

KEY FINDINGS

The impact of the 2008 crisis and subsequent economic downturn have **reduced regional policy funding**, which in many cases has been further limited due to altered national priorities on achieving macroeconomic stability and meeting growth targets. Funding allocations between Member States, regions and themes have also been changed by **the alignment of EU Cohesion policy with the Europe 2020 Strategy** and a tightened EU budget.

Data on **Cohesion policy funding allocations to each Member State** demonstrates that, while **the level of funding allocated in 2014-20 is stable in most wealthy countries** compared to 2007-13 (in constant prices and as a percentage of national GDP), **funding levels have fallen in a number of poorer countries**. This can be explained in part by increases in these countries' GDP over the past decade but is also due to the poorest countries and regions receiving a lower share of total Cohesion policy funding in 2014-20.

The allocations of **European Structural and Investment (ESI) Funds by Thematic Objective (TO)** demonstrate that TO3 SME Competitiveness and TO6 Environment & Resource Efficiency receive the highest allocation followed by TO7 Sustainable Transport, TO9 Social Inclusion & Poverty, and TO1 Research & Innovation. TO11 Institutional Capacity is allocated the least funds.

When examining the level of regional aid as a percentage of GDP in 2012-14, it is apparent that **there is no clear link between national prosperity and regional aid expenditure**. *Greece, the Czech Republic and Hungary* are biggest regional aid spenders (relative to national GDP) with *Cyprus, Sweden, the United Kingdom, the Netherlands and Denmark* the lowest.

4.1 Introduction

The 2008 crisis and subsequent economic downturn have **led to reductions in expenditure on regional policy in some countries**, due to a shift in domestic priorities towards national economic growth or macroeconomic stability. At the same time, **constraints on the EU budget** and the **alignment EU Cohesion policy with the Europe 2020 Strategy** have led to changes in the allocation of funding between Member States, types of region and thematic interventions.

There are only two reliable sources of comparable data on regional policy funding across European countries, namely (a) on the **allocation of Cohesion policy funding**, and (b) on **regional State aid funding** (via the annual State aid reports published by the DG Competition and the EFTA Surveillance Authority). While certain countries also publish data on regional policy budget allocations and/or actual expenditure, these data are not comparable across countries. Even within individual countries, it can be difficult to separate regional policy from other budget lines and to avoid double-counting, for example due to instruments being co-funded from various EU and domestic sources.

This chapter first compares **Cohesion policy funding allocations** across Member States in 2007-13 and 2014-20 (Section 4.2.1) and before **between Thematic Objectives** in 2014-20 (Section 4.2.2). It then provides an overview of the most recently published data on **regional State aid spending across countries for 2012-14**, as a percentage of GDP (Section 4.3).

4.2 Cohesion policy allocations

4.2.1 The scale of Cohesion policy funding in 2007-13 and 2014-20

Cohesion policy is an important source of funding for regional development and also shapes the geographical and thematic allocation of domestic regional policy funding, particularly because it requires countries to co-finance Cohesion policy programmes over a seven-year period. In poorer EU Member States, Cohesion policy can account for a significant share of total public capital expenditure and funding for national economic development.

Cohesion policy funding is allocated to all EU regions based on designation criteria set at EU-level. This means that Cohesion policy funding is not necessarily concentrated on those regions which are seen as structurally weak from a national perspective (e.g. in countries where most regions fall into the same Cohesion policy category). Individual countries can decide to weight EU funding more strongly towards structurally weaker regions, through shifts in interregional allocations, through particular programmes, priority axes and schemes, or through project selection criteria.¹⁹

Table 5 and Figure 12 compare Cohesion policy annual average allocations in 2007-13 and 2014-20, with all data in 2011 prices and as a percentage of 2011 GDP. They show that there has been little change in the level of funding to wealthier countries in 2014-20 (as a percentage of GDP in constant prices). In contrast, **funding allocations to a number of poorer countries are lower in 2014-20 than in 2007-13 (as a percentage of GDP)**, partly because of increases in these countries' GDP over the past decade, and also because a lower proportion of the total Cohesion policy package is being allocated to the poorest countries and regions in 2014-20.

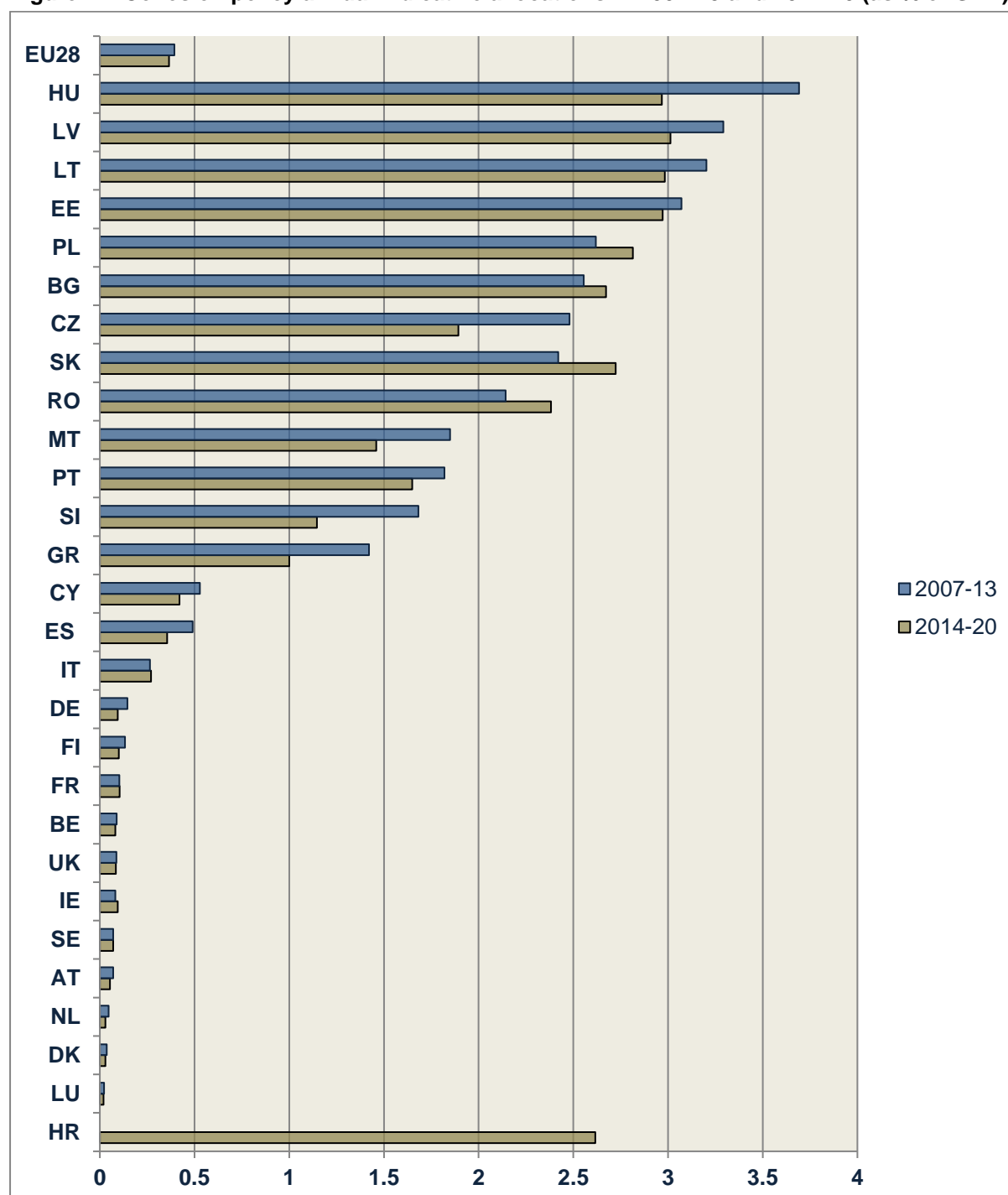
Table 5: Cohesion policy allocations in 2007-13 and 2014-20 (% of GDP)

	2007-13	2014-20
3.5-4.0%	Hungary	
3.0-3.5%	Estonia, Latvia, Lithuania	Latvia
2.5-3.0%	Bulgaria, Poland	Bulgaria, Croatia, Estonia, Hungary, Lithuania, Poland, Slovakia
2.0-2.5%	Czech Republic, Romania, Slovakia	Romania
1.5-2.0%	Malta, Portugal, Slovenia	Czech Republic, Portugal
1.0-1.5%	Greece	Greece, Malta, Slovenia
0.5-1.0%	Cyprus	
0.1-0.5%	Finland, France, Germany, Italy, Spain	Cyprus, Finland, France, Italy, Spain
<0.1%	Austria, Belgium, Denmark, Ireland, Luxembourg, Netherlands, Sweden, United Kingdom	Austria, Belgium, Denmark, Germany, Ireland, Luxembourg, Netherlands, Sweden, United Kingdom

Source: EPRC calculations based on European Commission data.

Note: Annual average allocations in constant 2011 prices, as a percentage of 2011 GDP, with all data in euros.

¹⁹ See the EoRPA Country Cohesion policy fiches for more information.

Figure 12: Cohesion policy annual indicative allocations in 2007-13 and 2014-20 (as % of GDP)

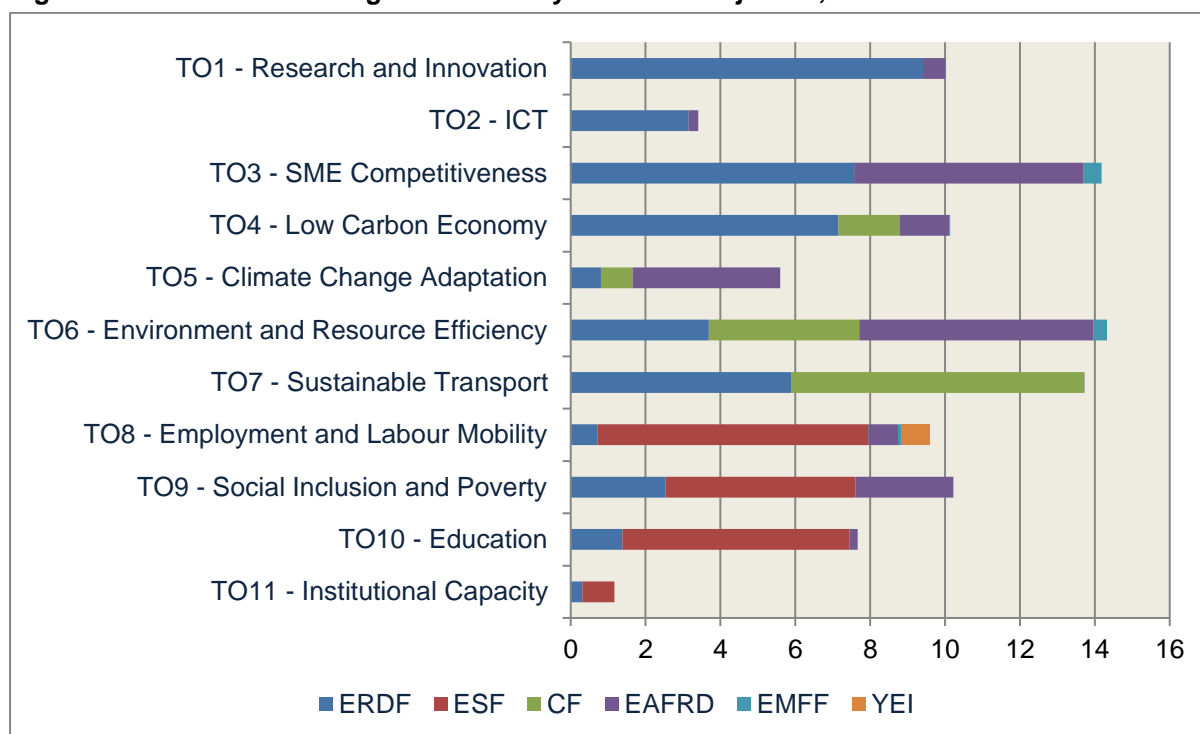
Source: EPRC calculations based on European Commission data.

Note: Data are calculated as annual average figures in constant 2011 prices, as a percentage of 2011 GDP, with all data in euros.

4.2.2 The thematic focus of Cohesion policy funding in 2014-20

Figure 13 shows the ex ante allocation of Cohesion policy funding by Thematic Objective across the EU28 (including all ESI Funds). The funding allocation is highest for TO3 SME Competitiveness and TO6 Environment and Resource Efficiency, followed by TO7 Sustainable Transport, TO9 Social Inclusion and Poverty, and TO1 Research and Innovation. The lowest level of funding is for TO11 Institutional Capacity and TO2 ICT.

Figure 13: EU28 ESIF funding allocations by Thematic Objective, % of EU total



Source: EPRC calculations based on Partnership Agreements

Notes: (1) Data are in European Commission current prices. (2) Data for the EMFF are not included for Germany, Denmark, Greece, Poland or Sweden.

In terms of the percentage of funding for each Thematic Objective by Member State, Table 6 outlines the Member States which have set the highest and lowest allocations for each Thematic Objective²⁰:

²⁰ For more detail, see: EPRC (2014) 2014-20 Cohesion policy update, *EoRPA Policy Briefing*, December 2014, http://www.eprc.strath.ac.uk/eorpa/partner_briefing_papers.php

Table 6: Highest and lowest Member State allocation by Thematic Objective

	Highest allocation (% of total ESIF allocation)	Lowest allocation (% of total ESIF allocation)
TO1	Netherlands (20%), Estonia (15%), Germany (15%)	Romania (3%), Austria (5%), Bulgaria (5%)
TO2	Cyprus (8%), Sweden (7%)	Belgium (0%), Denmark (0%), Luxembourg (0%), Netherlands (0%)
TO3	Portugal (23%), Luxembourg (21%), Slovenia (20%)	Czech Republic (6%), Slovakia (6%), Ireland (8%)
TO4	Luxembourg (28%), Lithuania (13%), Ireland (13%)	Austria (4%), Denmark (5%), Sweden (5%)
TO5	Austria (26%), Denmark 25%), Ireland (20%)	Luxembourg (0%), Finland (1%) Poland (2%)
TO6	Finland (43%), Malta (30%), Austria (26%)	Estonia (9%), Germany (9%)
TO7	Poland (28%), Czech Republic (26%), Slovakia (23%)	Austria (0%), Belgium (0%), Germany (0%), Denmark (0%), Finland (0%), Ireland (0%), Luxembourg (0%), Netherlands (0%)
TO8	Belgium (15%), Hungary (14%), Spain (14%)	Austria (2%), Malta (3%)
TO9	Netherlands (25%), Germany (19%), Belgium (15%)	Cyprus (6%), Finland (6%), Greece (6%)
TO10	Portugal (16%), United Kingdom (13%)	Netherlands (1%), Luxembourg (3%), Cyprus (3%)
TO11	Estonia (3%), Hungary (3%), Romania (2%)	Austria (0%), Belgium (0%), Germany (0%), Denmark (0%), Finland (0%), Ireland (0%), Luxembourg (0%), Netherlands (0%), Sweden (0%), United Kingdom (0%)

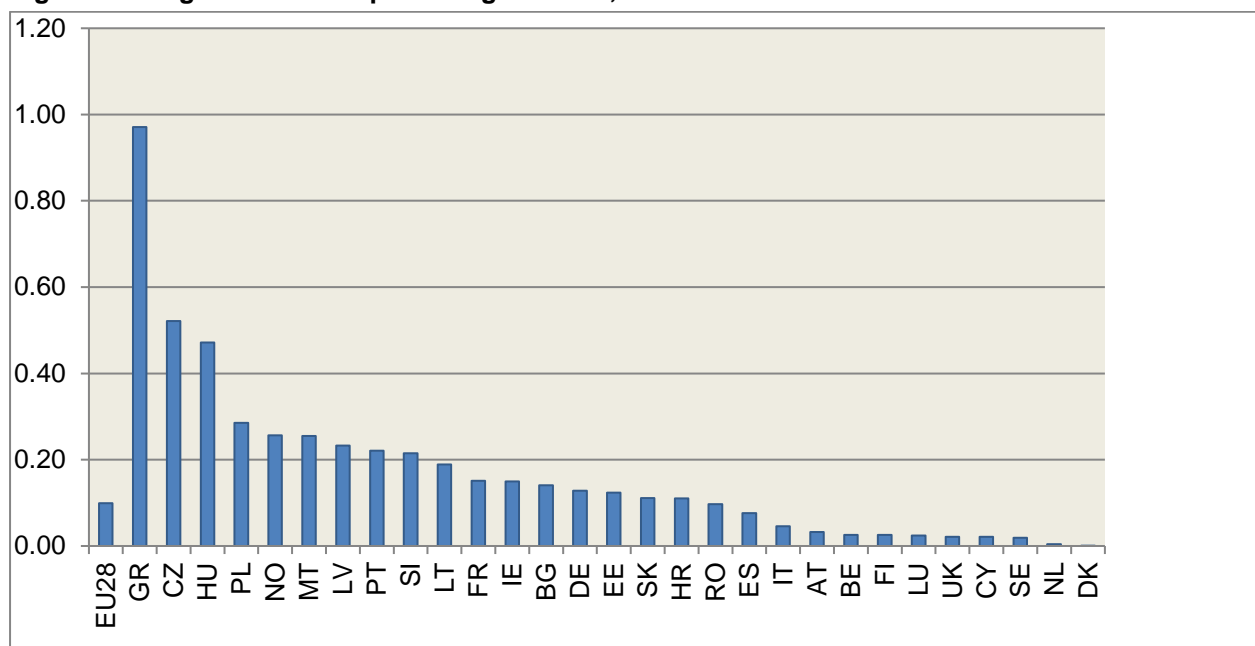
Source: EPRC calculations based on Partnership Agreements

Note: Data are in European Commission current prices.

4.3 Regional State aid expenditure

The EU and EFTA publish data on regional aid expenditure as a percentage of GDP. Figure 14 shows that, except for **Greece**, regional aid was below one percent of GDP in all EU Member States in 2012-14, and particularly low in **Denmark, the Netherlands, the United Kingdom, Sweden** and **Luxembourg**. However, this information is characterised by a number of weaknesses:

- It only covers public expenditure which is defined as regional aid, rather than other forms of regional policy spending (e.g. on infrastructure, some SME aid, and bottom-up interventions);
- The EU and EFTA do not state which schemes are included in the data;
- Data may not be comparable across countries e.g. in terms of whether they involve budget allocations, actual expenditure or estimates, and also in terms of whether they cover only domestic expenditure or also EU Cohesion policy co-financing.

Figure 14: Regional aid as a percentage of GDP, 2012-14

Source: EPRC calculations based on European Commission and EFTA Surveillance Authority data.

The regional aid data for 2012-14 show that there is **no clear correlation between a country's level of GDP per capita and the level of regional aid as a percentage of GDP**. The data can be used to divide countries into five categories:

- The highest levels of regional aid are seen in **Greece** (0.97 percent of GDP), the **Czech Republic** (0.52 percent of GDP) and **Hungary** (0.47 percent of GDP),
- Levels are also relatively high in **Poland, Malta, Latvia** and **Norway** (between 0.23 and 0.29 percent of GDP),
- Spending levels are moderate (between 0.08 and 0.21) in some wealthier countries (**France, Germany** and **Ireland**) and medium countries (**Spain** and **Portugal**) but also in poorer countries (**Bulgaria, Croatia, Estonia, Lithuania, Romania** and **Slovenia**)
- Levels are generally lowest (less than 0.05 percent of GDP) in wealthier countries (**Austria, Belgium, Denmark, Finland, Luxembourg, the Netherlands, the United Kingdom** and **Sweden**), although also relatively low in medium and poorer countries, for example, **Italy** and **Cyprus**.

5. THE GEOGRAPHICAL FOCUS OF REGIONAL POLICY

KEY FINDINGS

Regional policy targets support at different types of area, depending on **constitutional/legal frameworks, strategic objectives, and developmental challenges**. Supported areas vary significantly in terms of their size and type, including: macro-regions, structurally disadvantaged areas, areas of high unemployment, and urban, rural and peripheral areas.

EU Cohesion policy and EU regional aid policy influence the geographical focus of regional policies across Europe, by allocating different funding levels to particular regions and by constraining the allocation of regional aid to certain regions. However, **domestic decisions also play an important part** in determining the areas targeted by regional policy.

Changes in geographical focus in 2015-16 include: **the review of regional aid maps following the European Commission's mid-term review**; an enhanced focus on peripheral or rural areas; changes in regional policy targeting; new enterprise or economic zones; or shifts in eligibility criteria.

5.1 Introduction

The geographical focus of regional policy varies depending on constitutional/legal frameworks, strategic objectives, and developmental challenges. In **EU countries**, geographical coverage is conditioned by three core drivers: (i) **EU State aid control**, notably the Regional Aid Guidelines (RAG) and General Block Exemption Regulation (GBER), (ii) **EU Cohesion policy**, and (iii) **domestic policy frameworks and choices**. In the non-EU countries of **Switzerland** and **Norway**, policy is largely determined by domestic decisions, although **Norway's** membership of the EEA implies compliance with the EU's Regional Aid Guidelines.

This chapter looks first at the **role of EU regional State aid control** (Section 5.2) and **EU Cohesion policy** (Section 5.3) in **influencing the geographical orientation** of regional policies. It then discusses the **geographical focus of domestic regional policy** in different countries (Section 5.4), before examining **changes in the geographical focus of regional policy in 2015-16** (Section 5.5).

5.2 EU regional State aid control

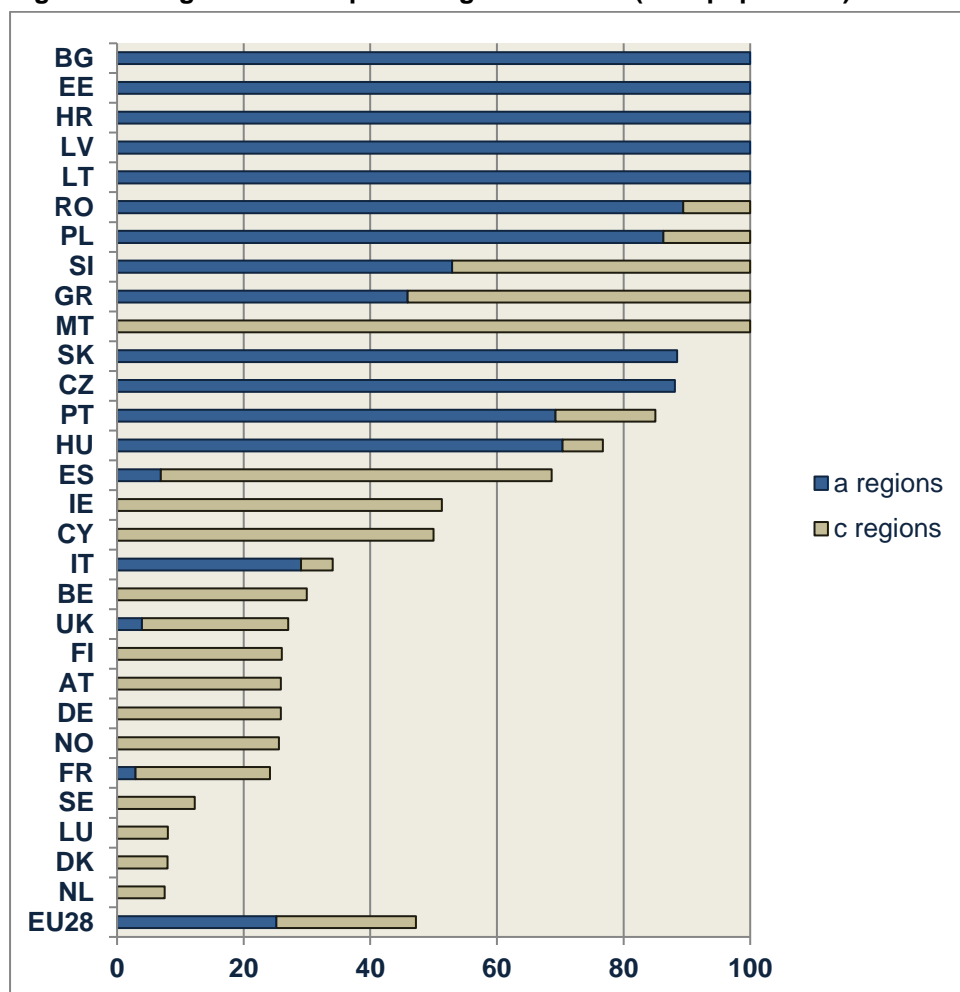
5.2.1 Regional aid guidelines 2014-20

The EU Regional Aid Guidelines (and General Block Exemption Regulation), play an important role in shaping regional policies, although their influence on the geographical orientation of interventions varies across countries, depending on **whether regions within a country differ** in terms of Article 107(3) status, and how this affects the entities targeted and aid intensities allowed.

Population coverage of the regional aid maps for 2014-20 (Figure 15) varies considerably, from over 80 percent in many of the **Central and Eastern European countries**, the **Baltic States** and **Greece**, to less than 15 percent in **Denmark, Luxembourg**, the **Netherlands** and **Sweden**. In addition, there is

great variation with regards to the aid intensities between and within these areas based on the development level of the region and the size of the company.²¹

Figure 15: Regional aid map coverage in 2014-20 (% of population)



Source: EPRC, based on EU data.

5.2.2 Mid-term review of the regional aid map

In June 2016, the European Commission published a **mid-term review of the EU regional aid map**, taking into account GDP per capita data for 2012-14.²² The amended regional aid map will be in force from 1 January 2017 to 31 December 2020. Potential modifications include:

- NUTS 2 regions which could change status into 'a' regions with an aid intensity of 25 percent as they now have a GDP per capita below 75 percent of the EU28 average (applying to regions in **Greece, Spain, Italy** and the **United Kingdom**);

²¹ See more detail at Davies S, Ferry M and Gross F (2014) *Policy Reform under Challenging Conditions: Annual Review of Regional Policy in Europe*, EoRPA Paper 14/1, Paper prepared for the 35th meeting of the EoRPA Regional Policy Research Consortium at Ross Priory, Loch Lomondside, 5-7 October 2014, pp. 29-30.

²² European Commission (2016) *Communication amending Annex I to the Guidelines on regional aid for 2014-2020*, Official Journal of the EU C231, 25.6.2016 [http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52016XC0625\(01\)](http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52016XC0625(01)) (accessed 30 August 2016)

- NUTS 2 regions which could be proposed for an aid intensity of 35 percent as their GDP has dropped below 60 percent of the EU28 average (applying to regions in **Greece**);
- Outermost NUTS 2 regions which would qualify for a higher level of aid intensity (of 45 percent) as their GDP per capita has dropped below 75 percent of the EU28 average (applying to **Portugal's** Autonomous Region of Madeira); and,
- adjusted, non-predefined 'c' region populations of which maximum 50 percent can be exchanged. The following Member States might propose a mid-term review: **Belgium, Denmark, Germany, Ireland, Spain, France, Italy, Cyprus, Luxembourg, Hungary, the Netherlands, Austria, Portugal, Finland** and the **United Kingdom**.

5.2.3 Domestic additions to the EU regional aid map

Some countries include additional categories of regions in the EU regional aid maps, in order to ensure that there is targeted support for areas that are seen domestically as in need of additional support, but that do not fit within the population ceiling of the EU regional aid map.

- In **Germany**, the GRW domestic aid map also includes D areas, namely structurally weaker areas that do not qualify under Article 107(3)(c). These cover around 14.4 percent of the population in 2014-20 (12.07 percent in 2007-13) – all in the western *Länder* and Berlin. D areas benefit, first, via eligibility for GRW funding and, second, via the GRW Agreement Rule, which states that, if a firm applies for aid in one GRW area while at the same time cutting a significant number of jobs in another GRW area, then the agreement of the *Land* experiencing job cuts must be obtained or the aid ceiling in the new location will be the same as in the original location.
- In **Finland**, in addition to Aid Area 1 (covered by Article 107(3)(c) under the sparse population criterion) and Aid Area 2 (as non-predefined Article 107(3)(c) areas), the regional aid map also designates the remaining areas in the country as Aid Area 3 with lower aid levels and no option to support large firms.

5.3 EU Cohesion policy

A key feature of EU Cohesion policy is that **all EU regions receive funding, although funding levels vary across three categories of region**: Less Developed, Transition and/or More Developed regions in 2014-20. EU Cohesion policy plays a varied role in spatial targeting across Member States, depending on the distribution of different categories of regions.

However, the degree of influence of EU Cohesion policy on the geographical focus of countries' regional policies depends on:

- The extent to which **Cohesion policy differentiates between groups of regions within an individual country** (i.e. Less Developed Regions / Transition Regions / More Developed Regions); and

- The **level of Cohesion policy funding**, relative to domestic funding for regional policy i.e. where funding is significant, Cohesion policy can strongly shape the geographical orientation of regional policy interventions (see Chapter 4).

There are **three groups of countries with explicit differentiation** under Cohesion policy, namely:

- Countries with clear differences between types of regions (Less Developed, Transition and/or More Developed) i.e. **Belgium, Germany, France, Greece, Italy, Slovenia, Spain** and the **United Kingdom**;
- Countries where only the capital region has a different status (**Czech Republic, Hungary, Poland, Romania** and **Slovakia**), or where the share of the country covered by a different type of region is relatively small (**Austria** and **Portugal**).
- Countries where the entire territory is covered either by Less Developed Region status (**Bulgaria, Croatia, Cyprus, Estonia, Latvia, Lithuania** and **Malta**) or More Developed Region status (**Denmark, Finland, Ireland, Luxembourg, the Netherlands** and **Sweden**).

5.4 Countries' domestic approaches to regional targeting

Although 'all-region' policy approaches have emerged in many countries, most regional policies across Europe include instruments with distinctive geographies and tailor-made instruments. Table 7 presents examples of the different geographies of regional policy.

Table 7: Geographical focus of regional policy

Country	Aims	Examples
Macro-regions	Economic and social cohesion	CH, DE, ES, FI, IT, NO, PL, SE
Structurally disadvantaged areas	Targeting 'problem' areas	CZ, EE, FR, HR, HU, LV, NL
Areas of high unemployment	Responding to significant and/or rapid job losses	BE, FI, LT, NL, SI
Urban areas, city-regions	Developing growth strategies, strategic partnerships	BE, BG, EE, FI, FR, LT, UK
Rural areas	Rural diversification	CY, FR, PL, SE
Peripheral areas	Addressing natural challenges, opportunities	AT, DK, EE, IE, PT

5.4.1 Focus on macro regions

Macro-regional approaches are used in countries with large areas with common socio-economic or geographical difficulties (see Table 8).

Table 8: Focus on macro regions

Country	Macro-regional focus
CH	Under the NRP, spatial remit increased beyond the most disadvantaged areas.
DE	Eastern <i>Länder</i> (with decreasing funding), but also other 'c' areas and domestic 'D' areas.
ES	Instruments focus on less-developed regions covering large parts of the country.
FI	All country, but focus on sparsely-populated areas (east and north).
IT	Mezzogiorno plus very limited 'c' coverage.
NO	Peripheral and difficult-to-access regions, with four main spatially-targeted packages.
PL	Domestic strategy plus a Cohesion policy OP for eastern macro-region; also domestic strategies for other macro-regions.
PT	All country, but (recently increased) specific focus on 'interior' (low-density) areas.
SE	All country, but focus on peripheral and sparsely-populated areas (north and centre).

A first group of countries targets regional policy support on **large areas with structural economic weaknesses**:

- In **Germany**, the domestic Regional Joint Task (GRW) designates areas on the basis of a composite indicator that draws on: (i) unemployment rates, (ii) gross annual wages per employee, (iii) an infrastructure indicator, and (iv) an employment forecast. In both 2007-13 and 2014-20, a single methodology has been used to designate areas in both western and eastern *Länder*.
- In **Italy**, 80 percent of the resources of the domestic Fund for Development and Cohesion (FSC) in 2014-20 are earmarked for the eight southern regions. This focus on the Mezzogiorno is confirmed by the 2014-20 regional aid map.
- **Spain's** national regional policy instruments have historically targeted the structurally weak regions that cover large parts of the country.
- In **Poland**, the new Plan for Responsible Development continues the Strategy for the Development of Eastern Poland 2014-20, covering five of the lagging regions alongside a dedicated Cohesion policy OP. In addition, macro-regional strategies for other parts of Poland have been developed, albeit without dedicated funding.
- In **Switzerland**, the remit of regional policy under the New Regional Policy (NRP) has over time increased beyond the most disadvantaged, usually mountainous areas. Agglomerations, large and urban cantons (with the exception of Geneva and Zug) are now able to receive NRP funding if they can prove that funding will benefit structurally weaker areas.

Elsewhere, the focus is on macro areas with sparse populations, which are also affected by challenges relating to peripherality and climate:

- In **Norway**, an Action Zone and a policy for the 'High North' includes a range of measures such as regional investment aid and a social security concession.
- Under the sparsely-populated area status introduced in the Accession Treaty of Finland and Sweden to the EU in 1995, the northernmost counties in **Sweden** and eastern and northern **Finland** benefit from higher levels of Cohesion policy funding and special treatment under EU regional aid policy.

5.4.2 Structurally disadvantaged areas

Funding is often focused on regions with structural weaknesses on a range of economic indicators (e.g. productivity, employment, business creation) (see Table 9). Even in countries which are fully designated under Article 107(3)(a) and as Less Developed Regions, there may be instruments for particular areas which are prioritised from a domestic viewpoint.

Table 9: Focus on structurally disadvantaged areas

Country	Structurally disadvantaged areas
CZ	Underdeveloped regions (i.e. all regions except Prague or narrower focus).
EE	All country, with additional spatial targeting (e.g. action plans for the north-eastern county of Ida-Viru (which also receives Cohesion policy support) and the South-East).
FR	Different instruments for varied types of structurally weak regions (tax exemptions, business infrastructure).
HR	All country; domestic assisted areas and areas with developmental particularities.
HU	All country except Budapest and most areas in Pest county; domestic support for 'underdeveloped districts'.
LV	All country; some domestic support for structurally weaker municipalities e.g. Latgale.
NL	Three northern provinces targeted.
SK	2015 legislation on support for the least developed districts.

Examples include:

- In **France**, old industrial areas and other areas are targeted by various instruments (tax exemptions, support for business infrastructure), notably the Regional Development Grant.
- In the **Netherlands**, three northern provinces are targeted for assistance as compensation for not getting a high speed railway link to the West. The funding runs until 2020 and responsibility for allocating this fund was devolved to the provincial level in 2011.

- **Czech** regional policy traditionally targets underdeveloped regions and territories of special State interest (including former military areas). For example, a strategy for the economic restructuring of Ústí nad Labem, Moravia-Silesia and Karlovy Vary regions is being prepared.
- In **Hungary** the system of ‘underdeveloped districts’ eligible for specific assistance, revised in 2014, includes some that have a history of industrial decline.

5.4.3 Areas affected by sudden structural change and high unemployment

Regional policies also target areas undergoing rapid structural change due to the closure of businesses or entire industries, often with a particular focus on addressing existing or potential job losses and unemployment rate increases in these localities (see Table 10).

Table 10: Focus on high unemployment areas

Country	High unemployment areas
BE	Flanders: Two economic zones (Genk and Turnhout), which encompass enterprise parks that are eligible for a reduced business tax rate of 25 percent.
FI	Proactive framework for areas undergoing sudden structural changes
LT	14 problematic territories with high unemployment rates and welfare recipients.
NL	Package of measures introduced in Groningen.
SI	Mechanism to avoid the need for ad hoc response to unemployment increases.

Examples include:

- **Finland** has a proactive framework that enables measures to be launched as soon as sudden structural change with large layoffs takes place, and which brings together different actors and funding streams to address local difficulties.
- In the **Netherlands**, a package of measures is in place in Groningen as compensation for some of the negative consequences of gas extraction in the region but also to address structural changes (e.g. the closure of a large aluminium plant).
- **Slovenia** has a mechanism that aims to avoid the need for specific legislation in response to shocks. There are provisions to introduce measures (including employment incentives for companies) for areas with internal structural problems or affected by external shocks.

5.4.4 Urban areas

Regional policies include a **focus on urban areas** in some countries (see Table 11), sometimes including capital cities in poorer countries, but especially medium-sized cities as economic ‘drivers’ and areas of social deprivation or in need of physical regeneration within larger towns.

Table 11: Focus on urban areas

Country	Urban areas
BE	Wallonia: Marshall Plan 2022 promotes the development of urban poles.
BG	Cohesion policy places strong emphasis on polycentric development – 67 towns.
CY	Local and area plans exist in the urban centres of Nicosia, Limassol, Pafos and Larnaca.
EE	Urban areas of Tallinn, Tartu, Pärnu, Jõhvi, Kohtla-Järve and Narva.
FI	Focus on urban areas through growth agreements
FR	Various instruments available for urban areas.
LT	Regional growth centres; main cities and other smaller cities.
UK	UK City Deals, Devolution Deals in England.

Examples include:

- In **Finland**, the domestic AIKO instrument underlines the importance of urban areas through the State-city growth agreements. In addition, agreements have been made with thematic urban networks.
- In **France**, different instruments target urban areas, especially non-metropolitan smaller urban centres, in addition to urban policy's 2015-20 including City contracts (*Contrats de ville*) signed between the State and city authorities.
- In the **United Kingdom**, a new Cities and Local Growth Unit was set up by central government in 2014 to be responsible for UK-wide City Deals, and the local Growth Deals and Devolution Deals in England, and bringing together parts of government responsible for policy on local economic growth into a single team.

5.4.5 Peripheral and rural areas

A further focus is on **peripheral or rural areas**, where development can be constrained by poor access to markets and low population density and where the provision of adequate services can be challenging (see Table 12). Examples include:

- In **Austria**, regional policy has an implicit strategic orientation towards peripheral areas, including mountainous (centre and south-west) and border regions (north and south-east). There are no major aid schemes, but support aims to develop region-specific potential (e.g. through support for regional management offices).
- In **France**, concessions on taxes and social contributions are available in 'rural renewal zones' covering one-third of French municipalities.
- In **Poland**, the new Plan for Responsible Development increases the priority given to support of 'sensitive areas', including small towns in rural areas.

- In **Denmark**, higher levels of support can be provided in some of the areas designated for State aid (small islands), and a relatively larger share of Structural Funds expenditure is available in designated peripheral areas.
- In **Portugal**, positive discrimination measures are provided under the Cohesion policy programmes on the basis of a map of 'low-density' areas (using a basket of physical, demographic and other socio-economic indicators), which targets the interior of the country.'

Table 12: Focus on peripheral or rural areas

Country	Peripheral or rural areas
AT	Mountainous regions (centre & south-west) and border regions (north & south-east).
DK	Designated small islands (State aid) and peripheral areas (Structural Funds).
CY	General spatial policy framework for rural areas.
EE	Programme for sparsely-populated areas and other small instruments for specific peripheral areas, aimed y at preserving local culture and/or improving the quality of life.
FR	Concessions on taxes and social contributions are available in 'rural renewal zones'.
IE	Support for the <i>Gaeltacht</i> region that includes peripheral areas.
ML	Policy focus on Gozo due to its scarce habitation.
PL	Plan for responsible Development to support 'sensitive areas' including rural areas.
PT	Specific focus on low-density (interior) areas of the country.
SE	Parliamentary committee to draft a proposal for a development policy of rural areas.

5.5 Changes in the geographical focus of regional policy in 2015-16

Changes/adjustments in the geographical focus of regional policy in 2015-16 include the following:

Plans to revise the regional aid map following the Commission's 2016 mid-term review:

- **Italy** is planning to review the regional aid map to reinstate Sardinia as an 'a' area, and so confirm the traditional focus of regional policy on the eight southern regions.

Increased focus on **sparsely populated or rural areas**:

- In **Portugal**, the focus on the potential of 'interior' territories is reflected in the map of 'low-density' areas approved in 2015. Moreover, a Task Force for the Valorisation of the Interior has been established aimed at developing, implementing and overseeing a national programme for territorial cohesion as well as to promote inter-ministerial support measures for the interior territories. Work on the programme is to be finalised in 2016.
- In **Sweden**, the national government has made rural areas a particular political priority. A Parliamentary committee has been set up to draft a proposal for a sustainable rural

development policy because the potential and opportunities of rural areas for sustainable development and growth are seen not to have been realised to the desired extent.

New forms of **regional policy targeting**:

- In **Poland**, the targeting of 'functional' areas by regional policy is continuing. The new Plan for Responsible Development, launched in 2016, confirms this approach, notably in delineating 'sensitive areas' where regional policy support should be concentrated and 'growth centres' where specialisation should be pursued.
- In **Slovakia**, legislation on Support for the Least Developed Districts was introduced in 2015, which involved the creation of a new unit in the Ministry for Transport, Construction and Regional Development and provisions for the development of Action Plans.

Stronger focus on **enterprise/economic zones**:

- In 2016, **Latvia** introduced legislation that provides for the establishment of a Special Economic Area in the easternmost, underdeveloped Latgale region. The scheme will be operational at least until 31 December 2035.
- In **Hungary**, rules on free enterprise zones were modified to extend coverage in underdeveloped districts.

Adjustments in **eligibility criteria for designating areas**:

- In **France**, relief on taxes and social contributions is available in 'rural renewal zones' covering one third of municipalities. Eligibility criteria have been amended in line with recommendations from a 2013 evaluation, in order to take better account of social criteria alongside demographic indicators and the new territorial organisation. Implementation of the new approach should start in mid-2017.
- In **Switzerland**, coverage of the New Regional Policy (NRP) in 2016-23 has decreased as Basel-City, Basel-County and Solothurn are not participating (although they may participate in other inter-cantonal programmes). Moreover, the NRP's tax relief instrument has been under review in 2015-16. It used to cover the 30 economically weakest areas across 11 cantons (corresponding to 10.1 percent of the population) but eligibility has now been widened to include more cantons, but with funding concentrated on regional centres within these cantons.
- In **Bulgaria**, amendments to the Regional Development Act in February 2016 brought about changes to the criteria used to identify areas for targeted support. In addition to the level of socio-economic development (at municipality level), the criteria now also takes into account geographical location, including mountainous areas and border areas.

6. THE INSTRUMENTS OF REGIONAL POLICY

KEY FINDINGS

Regional policy instruments can be grouped into six main categories, namely support for:

1) Direct business investment/employment; 2) Business-oriented infrastructure; 3) Innovation; 4) Packages for regions facing economic difficulties; 5) Bottom-up development; and 6) Quality of life and public services.

Many instruments have continued unchanged in 2015-16, although there have been changes to instruments in the following fields: support for business investment, innovation and experimentation, infrastructure, place-based approaches, and capacity-building.

Where changes have taken place, these have been driven by (i) the ongoing launch and adjustment of regional aid schemes for the 2014-20 period (linked to the EU Regional Aid Guidelines and GBER), and/or (ii) by domestic budgetary circumstances and political decisions, as well as by domestic evaluation and review findings.

Countries are also in the process of planning future regional policy reforms of instruments, particularly in Germany, where a major review is underway of existing regional policy schemes as well as broader support for related constitutional goals (e.g. via the fiscal equalisation system).

6.1 Introduction

Regional policy involves a wide range of instruments, which have evolved over the years to include support for business investment and employment creation, business-oriented infrastructure and innovation, as well as more complex interventions delivered through bottom-up development or integrated development packages, such as those addressing regional economic difficulties or quality of life and public services. The first section of this chapter provides a detailed overview of regional policy instruments across European countries (Section 6.2).

Most countries use a combination of instruments, which have seen adjustments in 2015-16, most notably to meet EU requirements for the 2014-20 period, but also as a result of budgetary constraints, political circumstances, as well as domestic evaluation and review findings. In addition to the introduction of new instruments and adjustments to existing instruments, discussions/preparations are continuing for longer-term future changes in a number of countries; where preliminary trends can be identified (see Section 6.3).

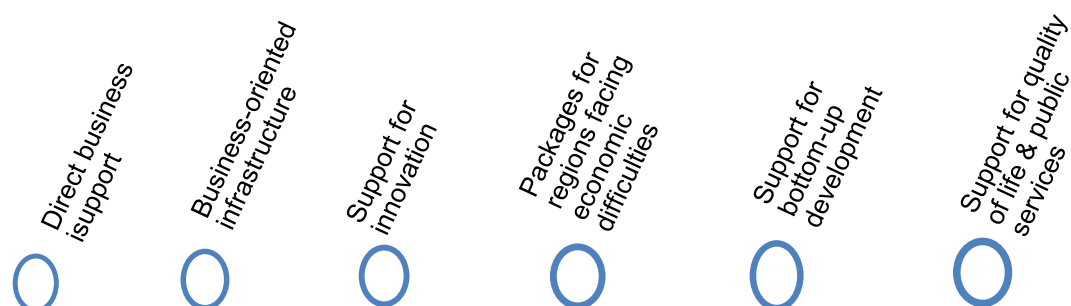
Further information on individual instruments is provided in the EoRPA Comparative Tables of Instruments accompanying this Overview Report,²³ in the individual EoRPA Country Reports, and in the EoRPA Instrument Fiches for specific countries.

²³ H. Vironen, P. Vernon, S. Miller and S. Davies (2016) *Regional Policy Instruments in Europe - Comparative Tables*, EoRPA paper 16/3

6.2 Typology of regional policy instruments

Regional policy instruments can be categorised into six broad groups.

Figure 16: Typology of regional policy instruments



The following sections describe each instrument type, provide selected country examples, and briefly note the rationale for these forms of intervention, as well as the potential risks or difficulties associated with these instruments. Although the instruments are discussed separately, there are sometimes overlaps e.g. when a single instrument has a number of different objectives.

6.2.1 Direct business support

Direct support to individual businesses remains a key instrument in regional economic development, and can vary in terms of its: overarching objectives (investment, job creation...), form of support (grant, repayable instrument, tax allowance, non-financial support...), targeting at different areas / sectors (peripheral, rural, industrial / tourism...), targeting of different types of firm (small, medium, large), and timeframe (longstanding vs. temporary or ad hoc). In many instances, the instruments entail a combination of different objectives, forms of support and targeting (see Figure 17). Individual schemes may be targeted at particular areas or may available across the country but with more favourable conditions in assisted areas (e.g. **Belgium, Finland, France, Italy, United Kingdom**) and/or for projects which satisfy specific conditions (e.g. **Belgium, Slovakia**).

Figure 17: Different components of direct business support instruments

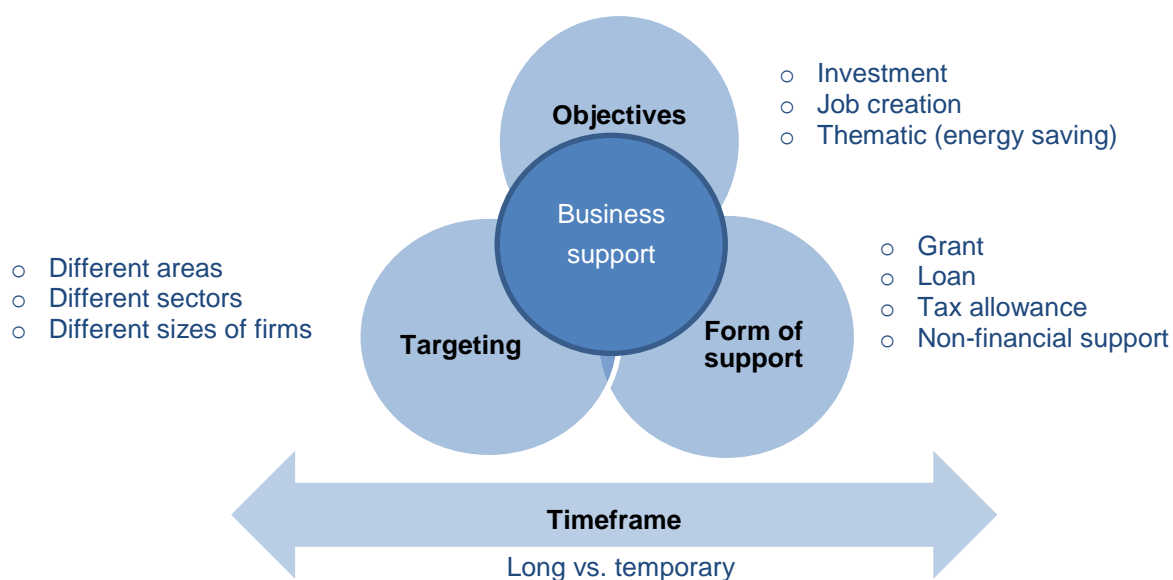


Table 13: Direct business support

Objective	Forms of support	Country examples	Rationale	Difficulties / risks
Business investment (start-ups & expansion)	Grants	Most countries	Capital stock and business investment are typically lower in structurally weaker regions.	<ul style="list-style-type: none">- Constraints of EU competition policy (esp. aid to large firms)- Availability of public funding- Other conditions need to be ‘good enough’ to attract investment- Deadweight effects- Crowding-out of private investors- Tax measures: lack of transparency over costs & benefits, budgeting difficult- Repayable instruments: administrative costs, appropriateness in disadvantaged regions- Training / advice: high administrative costs
	Tax relief (investment)	BG, CH, CZ, FR, GR, IT, LT, LU, LV, PL, PT, SI, SK, UK		
	Tax relief (other forms)	BE, CZ, FR, HR, LV, NO, PL	Funding & mentoring/advice can renew businesses, support entrepreneurship & SME expansion.	
	Repayable instruments (loans / loan guarantees / subsidised interest rates, equity)	AT, BE, CH, CY, CZ, DE, DK, FR, GR, HU, HR, IT, LT, LU, LV, NO, PT, SI, UK		
	Packages of financial aid and advice	BE, BG, FI, FR	Micro-loan funds can support growth of self-employment (e.g. shift out of unemployment).	
Job creation & skills	Wage subsidies	DE, EE, GR, RO, SE, SK	Employment rates are typically lower and jobs are lower-skilled in structurally weaker regions.	
	Tax relief (on job creation)	BE, FR, SI		
	Grant (on job creation)	PL, SK, RO, UK		
	Social security concessions	BG, NO, SE, SI		
	Consultancy, training & advice	BE, BG, CH, DE, EE, FR, HR, PT		
Thematic support	Energy projects	(Many countries under CP) domestic schemes in: CZ, EE, RO	Lower standards of energy-efficiency (particularly in buildings), also important in terms of promoting renewable energy sources.	<ul style="list-style-type: none">-Availability of public funding-Demand can vary depending on region / regional dimension in the distribution of funding-Risky projects
Reducing obstacles to exporting	Aid for transport costs	FI, NO, SE	Can help retain/attract businesses in periphery by lowering costs.	<ul style="list-style-type: none">-Constraints of EU Competition policy-Availability of public funding-Deadweight effect (transport costs)

6.2.2 Support for business-oriented infrastructure

Investment in business-oriented infrastructure aims to facilitate business attraction and expansion. It forms part of the broader measures of supporting the business environment, and has also been an important part of EU's Cohesion Fund and sometimes ERDF programmes. Examples of business-oriented infrastructure interventions include the construction of buildings and business parks or technical infrastructure (e.g. water supply, ICT/broadband), or the support of research infrastructure (e.g. innovation centres, hubs), or the construction of transport networks or the leasing of subsidised land. Support is not available solely through Cohesion policy in poorer Member States, but also through the various domestic instruments, including:

- **Czech Republic:** Investment Incentives
- **Germany:** Regional Joint Task
- **Italy:** Development Contracts
- **United Kingdom (England):** Enterprise Zones (e.g. broadband)
- **Spain:** Regional Investment Grant

Table 14: Support for business-oriented infrastructure

Objective	Country examples	Rationale	Difficulties / risks
Business-oriented infrastructure	AT, BG, CZ, CH, DE, EE, ES, FR, HR, HU, IT, LT, LV, NL, PL, RO, SI, UK	Infrastructure is often poorer in structurally weaker regions and can play an important role in economic growth, job creation and competitiveness.	<p>Depends on large-scale public funding.</p> <p>Planning and legal processes can be lengthy, and implementation subject to delays.</p> <p>EU Cohesion policy constraints on funding, esp. in wealthier MS.</p> <p>EU State aid constraints on some types of infrastructure support</p>

6.2.3 Support for innovation

Many regional policy instruments provide varied types of innovation-related support, not least due to the importance of innovation as a driver for growth and productivity and the relevance of innovation in the current Cohesion policy paradigm.²⁴ The importance of innovation is underlined in all areas, including in structurally weaker regions. The difficulties and risks of such instruments relate to the availability of public funding, the riskiness of projects and the varied level of demand across the regions. Figure 18 provides a summary of selected innovation-related activities covered by regional policy instruments.

²⁴ See also: L. Polverari (2016) EoRPA Paper 16/6) Innovation as an engine for regional development, EoRPA Paper 16/6

Figure 18: Selected innovation-related activities

RTDI projects	•Most countries (particularly under CP programmes)
Knowledge / innovation vouchers, consultancy	•DE
R&D collaboration, networking	•DE, FR, NL, PL, PT
R&D infrastructure (e.g. innovation centres, technology parks)	•CZ, DE, HU, LT
Clusters, competitiveness poles	•BE, DE, HR, IT, NL, NO, PL, SE
Knowledge-based start-ups, incubators etc.	•DE, IT, LT, PL, SI, UK
Innovation platforms	•CH, IT, NL
Other R&D activities (e.g. IP, patents, licences)	•IT

Source: Adapted from L. Polverari (2016) Innovation as an engine for regional development, EoRPA Paper 16/6

6.2.4 Targeted packages for regions facing economic difficulties

Support measures under this category aim to provide a coherent and multi-faceted response to the development problems of particular types of regions (see Table 15). Support can take different forms, including long-term interventions for structurally weaker larger areas and various ongoing or temporary packages aimed at alleviating the consequences of a more localised crisis situation:

- In **Germany**, the Solidarity Pact has provided a long-standing resource for supporting structural change in the eastern *Länder* following German reunification.
- In the **Netherlands**, specific actions are being undertaken in relation to the chemical sector in Groningen, where major employers face difficulties. An action plan aims to make the sector in the region more competitive by centralising utility services, listing capital investment projects, and strengthening links between SMEs and start-ups with knowledge institutes.
- In **Poland**, additional support for the structurally weaker eastern regions is largely provided via the Cohesion policy OP and the domestic Strategy for the Development of Eastern Poland (with no additional earmarked funding). The strategy focuses on three key priorities (innovation, the labour market, and transport and information technology infrastructure).

The potential difficulties of such support packages relate to political decisions to allocate additional mainstream public funding (or not to allocate additional funding) to such schemes, and decisions on using the funding on specific places. Their design and implementation is also very much dependent on effective coordination between the different organisations and policy fields.

Table 15: Targeted packages for regions facing economic difficulties

Long-term funding for structurally weaker larger areas	
DE	Solidarity Pact for eastern <i>Länder</i>
IT	Development Contracts
Support for smaller areas with specific difficulties (e.g. business aid, local infrastructure)	
Areas of high unemployment / with major regional business closure / territorial structuring	
BE	Aid zones Flanders: Various measures to business closures in Genk (Limburg) and Turnhout (Antwerp)
CZ	Support to a coal mining company in the Moravian-Silesian region to respond to job losses National programme for tourism support (focus on weak regions, but not exclusively)
FI	Proactive measures for structural change areas (ERM)
FR	Contracts for the regeneration of 'defence areas'
NL	The Regional Investment Support Groningen 2014 Ad hoc response to address structural challenges (no specific criteria for actions)
PL	Special Economic Zones
SI	Series of temporary measures to areas suffering from the economic crisis / high unemployment
SK	Action plans for the least developed districts
Under-developed areas (including rural, island, mountain areas)	
AT	ERP Regional Programme
BG	Targeted investment programme for underdeveloped areas in north and north-west regions
EE	Various targeted programmes (small islands, low-density areas etc.)
UK	Scotland: Highlands and Islands Enterprise strategy
Socially deprived areas	
CZ	Programme for demolishing buildings in socially excluded localities
HU	Rehabilitation of deteriorating urban areas (focus on segregated areas)
IT	Urban free zones characterised by social, economic and employment disadvantages
Lagging urban areas	
EE	Sustainable development of Ida-Viru county's urban areas
Strategies for structurally weaker regions (with no additional funding)	
High unemployment areas / major regional business closure	
CZ	Strategy for Ústí nad Labem, Moravia-Silesia and Karlovy Vary regions
EE	Action plan for Ida-Viru county for 2015-20
NL	A plan to examine the potential for economic development in Emmen Action plan with five priority areas for Twente (east) region The Delta Region in the Highest Gear plan with nine priority areas
PL	Strategy for the development of Eastern Poland

6.2.5 Support for bottom-up development

Countries may also provide support for development through bottom-up approaches. A first type of intervention involves funding for bottom-up strategies or projects which aim **to facilitate the building of social capital and networks, particularly in disadvantaged regions (see Table 16).**

Table 16: General support for bottom-up strategies / projects

Support for bottom-up strategies / projects	
BG	IPA funds local infrastructure & workforce-training
DE	Regional Joint Task funds bottom-up strategy building
EE	Programme for local initiative
HR	Various measures to support local communities
LV	Earmarked funding for small municipal development projects
PT	Programme for the Economic Valorisation of Endogenous Resources (PROVERE)
RO	National Programme for Local Development (PNDL); Infrastructure county sub-programme
Support for cluster, networking and cooperation projects	
DE	Regional Joint Task funds bottom-up projects
BE	Competitiveness poles (Brussels-Capital); Regional Incentives for SMEs (Wallonia)

Second, additional support may be provided for building local / regional capacities to develop and implement various bottom-up measures (see Table 17).

Table 17: Support for building local / regional capacities

Funding to set-up/run local/regional agencies	
CH	NRP funds running costs of regional management bodies
Local administrative capacity-building	
Many countries	Cohesion policy programmes

Support for specific territories includes a focus on structurally weaker urban areas, aimed both at developing their potential and addressing their challenges (see Table 18). Other measures are oriented towards the underdevelopment and poorer level of services often concentrated in peripheral and rural areas (see Table 19).

Table 18: Support for towns

Support for towns	
FR	Central towns contracts
IT	City Pacts
NO	Preparatory analyses for urban strategies based on bottom-up cooperation
RO	Urban Regeneration
SI	Measures for Maribor & neighbouring municipalities & other temporary measures
UK	City Deals / Devolution Deals

Table 19: Support for villages / rural areas

Support for villages / rural areas	
CZ	Revitalisation & development of the countryside
FR	Funding to local actors for services through Service & Health Centres
RO	Village Modernisation

There are various difficulties and risks associated with these schemes. For instance, many of the measures are rather marginal (providing psychological stimulus rather than direct economic benefits). In addition, building social capital can take a long time and require political and administrative commitment, as well as cultural and institutional change.

6.2.6 Support for quality of life and public services

Most countries have some form of fiscal equalisation mechanism which redistributes resources towards fiscally weaker regional and local authorities and underpin regional/local services, although these mechanisms may not be seen as part of regional policy. These are often complex mechanisms, which are shaped by broader institutional frameworks and depend on political decisions and on constitutional or political commitments to equivalent living conditions and/or public services.

There are also more explicit regional policy instruments which aim to create more attractive living and working environments, foster capacity building and access to services, and provide specific support to areas with specific ethnic and/or language minorities (see Table 20). These sometimes aim to address population decline and isolation, and to increase job opportunities (rural areas in particular), as well as to meet housing demand and social integration (urban areas in particular). The key difficulty in these instruments relates to the availability of public funding to ensure successful implementation.

Table 20: Support for quality of life and public services

Fiscal equalisation mechanism	
Most countries	
Targeted interventions	
Attractive living and working environment (culture, economy, environment)	
EE	Action plan for South-East Estonia 2015-20; Setomaa and Peipsiveere Programmes
Capacity-building, fostering economic development and access to services	
NO	Support for local grocery stores in the periphery (MERKUR). Schemes in the counties to promote mobilisation and collaboration of small communities and capacity-building.
FR	The Rural Excellence poles and Territorial poles for economic cooperation Centre-Towns Contracts aim to develop access to services State provides funding / assistance through the Service Centres for the Public and Health Centres to local actors for service provision
Support for areas with ethnic / language minorities	
CY	Specific Aid Programme for the Turkish Cypriot Community
IE	Enterprise development and employment support in Gaelic-speaking areas
SI	Support for Hungarian and Italian autochthonous minorities; Roma settlements

6.3 Changes/adjustments in regional policy instruments in 2015-16

Changes to regional policy instruments in 2015-16 have been driven by (i) by the 2014-20 EU Regional Aid Guidelines and the General Block Exemption Regulation, including the mid-term review of the regional aid map; and (ii) by the domestic economic and political climate, as well as policy reviews and evaluations.

6.3.1 Changes linked to EU Regional Aid Guidelines 2014-20

(i) *Launches and revisions of regional aid schemes*

Further revisions of regional aid instruments have been undertaken in 2015-16 **in response to the 2014-20 EU Regional Aid Guidelines** and General Block Exemption Regulation. Although many 2014-20 schemes represent a continuation from the schemes operating in 2007-13, important changes include:

- The adoption of new schemes (e.g. **Czech Republic**);
- The notification of evaluation plans relating to large schemes (e.g. **Norway**) to the European Commission / EFTA Surveillance Authority;
- Changes to aid rates, eligible areas and sectors, including a stronger focus on SMEs (e.g. (e.g. **France, Spain**));
- Introduction of simplified costs, greater transparency and ease of access for applicants (e.g. **Portugal**);
- Adaptations to domestic legislation and guidance (e.g. **Slovakia, Sweden**), and domestic procedures for implementation.²⁵

(ii) *Mid-term review of the Regional Aid Guidelines*

In June 2016, the European Commission published a mid-term review of the regional aid maps.²⁶ The amended regional aid maps will be in force from 1 January 2017 to 31 December 2020.²⁷ With respect to the aid instruments, potential modifications include:

- Amendment of the list of Article 107(3)(a) areas (regions in **Greece, Italy, Spain, United Kingdom**);
- Amendment of the aid intensity of Article 107(3)(a) areas (applying to regions in **Greece**);

²⁵ For further details on the new regional policy aid schemes for 2014-20, see EoRPA Country Reports and the EoRPA Regional Aid Instrument fiches.

²⁶ CEC (2016) *Communication from the Commission amending Annex I to the Guidelines on regional aid for 2014-2020* (2016/C 231/01).

²⁷ See also: F. Wishlade (2016) Review of EU regional State aid and Competition policy, EoRPA Paper 16/5

- Possibilities for a mid-term review of Article 107(3)(c) areas (in the following Member States: **Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Hungary, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, United Kingdom**).

(iii) *Concerns relating to EU regional aid rules*

There are **some concerns about the effects of new EU constraints in 2014-20, particularly on scope to allocate regional aid to large firms in Article 107(3)(c) areas**. For instance, in **Germany**, at least until 2014, around 70 percent of funding under the Regional Joint Task was allocated to business investment aid, and 30 percent to other activities, notably business-oriented infrastructure. EU restrictions on aid to large firms in 'c' areas have led to a fall in funding to large firms since June 2014, so that *Länder* are reorienting support funding towards SMEs, infrastructure projects and other interventions. In addition, new funding options are being introduced e.g. in relation to innovation clusters and energy infrastructure.

Countries are also experiencing practical difficulties of working with the Regional Aid Guidelines and the GBER (e.g. **Germany**). Many regional policy instruments now fall under the GBER but this has not brought the hoped-for simplifications, as the GBER is seen as complex and lacking in clarity and transparency, so that it is difficult to implement in practice.

6.3.2 New instruments and strategies

Further changes have been introduced against a domestic background of **decreasing budgets, prevailing political circumstances**, and following **practical experience or wider review / evaluation results in individual countries**. New instruments and strategies have been introduced or existing instruments amended support economically weak areas (e.g. **Czech Republic, Greece, Latvia, Slovakia**).

(iv) *Support for business investment and employment*

Key examples of changes in 2015-16 include the following:

- **Tax credit for investments in the Mezzogiorno:** In **Italy**, the 2016 Stability Law introduced a new tax credit for the acquisition of new instrumental goods to be utilised in productive plants located in the Mezzogiorno purchased from 1 January 2016 to 31 December 2019. The aid granted is 20 percent for small, 15 percent for medium and 10 percent for large firms.
- In **France**, **geographical coverage of the Income Tax Exemption in Rural Renewal Areas was amended** under the supplementary budget law for 2015 and will become effective on 1 July 2017. The aim is to enhance efficiency and targeting by defining simplified criteria at the inter-municipal grouping level, and by introducing a socio-economic criterion. Exemptions have been extended for the income tax and local property and revenue taxes. Debates remain with regard to the accurate targeting of the exemption of welfare contributions.
- **Extension to Enterprise Zones in United Kingdom (England):** There has been an increase in the number of Enterprise Zones, which provide benefits to businesses locating within them (e.g. discounts on business tax rates and enhanced capital allowances). Following the announcement of 24 zones in the 2011 Budget, their number rose to 44 in the course of 2015.

In addition, there are plans to extend an existing zone, and the 2016 UK Government Budget announced three new zones, subject to successful business cases and local agreement.

(v) *Support for innovation and experimentation*

The main new approaches are seen in Finland and Germany:

- In **Finland**, a new instrument, AIKO, was launched at the end of 2015 to encourage '**regional innovations and experiments**'. AIKO forms a part of the Government's key project, which is to enhance competitiveness based on regional strengths. AIKO entails three different tools: (i) proactive measures for structural change in the regions (ERM), aimed at allowing rapid and experimental responses which strengthen the regional resilience (including renewal of businesses and entrepreneurship, growth and internationalisation and experimentations promoting employment and business activities); (ii) growth agreements between the State and the cities; and (iii) the development of nationally significant growth zones. A total of €30 million has been earmarked in 2016-18. Approximately half will be allocated on a competitive basis for the growth agreements and growth zones and the other half for measures supporting proactive structural change.²⁸
- In **Germany**, a new funding option under the Regional Joint Task (GRW) in 2015, **namely 'innovation clusters'**, which differ from previous GRW funding for cluster pilot projects because they are larger, with higher funding (up to €7.5 million under certain conditions), longer time-frames (up to 10 years), and have a stronger focus on technological innovation. While Germany's regional policy has long had a clear focus on innovation, this change is also stimulated by EU constraints on aid to large firms in Article 107(3)(c) areas, and more lenient EU rules on aid for RTDI and innovation clusters.

(vi) *Support for business-oriented infrastructure and human capital*

In **Germany**, project eligibility for funding under the Regional Joint Task was revised on 4 August 2016 to include regionally-important projects relating to specific kinds of energy infrastructure, as well as wider support for broadband infrastructure. Furthermore, in 2015 **Germany** also revised eligibility rules relating to training measures and support for human capital.

(vii) *Bottom-up and place-based approaches*

New forms of bottom-up and place-based methods have been introduced or discussed, sometimes stimulated by the focus on integrated territorial strategies within EU Cohesion policy in 2014-20:

- In **Switzerland**, the **pilot programme for business action areas** (*Pilotprogramm Handlungsräume Wirtschaft*) was launched jointly by SECO and ARE in 2016. It is based on the 2012 Spatial Concept Switzerland, which identified 12 'action areas' and aims to implement business-oriented projects that link urban and rural areas.

²⁸

http://www.tem.fi/alueiden_kehittaminen/kansallinen_alueiden_kehittaminen/alueelliset_innovaatiot_ja_kokeilut_%28aiko%29 (accessed 29 April 2016)

- In **Finland**, discussions have been held on **place-based methods** and modes of operation that could fit into the Finnish context. Suggestions have been made, for instance, on the need for a broad place-based strategy for regional policy which involves the citizens and which brings a discursive and solutions-based democracy to regional development. Such an approach would be appropriate for urban, rural and island development needs.
- In **France**, support is increasingly provided through standardised **place-based contracts**, particularly with sub-regional authorities, **according to local difficulties**. Direct funding of Rural Excellence Poles or Health Centres will soon be discontinued and replaced by allocations through integrated contracts encompassing several sources of funding.

(viii) *Building capacities*

Capacity-building activities related to the ability of governmental authorities and economic/societal entities to undertake territorial development and business support are high on the policy agendas of various countries (e.g. **Croatia, Hungary, Latvia, Lithuania**), particularly at county and local levels, partly stimulated by EU Cohesion policy support for capacity-building.

There are also, however, concerns over aspects of EU Cohesion policy regulatory rules and their administrative burden on Member State and sub-national authorities, notably the performance framework, the stronger results-orientation and associated conditionalities, as well as capacities to meet milestones and targets by agreed timetables. In this context, countries have made specific proposals to streamline and facilitate processes related to projects (e.g. certification processes) and to reduce the administrative burden under particular schemes (e.g. **Bulgaria, Portugal**).

6.3.3 Preparing significant reforms of domestic regional policy

In **Germany**, discussions are underway to prepare **a major reform of active regional policy** which will come into force from 2020, in the context of the federal government's 2013-17 coalition agreement, and the ending in 2019 of agreement on the nationwide fiscal equalisation system and the domestic Solidarity Pact for the eastern *Länder*. Discussions on the reform are complex because it needs to be agreed, not only by the federal authorities, but also by all *Länder* and so involves a range of diverse interests and viewpoints.

The reform will involve 'an integrated system of support for structurally weak regions for the whole of **Germany**, with the GRW [Regional Joint Task] as its anchor',²⁹ and focused on economic growth and innovation. This could lead to the broadening of interventions under the Regional Joint Task (which currently focus on business investment aid and business-oriented infrastructure), and possibly a more explicit focus on structurally weak regions in other business-oriented or economic development programmes funded by the federal government.

²⁹ BMWi (2016) *Bund und Länder stärken Innovationsförderung in der Regionalpolitik*, Press release 4 August 2016, <http://www.bmwi.de/DE/Presse/pressemitteilungen,did=775724.html>

7. THE INSTITUTIONAL FRAMEWORKS OF REGIONAL POLICY

KEY FINDINGS

The institutional frameworks of regional policy within an individual country depend on broader governmental structures and the allocation of responsibilities between administrative levels.

Countries can be divided into four groups:

- federal countries: responsibility is mainly regional but with some national coordination;
- regionalised countries: responsibility is shared between national and regional levels;
- decentralised countries: policy is mainly national but with significant regional coordination;
- unitary countries: policy is essentially national with no significant subnational component.

In 2015-16, the institutional arrangements of regional policy have remained stable in a number of countries but reforms are underway elsewhere, focusing in particular on (i) reforms to regional policy frameworks at the central level and (ii) the reallocation of responsibilities for regional policy design and delivery between central, regional and local levels.

These shifts have a variety of aims, notably: (i) taking account of policy objectives, (ii) increasing the effectiveness or accountability of policy implementation, (iii) building capacities, (iv) improving coordination, and (v) responding to budgetary shifts or broader administrative reforms.

7.1 Introduction

Significant differences exist in regional policy delivery among European countries. Much of the variation is rooted in the different constitutional and institutional arrangements and decisions on the division of powers between various tiers of the public administration. This chapter begins by setting out a typology of the institutions through which regional policy is governed in federal, regionalised, decentralised, and unitary countries (Section 7.2).

It then discusses key changes in the institutional set-ups of regional policy in 2015-16, focusing on countries which have introduced institutional reforms or have reallocated responsibilities between administrative levels (Section 7.3). These shifts have typically been prompted by changes in government and/or budgetary constraints, although also by pressure to increase the effectiveness of regional policy interventions. Nevertheless, the institutional arrangements of regional policy have remained relatively stable in a number of countries.

7.2 Typology of the institutions of regional policy

7.2.1 *Regional policy in federal countries*

In **federal countries**, sub-national authorities have wide-ranging responsibilities, as elected regional parliaments have significant budgetary and legislative powers, including the right to levy taxes. These countries have highly regionalised approaches to policy design and delivery.

Table 21: Regional policy system in federal countries

Country	National regional policy tasks	Sub-national regional policy tasks
AT	Federal Chancellery and ÖROK (Austrian Conference on Spatial Planning) have coordinating roles.	9 self-governing states - <i>Länder</i> (NUTS 2) - lead on decision-making, implementation of own programmes.
BE	Federal Public Service Economy responsible for development of competitiveness, sustainability. Four priorities: coordination, knowledge, regulation, monitoring. Ministry of Finance has some tasks in relation to tax-raising powers.	3 self-governing territorial Regions and 3 language-based Communities responsible for economic development.
CH	State Secretariat for Economic Affairs (SECO) sets strategic direction, co-finances and provides wider support.	26 self-governing cantons (NUTS 3) cantons define how objectives are achieved, including project selection.
DE	National coordination provided through Federal Ministry for Economic Affairs and Energy under the Regional Joint Task.	16 self-governing states - <i>Länder</i> (NUTS 1) - responsible for own economic development programmes.

- In **Austria**, responsibility for many policies in support of regional economic development lies with *Land*-level authorities, including *Land* government departments for economic development and economic development agencies. At national level, the Federal Chancellery and the Austrian Conference on Regional Planning (ÖROK) have coordinating functions.
- In **Germany**, individual *Land* governments have primary responsibility for designing and implementing regional policy, although federal authorities (notably the Federal Ministry for Economic Affairs and Energy) play coordinating and funding roles, particularly in the context of the domestic Regional Joint Task (GRW) but also in Cohesion policy.
- In **Switzerland**, regional policy is mainly a residual competence of the federal State, and the cantons are in charge of most tasks related to economic development. Under the New Regional Policy (NRP), the federal body (SECO) provides national co-funding and wider support, while the cantons are the central contact points of the federal government, and ensure cooperation with the sub-cantonal level.

7.2.2 Regional policy in regionalised countries

In regionalised countries, the national level plays a stronger role in strategy setting and coordination but regional authorities have significant autonomy in developing their own strategies. There are elected regional parliaments with some budgetary powers, and limited rights to levy taxes.

- In **Spain**, autonomous communities at regional level have major decision-making and implementation responsibilities with respect to economic development. The Ministry of Finance and Public Administration has responsibility for national regional policy instruments and Cohesion policy but regions are responsible for their economic development strategies.

- In the **United Kingdom**, the Devolved Administrations (in Scotland, Wales and Northern Ireland) are responsible for regional policy design and implementation.
- In **Italy**, the design and implementation of regional policy involves both national and regional levels. National authorities are responsible for key strategic and coordination tasks and for implementing sectoral Cohesion policy OPs and the domestic sectoral programmes of the Development and Cohesion Fund (FSC, formerly FAS). Regional authorities are involved in national decision making through a national committee and they design and implement regional programmes funded by Cohesion policy and also by the FSC. Cities are increasingly responsible for programme delivery too, both under Cohesion policy (NOP Metro) and the new 'Masterplan for the South' which includes a number of 'City Pacts'.

Table 22: Regional policy systems in regionalised countries

Country	National regional policy tasks	Sub-national regional policy tasks
ES	Ministry of Finance and Public Administration responsible for management and coordination.	17 directly-elected autonomous communities, 2 autonomous city regions implement according to strategies and plans.
IT	President of Council of Ministers has political responsibility, chairs national Inter-ministerial Committee on Economic Programming which takes key decisions on resource allocations. Coordination and implementation at national level involves: Department for Cohesion Policies within the Presidency of the Council of Ministers, a coordinating committee (<i>Cabina di Regia</i>), Agency for Territorial Cohesion, national sectoral Ministries and national agency for business development and investment attraction (Invitalia).	20 regions with directly elected councils design and implement regional programmes.
UK (Scotland, Wales, Northern Ireland)	Scottish Government, Welsh Government and Northern Ireland Executive set development strategies.	3 directly-elected devolved administrations (Scotland, Wales, Northern Ireland) implement own development strategies.

7.2.3 Regional policy in decentralised countries

In decentralised countries, sub-national entities (at local and/or regional level) develop and, especially, implement regional policy initiatives but there is a stronger role for the national level. There is a degree of regional decentralisation, with elected parliaments. The regional level is largely funded by financial transfers, as regional authorities typically have only limited rights to levy taxes.

Table 23: Regional policy systems in decentralised countries

Country	National regional policy tasks	Sub-national regional policy tasks
CZ	Ministry for Regional Development sets strategy, manages funding and coordinates.	13 directly-elected regions and Prague (NUTS 3) develop own strategies.
DK	Danish Business Authority regulates, provides oversight and facilitates strategic linking of regional and national initiatives.	5 directly-elected regional councils, 6 regional growth fora (partnership bodies) develop strategies and implement.
FI	Ministry of Employment and the Economy sets national priorities, coordinates, monitors and evaluates programmes.	18 regional councils (and Åland) elected by municipal councils draft strategic programmes. 15 regional state bodies (ELY-centres) involved in implementation (four managing Structural Funds).
FR	CGET (ex-DATAR) is the key agency for coordination and has also monitoring responsibilities.	From 2016, 18 directly-elected regions (reduced from 27), increasingly involved in strategic leadership regarding economic policies.
GR	Ministry for Economy, Development and Tourism for coordination, guidance and management tasks for ESIF and domestic support.	13 directly-elected regions prepare and implement regional strategies and ESIF programmes.
HR	Ministry for Regional Development and EU Funds has key responsibility for implementation; Agency for Regional Development is involved in planning, implementing and evaluating measures.	20 directly-elected counties and Zagreb city (NUTS 3) and regional development agencies identify regional strategies and instruments, while partnership councils (NUTS 2) coordinate them.
NL	Ministry of Economic Affairs provides national coordination and oversight.	12 directly-elected provinces responsible for most aspects of regional policy.
NO	Ministry of Local Government and Modernisation sets “task letters” to counties and agencies.	Regional offices of national agencies implement policies, with input from 19 directly-elected counties (NUTS 3).
PL	Ministry of Development responsible for supervision and coordination.	16 directly-elected regions develop strategies and manage ESIF regional OPs.
SK	Ministry of Transport, Construction and Regional Development sets and implements strategy. Office of Vice-Prime Minister for Investment and Information Society responsible for Cohesion policy.	8 directly-elected regions have own strategies, but lack own resources.
SE	Ministry of Enterprise and Innovation provides overall coordination, while the Agency for Economic and Regional Growth has key implementation role.	21 counties in sub-national implementation through directly-elected Regional Assemblies, Municipal Cooperation Bodies or deconcentrated County Administrative Boards.

- In **Finland**, regional policy delivery is shared between the State and municipalities. Goals are set at the national level and provide the context for regional strategies and implementation. Regional councils develop strategic programmes on behalf of representative municipalities, while the regional State administration (ELY-centres) carries out operational tasks.
- In **France**, decentralisation is continuing with substantial institutional changes. The national level retains a coordinating role and is the main interface with the European Commission.

However, the regions, whose numbers have been reduced from 27 to 18 in 2016, play an increasingly important role in the strategic leadership of economic development policies.

- In the **Netherlands**, economic development policy has been decentralised, with the provinces taking on more tasks, while the Ministry for Economic Affairs aims to strengthen cooperation and partnerships. Regional Ambassadors link central government and the regions.
- In **Norway**, regional development policy is a central government task, led by the Department for Regional Development in the Ministry of Local Government and Modernisation. Policies are implemented principally by national agencies at county level (Innovation Norway, SIVA, and the Research Council of Norway), together with county and/or municipal authorities.
- In **Poland**, the Ministry of Development has a key role in supervising and coordinating regional interventions. Within the centrally coordinated framework, there is an ongoing process of decentralisation of policy implementation responsibilities to the regional level, largely in the context of Cohesion policy funding.
- In **Sweden**, the Ministry of Enterprise and Innovation is responsible for coordination, and the national agency for economic and regional growth (*Tillväxtverket*) for implementation. In the regions (and varying by region), responsibilities are carried out by either (i) directly-elected regional assemblies, (ii) municipal cooperation bodies, or (iii) the county administrative boards, with future regional reform giving priority to directly-elected regions.

7.2.4 Regional policy in unitary countries

Unitary countries take a national approach to regional policy, although local authorities may contribute to strategy-building and implementation in a limited way. There may be a degree of administrative regionalisation but no elected regional governments, and either limited or no policy responsibilities at the regional level, with all powers and resources controlled by central government.

This group includes those where the **approach reflects the small size of the country** (e.g. **Cyprus, Malta** and **Luxembourg**); where there is **traditionally centralised delivery of policy** (e.g. **Greece, Portugal, Slovenia, Latvia, Bulgaria** and **Romania**); and where **municipalities are involved in the implementation alongside central government** (e.g. **Estonia, Hungary**).

- In **Portugal**, the management of regional policy is relatively centralised, reflecting the unitary political system, although the five deconcentrated Coordination and Development Commissions have devolved responsibilities for regional development issues, including the management of Cohesion policy regional Operational Programmes and a share of the regional aid schemes.
- In the **United Kingdom (England)**, regional policy is led by central government, but 39 Local Enterprise Partnerships (of local authority leaders and businesses) negotiate local 'Growth Deals' with the national level.

Table 24: Regional policy in unitary countries

Country	National regional policy tasks	Sub-national regional policy tasks
BG	Ministry of Regional Development and Public Works has main responsibility. Regional Policy Council coordinates with sub-national authorities.	Six planning regions where regional (NUTS 2) and district (NUTS 3) development councils negotiate and coordinate.
CY	DG for European Programmes, Coordination and Development is key national entity. Ministry of Energy, Commerce, Industry and Tourism, Ministry of Interior, and Cyprus Tourism Organisation also involved.	Six districts with deconcentrated State bodies coordinate activities.
EE	Ministry of Finance is responsible for designing policy.	Deconcentrated State bodies in 15 counties adopt development plans.
HU	Ministry for the National Economy has main responsibility for regional policy.	20 county governments (NUTS 3) coordinate and implement.
IE	Centralised economic development strategy-making, but responsibility for regional policy not allocated to any single department.	3 regional assemblies, no executive powers, but coordinate economic development.
LV	Ministry of Environmental Protection and Regional Development, and State Regional Development Agency implement.	Development councils in the five planning regions plan and coordinate.
LT	Ministry of the Interior coordinates and implements regional development. National Regional Development Council contributes as an advisory body.	10 counties where State's regional policy departments act as secretariats for Development Councils, which e.g. select projects.
LU	Regional policy managed by different DGs within the Ministry for Economic Affairs.	State-municipalities Conventions help in coordination.
MT	Ministry for European Affairs and the Implementation of the Electoral Manifesto has main responsibility; also Ministry for Gozo.	Special arrangements for Gozo (e.g. Gozo Regional Committee).
PT	Agency for Development and Cohesion responsible for regional policy and Inter-ministerial Committee of the PA for political coordination and decision-making. National agencies manage business aid schemes.	Deconcentrated State bodies in five regions and elected governments in two autonomous regions with regional development responsibilities
RO	Ministry of Regional Development and Public Administration coordinates and implements regional development.	8 development regions: regional councils coordinate and regional development agencies implement.
SI	Ministry of the Economic Development and Technology designs, coordinates, implements.	Municipalities involved in implementation.
UK (England)	Department for Business, Innovation and Skills and Department for Communities and Local Government set strategy and coordinate.	Implementation role for municipalities through private sector-led local enterprise partnerships.

7.3 Changes/adjustments in the institutions of regional policy in 2015-16

Institutional arrangements have remained relatively stable in a number of countries in 2015-16 (**Austria, Denmark, Germany, Greece, Ireland, Lithuania, Luxembourg, Portugal, Spain**), while elsewhere approaches have evolved significantly. The reorganisation of regional policy frameworks has taken place in the context of changing governments and budgetary constraints, which have prompted

'streamlining'. Efforts to improve regional policy effectiveness have also led to steps aimed at building capacities or improving coordination.

7.3.1 Reforming central institutional frameworks

Reforms to institutional frameworks at the central level have been pursued in 2015-16 by integrating and rationalising structures, but also by increasing capacities and coordinating efforts (see Table 25). These objectives often overlap because, for instance, the rationalisation of institutions may have been carried in conjunction with endeavours to enhance policy coordination. While some of these reforms have already been implemented, others are still in a planning phase.

Two trends in terms of domestic institutional reforms can be identified:

- **Integrating policy fields through merging of national structures and/or institutions.** This can be part of processes of rationalisation, but also part of efforts to integrate different policy fields. Examples include **Belgium**, where there have been mergers of formerly separate business and innovation agencies in both **Flanders** and **Wallonia**, and **France**, where the CGET has been absorbing the agencies for urban renovation and for social cohesion. Also in **France**, the Ministry for Housing, Territorial Equality and Rurality added relations with local authorities to its portfolio, while losing Housing, and changed its name to the Ministry for Territorial Development, Rurality and Relations with Local Authorities. In **Hungary**, the new Development Policy Coordination Committee aligns Cohesion policy and sectoral policies in relevant areas. In the **United Kingdom**, a new Department for Business, Energy and Industrial Strategy incorporates parts of the former Department for Business, Innovation and Skills, and is responsible for developing and delivering an industrial strategy, along with tasks for business, science, innovation, energy, and climate change.
- **Structural and institutional change that is boosting the status of regional policy.** In **Bulgaria**, the Regional Policy Council has been established, reflecting increased status. In **Estonia**, the department of regional policies was moved from the Ministry of Interior to the Ministry of Finance, boosting status within government. In **Slovakia**, moving the Central Coordinating Authority under the new Office of the Deputy Prime Minister for Investment and Information Society means that the CCA now has increased status for strategic management and implementation. In **Finland**, the new committee for regional renewal (AUNE) coordinates different administrative sectors, reflecting the focus on regional policy.

Table 25: Examples of key domestic institutional reforms in 2015-16

	Examples of key domestic institutional reforms in 2015-16	Rationalisation	Capacities	Coordination	Integrating	Status increase
BE	Flanders: New Ministry for Work, Economy, Innovation and Sport.					
	Flanders: Agency for Enterprise and Innovation (merger).					
	Wallonia: Agency for Enterprise and Innovation (merger).					
BG	New Regional Policy Council.					
	New Council for Regional Development and National Infrastructure.					
EE	Minister of Public Administration replaced Minister of the Interior.					
	Responsibility for regional policy moved from Ministry of Interior to Ministry of Finance.					
	Role of senior civil servants in regional policy widened to see through reforms and improve coordination.					
FI	New committee for regional renewal (AUNE).					
FR	CGET absorbs urban agency and agency for social cohesion, and assumes coordinating role for Contracts.					
	Ministry for Territorial Development and Rurality adds 'relations with Local Authorities' to its title to reflect new emphasis.					
	New inter-ministerial committees set up since 2015 covering rurality, urban affairs.					
HR	New Council for Regional Development.					
HU	Closure of Commission for National Development, some tasks given to Development Policy Coordination Committee.					
IT	Reorganisation of Evaluation and Verification Units.					
	New committee (<i>Cabina di Regia</i>) now operational.					
	Stronger role of President of the Council of Ministers.					
	New Agency for Territorial Cohesion now operational.					
LV	Discussions on disbanding Cross-sectoral Coordination Centre, which coordinates different planning dimensions of national policies and ESIF funding.					
PL	New Ministry of Development, merger of Ministry of Regional Development and Ministry of Transport.					
SK	New Office of the Deputy Prime Minister for Investments and Information Society in charge of Cohesion policy.					

7.3.2 *Reallocating responsibilities between administrative levels*

Other changes in 2015-16 include the reorganisation of responsibilities for regional policy, sometimes in the context of local or regional administrative reforms aiming to enhance efficiency, to ensure transparency or accountability, or to address territorially imbalanced development patterns. Some changes have significant implications for the size and responsibilities of the regions (see Figure 19).

Figure 19: Implications of reforms for the number and responsibilities of regions

Sweden 2015	France 2016	Norway White Paper April 2016
<u>Reform</u> 10 county councils have directly-elected regional assemblies from 2015	<u>Reform</u> Reduction in number of regions from 26 to 17 (including outermost regions) in 2016	<u>Reform</u> Plans to reduce the number of counties from 19 to c. 10
<u>Aims</u> Taking over the responsibility for regional growth issues	<u>Aims</u> New responsibilities and strategic leadership regarding economic policies	<u>Aims</u> Enhance role of county level in economic development – larger and more ‘functional’ regions

Substantial institutional changes with significant reallocation of responsibilities have taken place in **France**, **Sweden** and **Norway**.

- In **France**, institutional changes since 2014 are substantial. They include: a new legal status (*métropoles*) with extended powers for cities of 400,000 inhabitants or more, and a special status for Paris, Marseille and Lyon; changes to multi-level governance with local agreements encouraged between Regions, *Départements*, municipalities and their groupings; a reduction in the number of Regions in 2016 (from 27 to 18) and new regional tasks for economic policies at the expense of the *Départements*; and the promotion of large local authorities.
- In **Sweden**, reforms are planned to create larger, directly elected regions and give them more powers. Moves towards decentralisation are ongoing and, since 2015, County Councils have taken over tasks from deconcentrated County Administrative Boards or Regional Cooperation Bodies. In 2015, 10 directly elected regional assemblies were formed and a further four are planned in 2017. Moreover, proposed changes in county borders could lead to three new regions by 2019 and three more by 2023. Finally, a committee is to be set up to look at municipal reform, also with the aim of encouraging mergers and cooperation.
- In **Norway**, reforms at the county level are underway following a White Paper in April 2016 which proposes to reduce the number of counties to around ten and to enhance the role of the county level in economic development through larger and more ‘functional’ regions. As with the municipal level, counties have been encouraged to make proposals for merging with one or more neighbouring counties. Decisions on these proposals will be made by December 2016.

and proposals on the new roles and tasks of the counties, and the new regional structure, will be brought forward in spring 2017; the new municipal and regional structures will come into force from January 2020.

Decentralisation is also ongoing in a number of other countries. In some cases, the functions of the regions have been broadened only slightly (e.g. Regional Development Councils in *Lithuania*), while in other countries changes are more considerable:

- In *Poland*, there is an ongoing process of decentralisation of policy implementation responsibilities, largely in the context of Cohesion policy. In 2014-20, a larger pool of Cohesion policy funds has been allocated to the regional level, so that regional governments now have more responsibility for decision-making and implementation. The parliament passed the Metropolitan Associations Act in October 2015 that gives functional urban areas with at least 500,000 inhabitants some local government tasks: organising public transport and creating supra-local physical planning documents (metropolitan studies).
- In the *United Kingdom*, the devolution of further tasks and powers to Northern Ireland, Scotland and Wales is ongoing, with Scotland gaining new borrowing powers for infrastructure investment in 2015-16, and the introduction of further income tax powers with the adoption of the Scotland Act 2016. This follows the 2012 Scotland Act, which devolved limited powers to raise or lower the income tax rate, other minor tax powers, and limited borrowing capacity. The Northern Ireland Executive's capital borrowing powers to fund projects in housing and education have been temporarily increased. For Wales, changes to the funding formula to incorporate an element of self-financing are also being discussed. In England, there are some moves to devolve powers, particularly to the largest cities.

Plans for future reforms to local and regional administrative frameworks are also underway (*Bulgaria, Croatia, the Netherlands, Portugal, Romania and Slovenia*), for example:

- In the *Netherlands*, the political importance of regions is growing. A 2016 report recommends decentralisation/devolution of some decision-making on fiscal issues to municipalities and that municipalities should develop partnerships and work together, while recognising that many economic, social and administrative activities take place across administrative boundaries.
- In *Portugal*, initial discussions related to sub-national reform are underway. The Council of Ministers aims to conclude the reform process by the end of 2017 in order to allow the 2017-2021 municipal cycle to run within the new framework. The debate is still at a very early stage, and it is unclear what kind of administrative set-up will emerge as a result of the reform. The overall objective is to 'deepen local democracy, improve local public services and give new powers to local authorities'. The plan also foresees the revision of the tasks of the Regional Coordination and Development Commissions (CCDR) and of the two metropolitan areas, aiming to 'reinforce their democratic legitimacy'.

8. CONCLUSIONS AND ISSUES FOR DISCUSSION

The regional policy context in Europe has been shaped by macro-level forces in 2015-16 which are generating **economic, political and policy uncertainty**, including: the ongoing macroeconomic and social aftermath of the 2008 economic crisis, the refugee/migration crisis, the United Kingdom's vote to leave the EU, and the structural effects of environmental and climate change. These forces are re-shaping regional patterns of inequality within and between countries, and are contributing to the **growing interest in alternative measures of disparity**, such as regional social progress indicators, as well as to a **stronger thematic focus in regional policy objectives**, aimed at emphasising interregional and interpersonal inequalities on the one hand, and innovation and economic growth on the other. They also suggest the need to **communicate more clearly** the capacity of regional policies to contribute to productivity, well-being and sustainability,³⁰ especially as social and regional inequalities appear to have contributed to the 'Brexit' vote and broader voter discontent with traditional political parties in a number of European countries.³¹

Following the introduction of new EU Cohesion policy and EU regional aid frameworks in 2014-15, which set EU-related maps and funding arrangements until 2020, the main changes in 2015-16 have been driven by **national/regional decisions to re-shape objectives, maps, budgets, instruments and institutional frameworks** to meet domestic circumstances and political needs. From an EU regional aid perspective, the past year has seen the further launch or adjustment of aid schemes, as well as concerns over the **impact of EU regional aid rules on support for large firms in 'c' areas**. A **longer-term review of the goals and instruments** of regional policy is underway in Germany, and other countries are pursuing significant institutional reforms, including a **reallocation of tasks between central, regional and local levels**.

Key regional policy changes in 2015-16

New measures of regional inequalities are being developed

Organisations such as the OECD and European Commission are developing alternative measures of regional disparity (e.g. social progress indicators, SPI), alongside traditional indicators such as GDP per capita and unemployment rates. Although regional SPI scores are strongly correlated with GDP per capita, they show different results for some countries/regions, particularly capital city regions and peripheral regions, implying that **alternative indicators such as SPI could have significant impacts on policy funding** or strategic decisions.

Regional policy goals focus more on inequalities and innovation

Regional policy objectives are set in constitutional, legal or strategic documents and so tend to remain in place for a number of years. No major revisions were introduced in 2015-16, although some countries saw a renewed **emphasis on reducing interregional disparities, as well as on social inequalities** and demographic challenges (including in relation to refugee inflows). Elsewhere, countries have

³⁰ J. Oliveira Martins (2016) *Productivity, Regional Policy and Economic Governance*, EU Cohesion Policy Conference under the Slovak Presidency of the Council of the EU, Bratislava, 15-16 September 2016

³¹ S. Davies (2016) *op. cit.*

emphasised the goal of increasing the ‘smart specialisation’ of particular territories or **focusing regional policies more strongly on technological innovation**.

Cohesion policy funding levels are falling over time in poorer countries

Trends in domestic allocations of regional policy funding depend on the broader fiscal situation and on domestic policy priorities. In 2014-20 **Cohesion policy funding allocations to many poorer Member States have fallen** compared to 2007-13, although funding levels to most wealthy countries are stable (in constant prices and as a percentage of national GDP). As in past years, there is no clear correlation between regional aid spending as a percentage of GDP and indicators of national prosperity, although this may be partly due to data weaknesses.

Regional policy maps depend on EU frameworks & domestic decisions

The geographical focus of regional policy is shaped in part by EU Cohesion policy and EU regional aid policy (in terms of area designation and funding levels) and in part by domestic decisions and frameworks. The key shift at EU level in 2015-16 was the European **Commission mid-term review of regional aid maps**, where changes may come into play in a number of Member States from January 2017. **Domestically-driven changes in 2015-16** include: an enhanced focus on peripheral or rural areas; revised regional targeting; new enterprise/economic zones; and shifts in eligibility criteria.

EU and domestic factors are also shaping revisions to instruments

Changes to regional policy instruments in 2015-16 include the ongoing launch and adjustment of regional aid schemes for the 2014-20 period, as well as the impact of **EU State aid constraints on large firm aid in ‘c’ areas**.

Other **revisions of instruments** are due to domestic budgetary circumstances and political decisions, as well as domestic evaluation and review findings. Changes have been made in the following fields: support for business investment, innovation and experimentation, infrastructure, place-based approaches, and capacity-building.

Countries are also in the process of planning **future regional policy reforms** of instruments, particularly in Germany, where a major review is underway of existing regional policy.

Institutional changes have mainly been driven by domestic decisions

The institutional frameworks of regional policy are shaped by governmental structures and the allocation of responsibilities between administrative levels. In 2015-16, the institutional arrangements of regional policy have remained stable in a number of countries and, where reforms have been introduced, they have focused on (i) **central-level regional policy frameworks** and (ii) the **reallocation of responsibilities between central, regional and local levels**.

Looking forward to 2017

The end of 2016 and 2017 will see further **mid-term activities relating to EU Cohesion policy and EU regional aid** regulation, with the mid-term review of the EU’s Multi-annual Financial Framework required by the end of 2016; progress reports on Cohesion policy milestones and targets in 2017; the

implementation of the review of regional aid maps from January 2017; and the launch of evaluations of regional aid schemes where required under EU regional aid rules.

For EU Member States, discussions on the **future of the EU budget and Cohesion policy** from 2020 are also likely to become more concrete in 2017 and to be shaped by the context of ongoing macroeconomic difficulties and the refugee/migration crisis.

Domestic reviews of the orientation and role of regional policy, or broader territorial-administrative reforms, are underway in a limited number of countries and may be initiated in other countries, as debates over the future of EU regional policies intensify in 2017-18.

Efforts to evaluate **the effectiveness and efficiency of regional policies** are likely to continue, in the context of public finance constraints, but also given the need to demonstrate and communicate policy effectiveness in the context of a more uncertain political climate.

In light of these developments, key questions for discussion at the EoRPA meeting include:

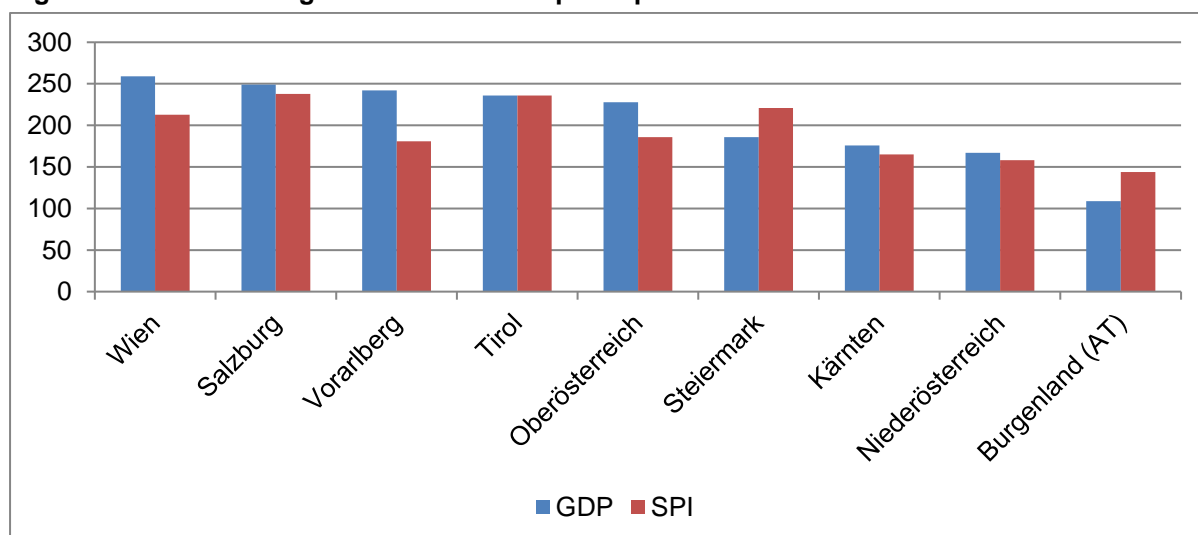
- **Should further work on regional social progress indices be pursued** - and should these alternative indicators be used within national or EU regional policy-making?
- **Does regional policy need stronger thematic goals** – or could this lead to a lack of focus on regional disparities and/or to a lack of differentiation vis-à-vis sectoral policies?
- **Does regional policy need new instruments** (e.g. innovation support, place-based strategies, social integration...) to address new challenges related to the refugee crisis or the unequal impact of austerity and globalisation?
- **Is the proliferation of geographies helpful** (macro regions, functional regions, restructuring, urban, rural regions) - or does it lead to a lack of focus in regional policy?
- **Is there a need for more work to demonstrate the capacity of regional policy** to contribute to major challenges – or to increase its effectiveness?

ANNEX 1: REGIONAL SPI AND GDP PER CAPITA

Comparing SPI scores to GDP per capita shows a strong positive link between the two measures. To illustrate this point GDP (PPS) and SPI results have been ranked and compared. For ease of comparison, the 268 regions covered in this analysis³² are ranked as follows: 268 = Highest GDP per capita or SPI figure; 1 = lowest GDP per capita or SPI figure. Ranking can obscure tight clustering and, at times, very small differences in scores. However, this approach is helpful in making comparisons across two different measures.

There are notable divergences between GDP per capita and SPI in regions with higher levels of GDP per head.³³ This is particularly notable for capital regions. For example Bucharest, Bratislava, Prague, Brussels, Luxembourg and London all have relatively low SPI compared to their GDP per capita. In Austria, for example, Wien is amongst the top ranking regions in terms of its GDP ranking. The region's ranking in terms of SPI, while still comparatively high (213/268), is lower than the results of GDP per capita (259/258), (see Figure A 1).

Figure A 1: Austria: Regional SPI and GDP per capita Ranks

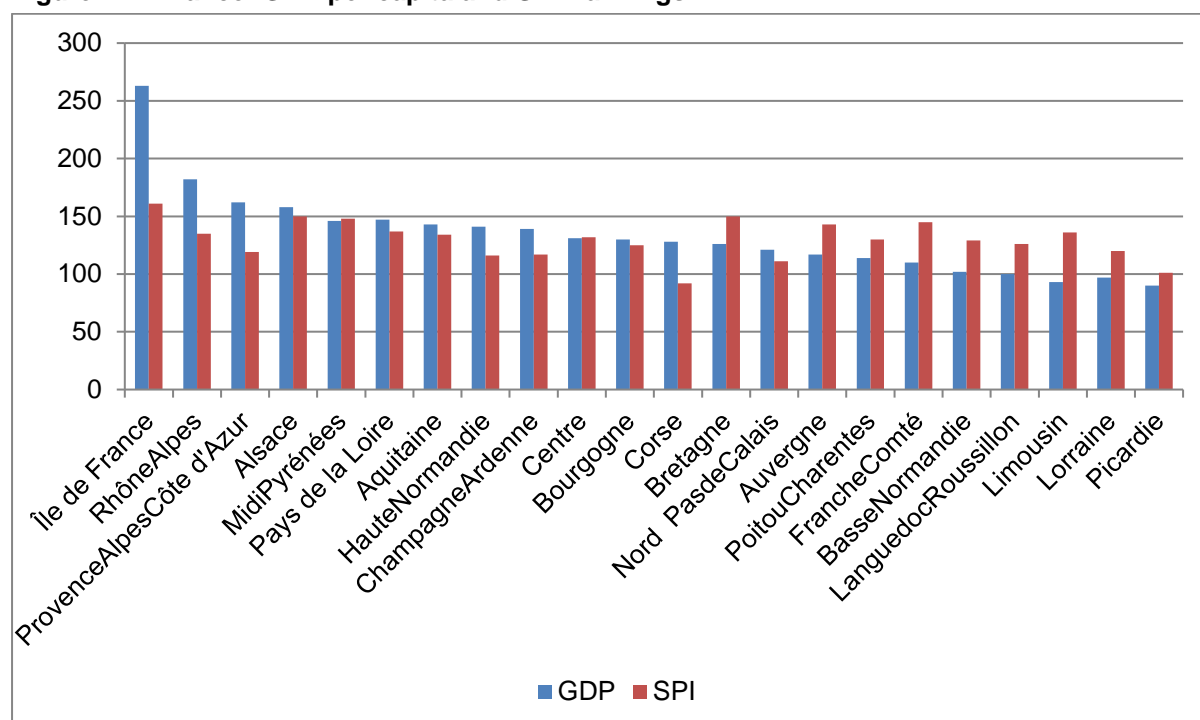


Source: EPRC calculations, based on CEC, Social Progress Indicator, <http://ec.europa.eu/regional_policy/en/information/maps/social_progress>

In France, a considerable difference in the GDP per capita and SPI ranking is apparent in Île de France, (263 and 161 respectively), and to a lesser extent in Rhône Alpes, Provence Alpes Côte d'Azur, and Corsica, (see Figure A 2). However, in the remaining mainland French regions the SPI ranks are closer to GDP per capita rankings.

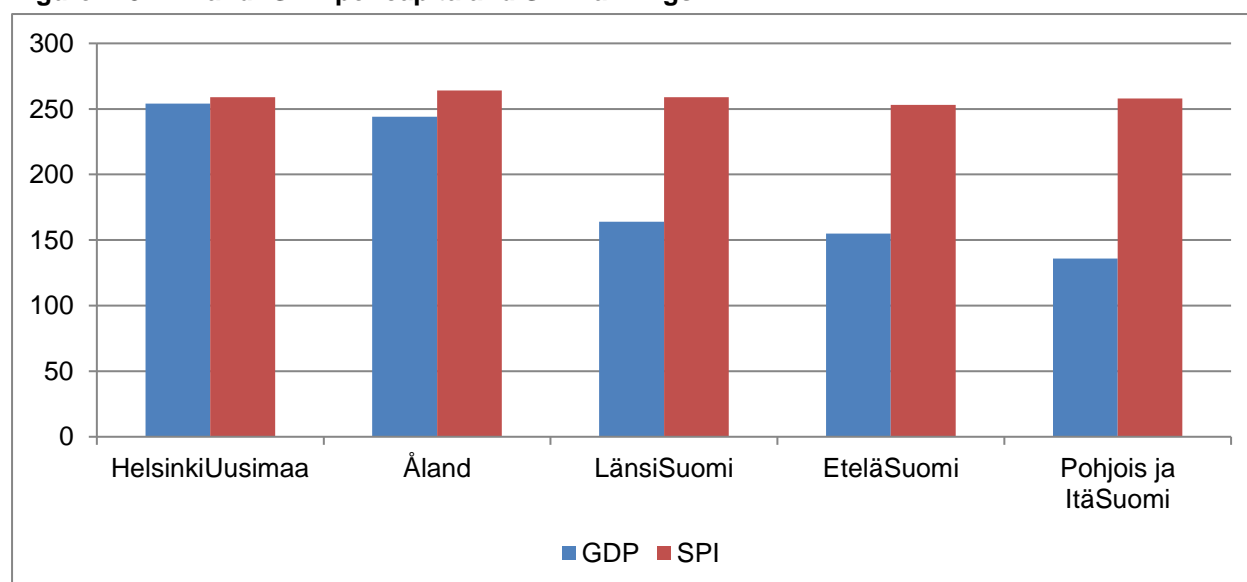
³² The French overseas territories were not included in this paper's analysis, but are covered in the regional SPI index.

³³ CEC, Social Progress Indicator, <http://ec.europa.eu/regional_policy/en/information/maps/social_progress>

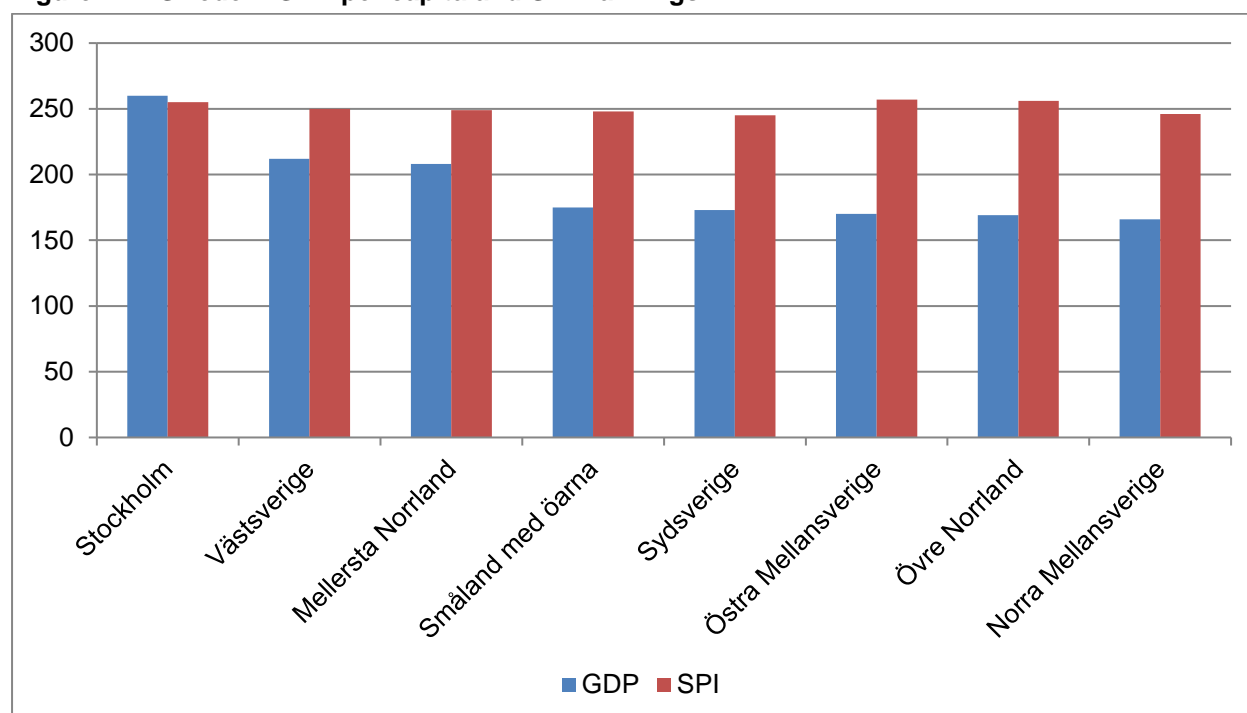
Figure A 2: France: GDP per capita and SPI Rankings

Source: EPRC calculations, based on CEC, Social Progress Indicator, http://ec.europa.eu/regional_policy/en/information/maps/social_progress

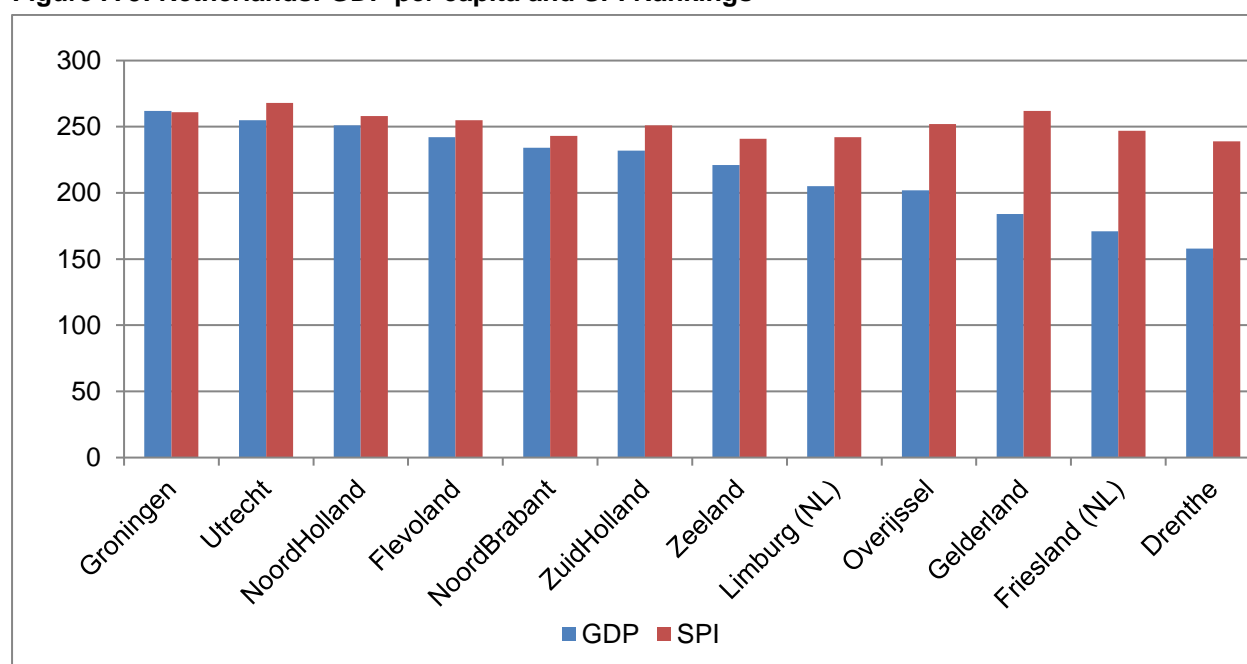
In Finland and Sweden consistently high SPI rankings are recorded, which even exceed results for GDP per capita rankings, (see Figure A 3 and Figure A 4). Similarly, in the Netherlands regional rankings for SPI exceed GDP per capita rankings in all regions except Groningen, which has a higher rank of GDP per capita, (see Figure A 5).

Figure A 3: Finland: GDP per capita and SPI Rankings

Source: EPRC calculations, based on CEC, Social Progress Indicator, http://ec.europa.eu/regional_policy/en/information/maps/social_progress

Figure A 4: Sweden: GDP per capita and SPI Rankings

Source: EPRC calculations, based on CEC, Social Progress Indicator, http://ec.europa.eu/regional_policy/en/information/maps/social_progress

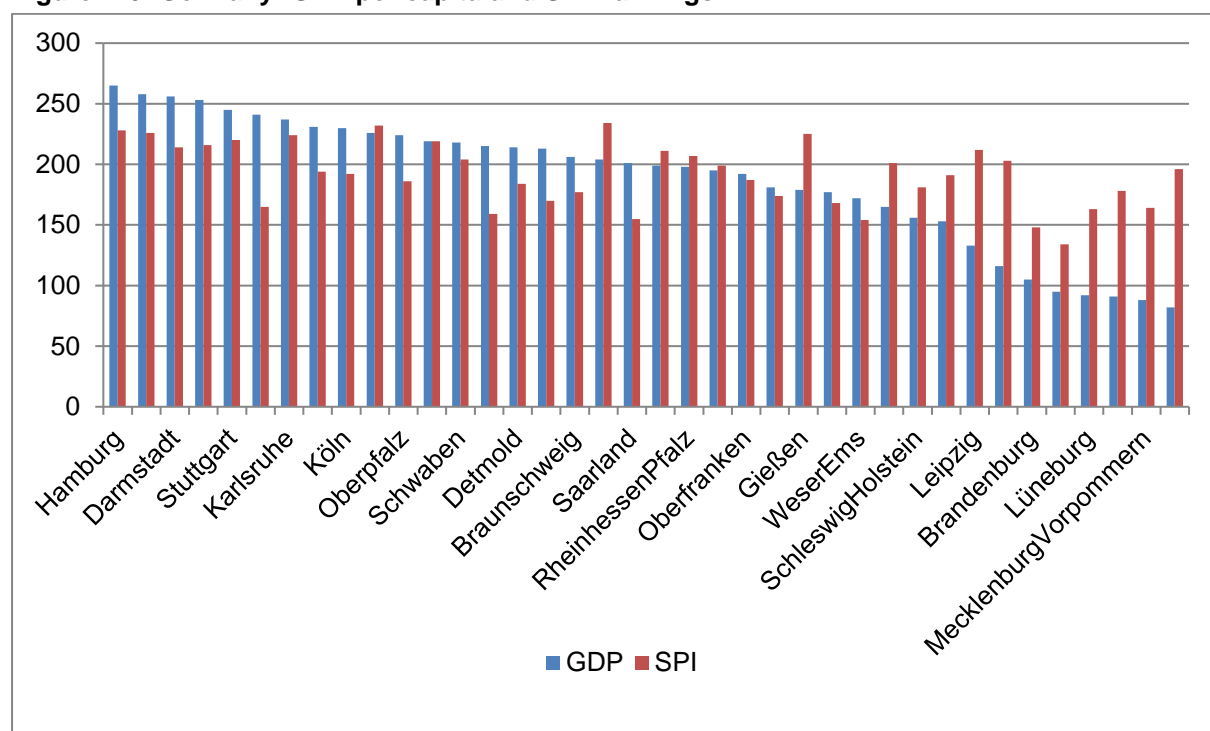
Figure A 5: Netherlands: GDP per capita and SPI Rankings

Source: EPRC calculations, based on CEC, Social Progress Indicator, http://ec.europa.eu/regional_policy/en/information/maps/social_progress

Some regions score higher SPI rankings than their ranking in terms of GDP per head would suggest. In Germany, comparatively low GDP per capita rankings in the eastern regions of Thüringen, Mecklenburg Vorpommern and Leipzig contrast with higher SPI scores, (see Figure A 6). A similar pattern is also apparent in the UK, e.g. in the case of Highlands and Islands, Northern Ireland, Cornwall, and West Wales and the Valleys, (see Figure A 7). Similarly, in Portugal, Central and North regions

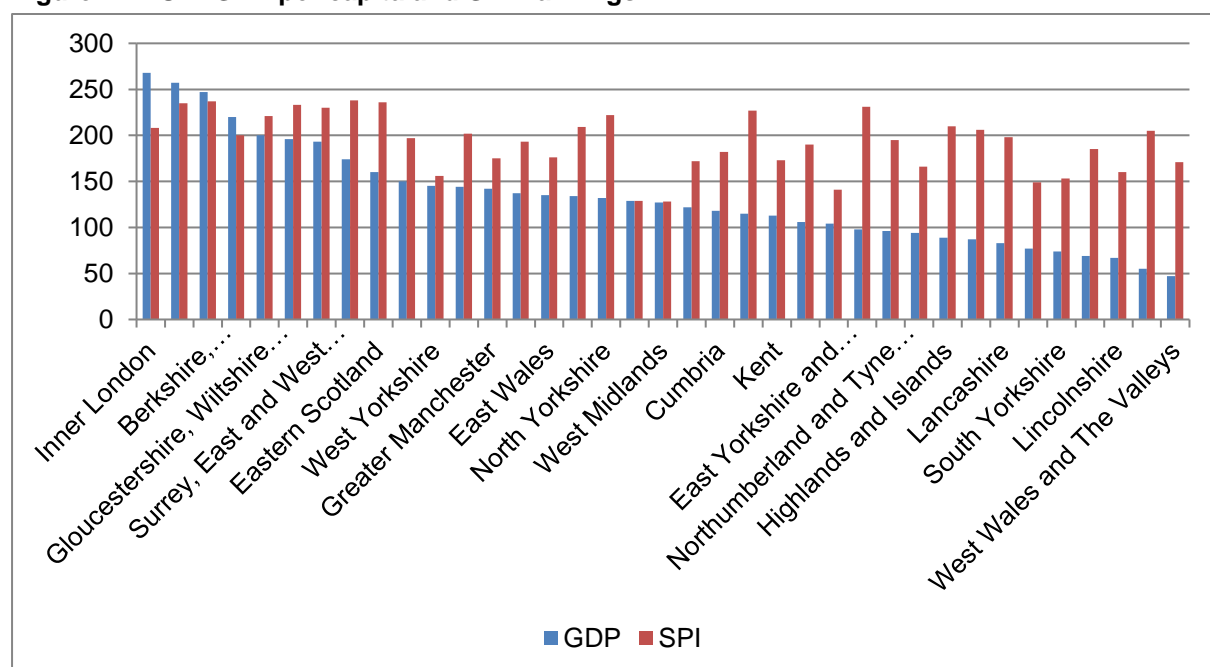
have low GDP per capita ranks but SPI ranks are comparable to those of the capital city region, Figure A 8.

Figure A 6: Germany: GDP per capita and SPI Rankings

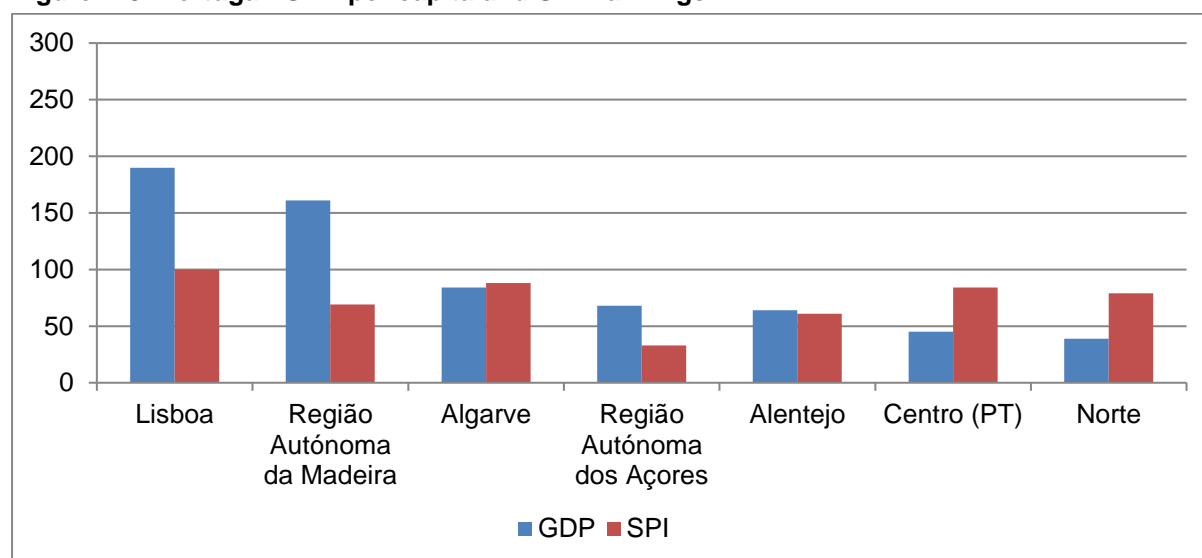


Source: EPRC calculations, based on CEC, Social Progress Indicator, http://ec.europa.eu/regional_policy/en/information/maps/social_progress

Figure A 7: UK: GDP per capita and SPI Rankings

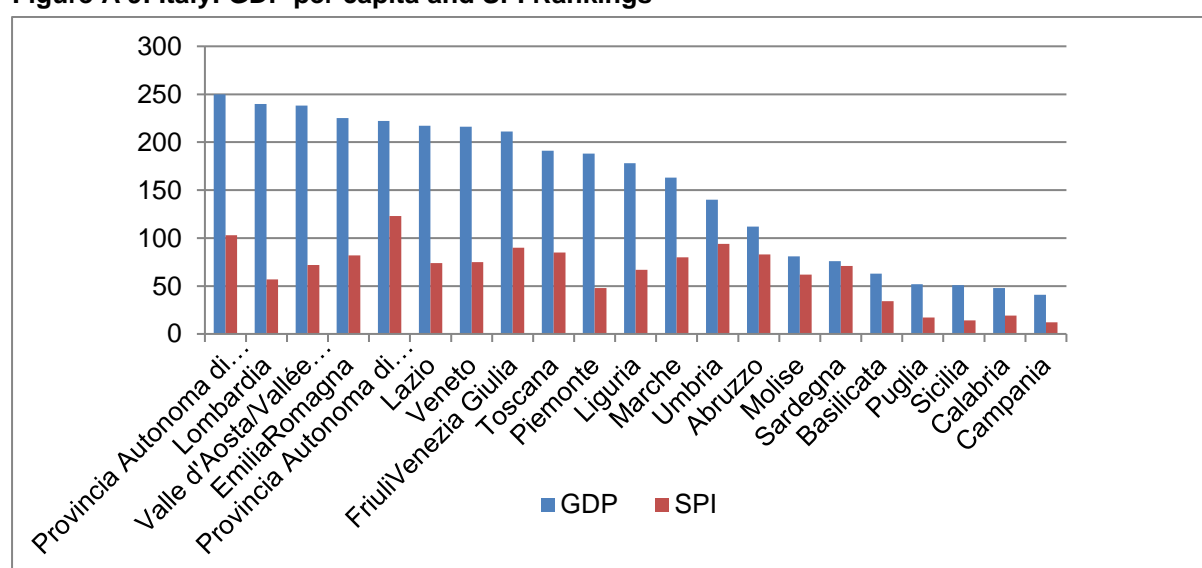


Source: EPRC calculations, based on CEC, Social Progress Indicator, http://ec.europa.eu/regional_policy/en/information/maps/social_progress

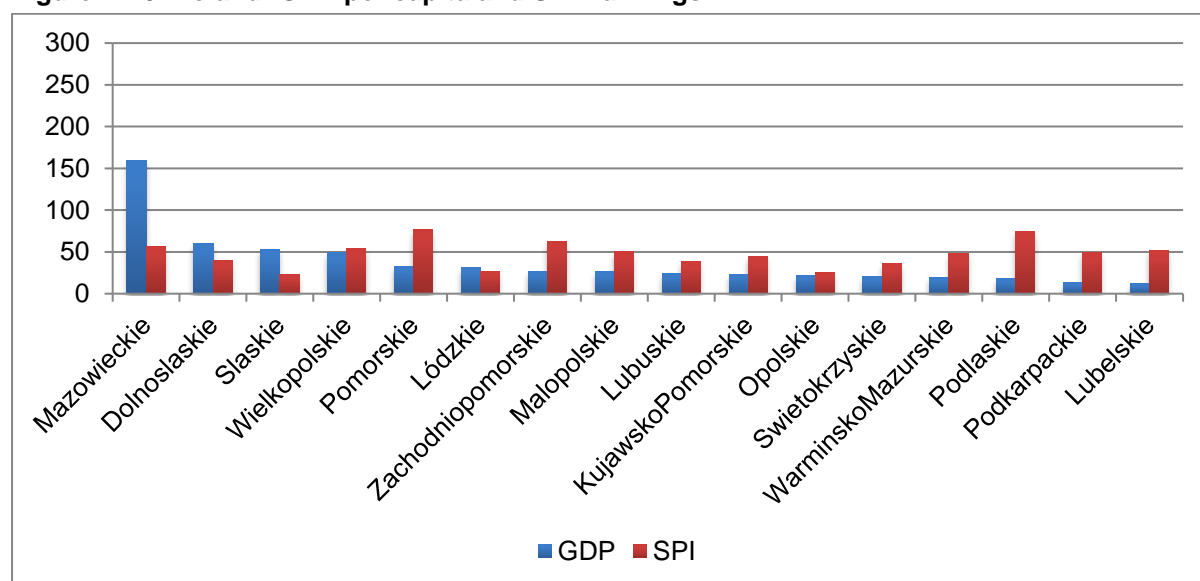
Figure A 8: Portugal: GDP per capita and SPI Rankings

Source: EPRC calculations, based on CEC, Social Progress Indicator, http://ec.europa.eu/regional_policy/en/information/maps/social_progress

Italy has extremely sharp disparities between GDP per capita and SPI ranks, especially in Lazio, Lombardia and Piemonte, (see Figure A 9). In Poland a more mixed picture is apparent, with disparities in SPI levels between, e.g. Pomorskie and Łódzkie and Opolskie, and generally lower GDP per capita levels across the regions, see (Figure A 10).

Figure A 9: Italy: GDP per capita and SPI Rankings

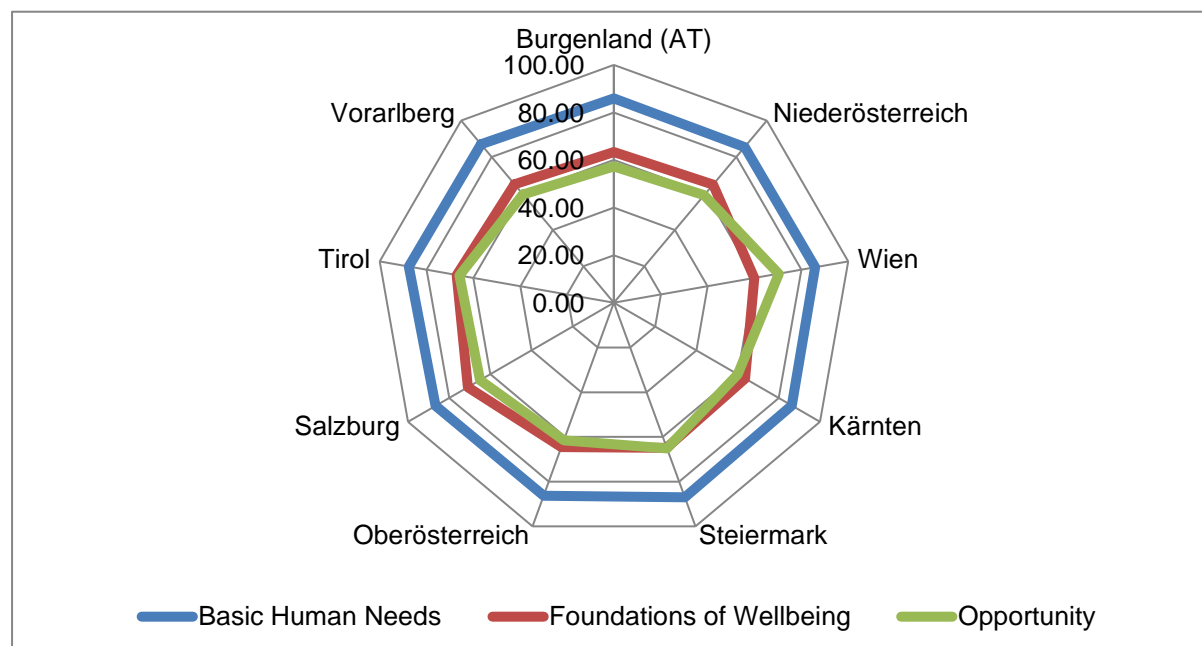
Source: EPRC calculations, based on CEC, Social Progress Indicator, http://ec.europa.eu/regional_policy/en/information/maps/social_progress

Figure A 10: Poland: GDP per capita and SPI Rankings

Source: EPRC calculations, based on CEC, Social Progress Indicator, http://ec.europa.eu/regional_policy/en/information/maps/social_progress

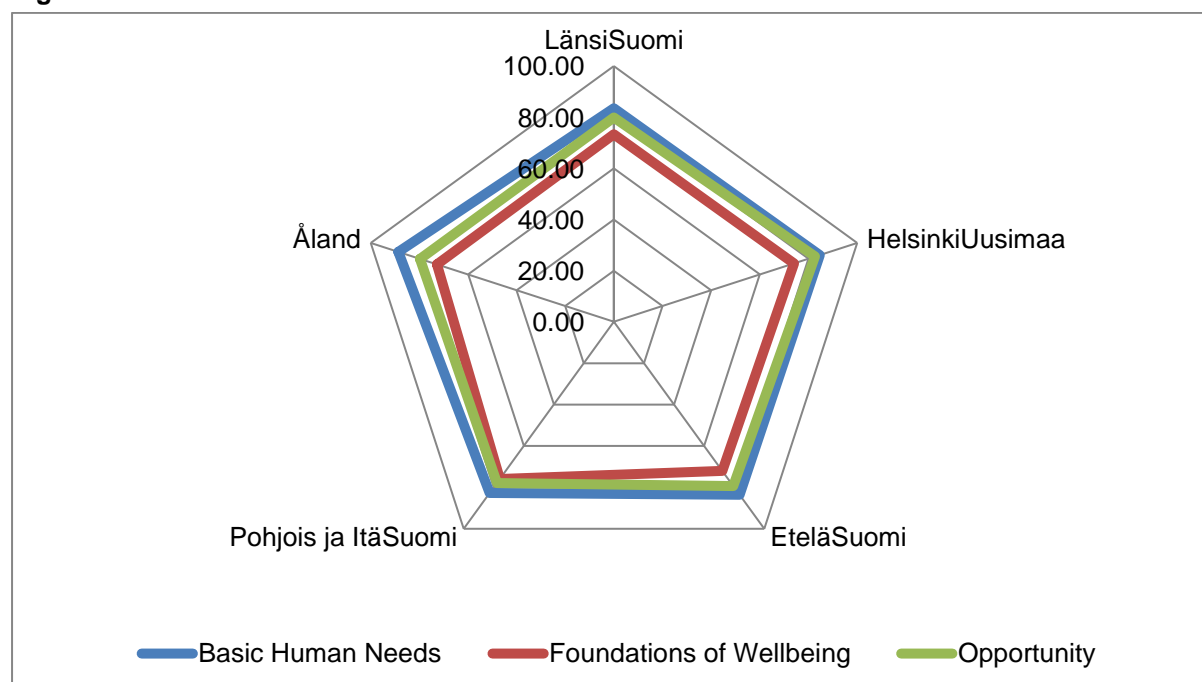
ANNEX 2: REGIONAL SOCIAL PROGRESS INDICES

Figure A 11: SPI Dimension Scores: Austria

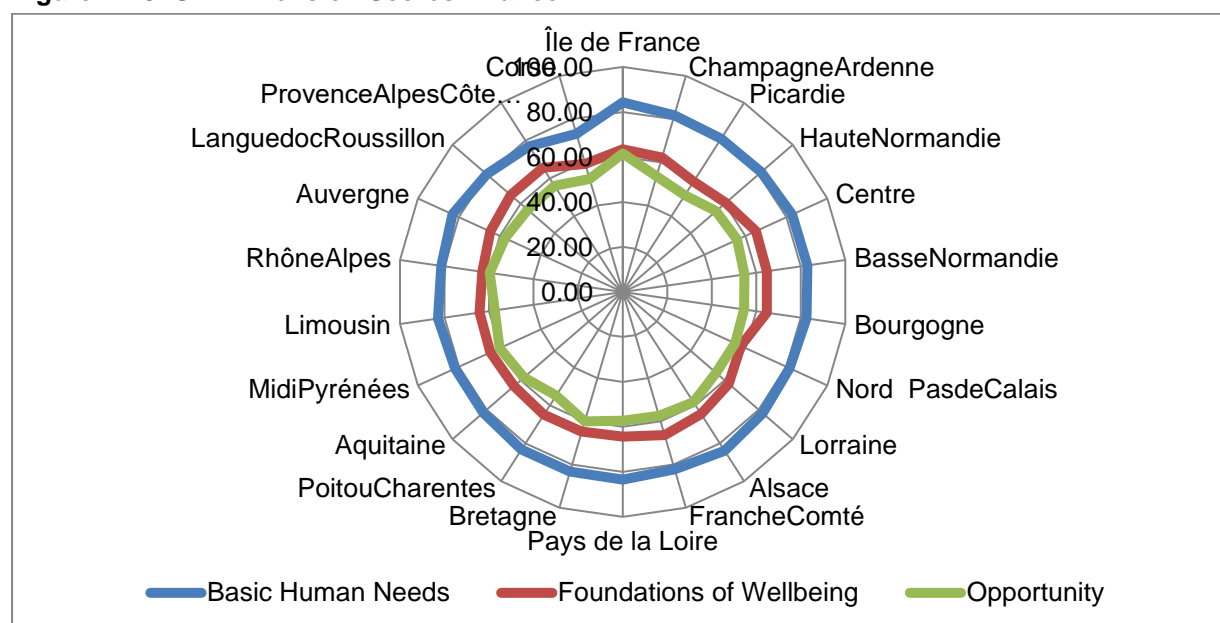


Source: EPRC calculations based on: CEC, Social Progress Indicator, http://ec.europa.eu/regional_policy/en/information/maps/social_progress

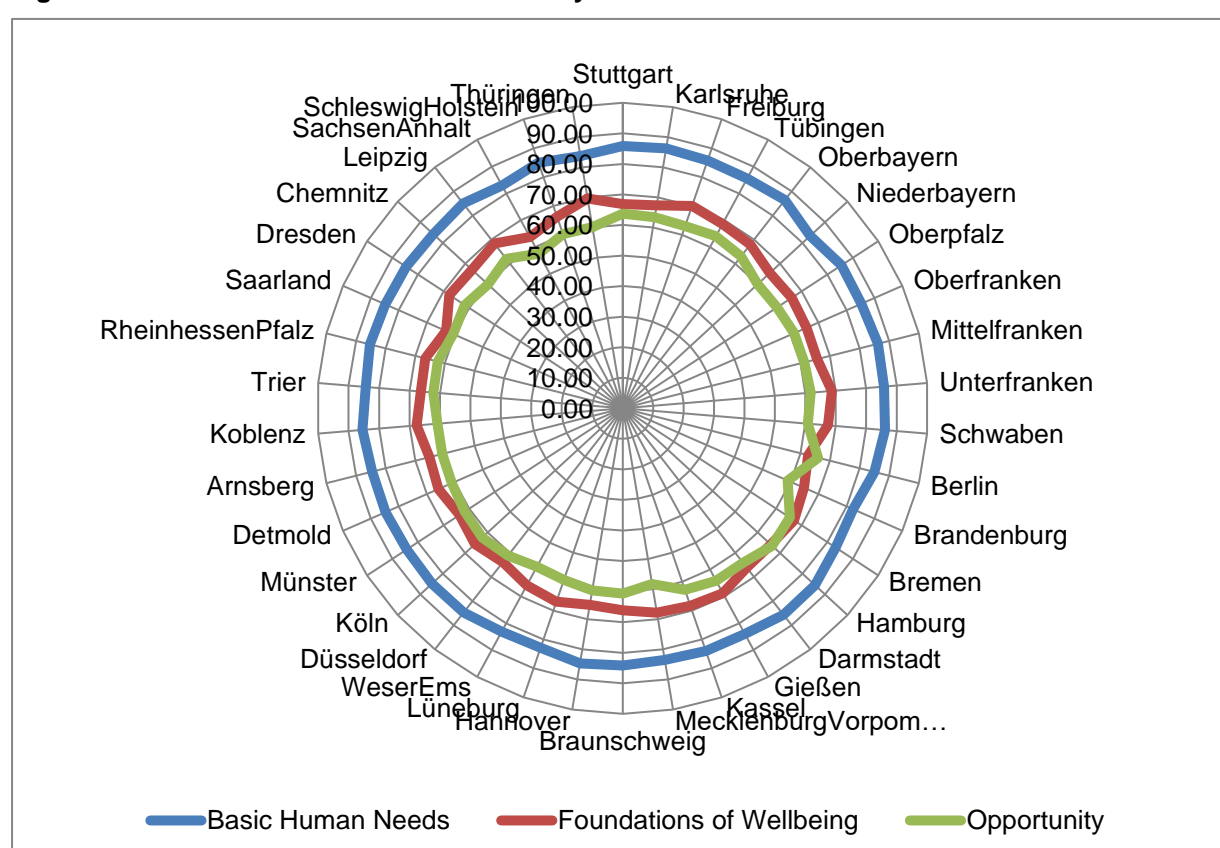
Figure A 12: SPI Dimension Scores: Finland



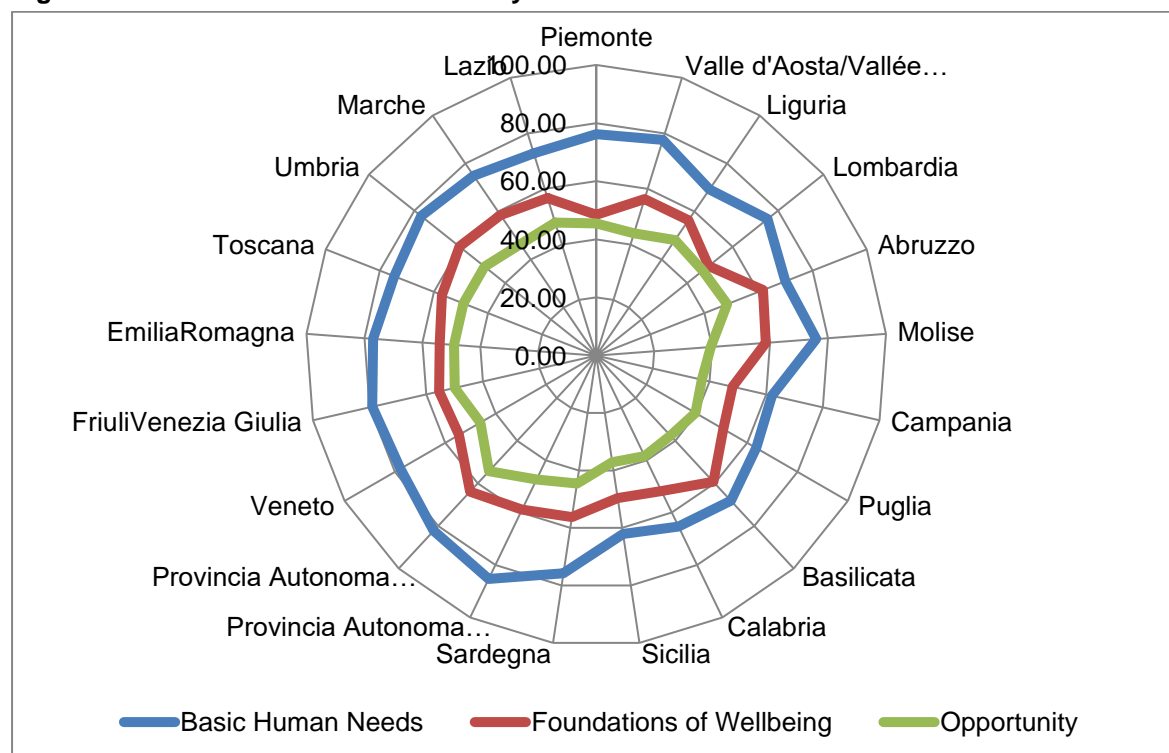
Source: EPRC calculations based on: CEC, Social Progress Indicator, http://ec.europa.eu/regional_policy/en/information/maps/social_progress

Figure A 13: SPI Dimension Scores: France

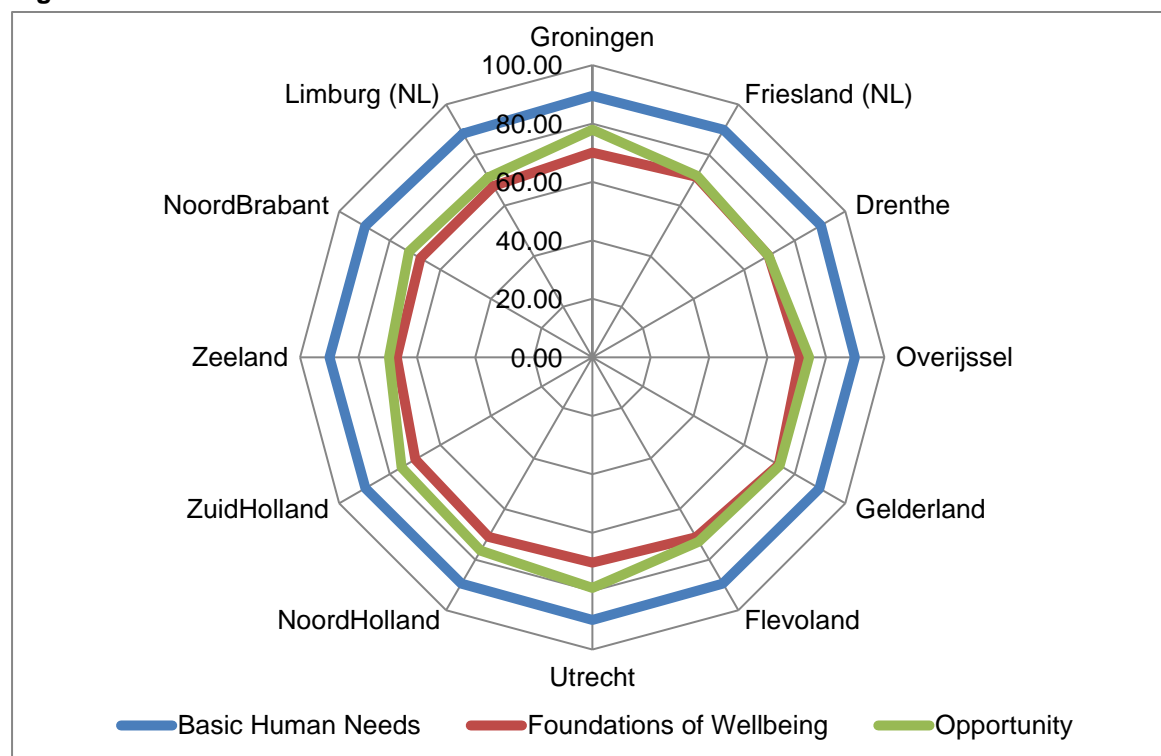
Source: EPRC calculations based on: CEC, Social Progress Indicator, http://ec.europa.eu/regional_policy/en/information/maps/social_progress

Figure A 14: SPI Dimension Scores: Germany

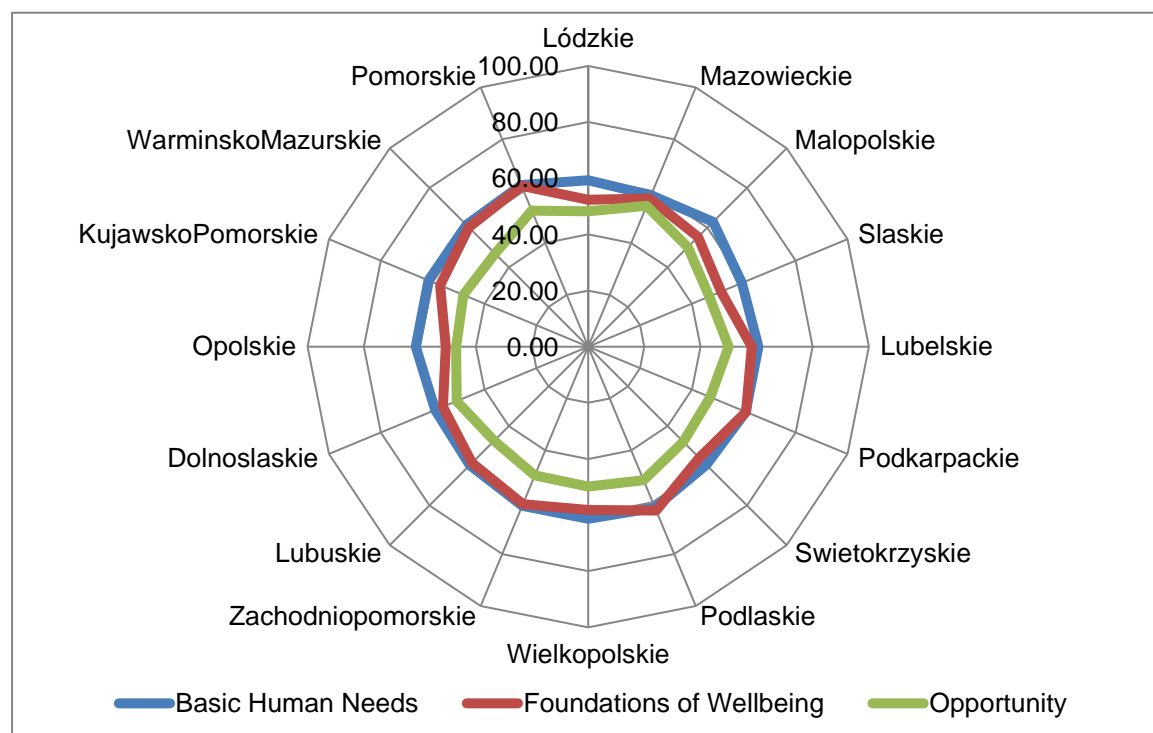
Source: EPRC calculations based on: CEC, Social Progress Indicator, http://ec.europa.eu/regional_policy/en/information/maps/social_progress

Figure A 15: SPI Dimension Scores: Italy

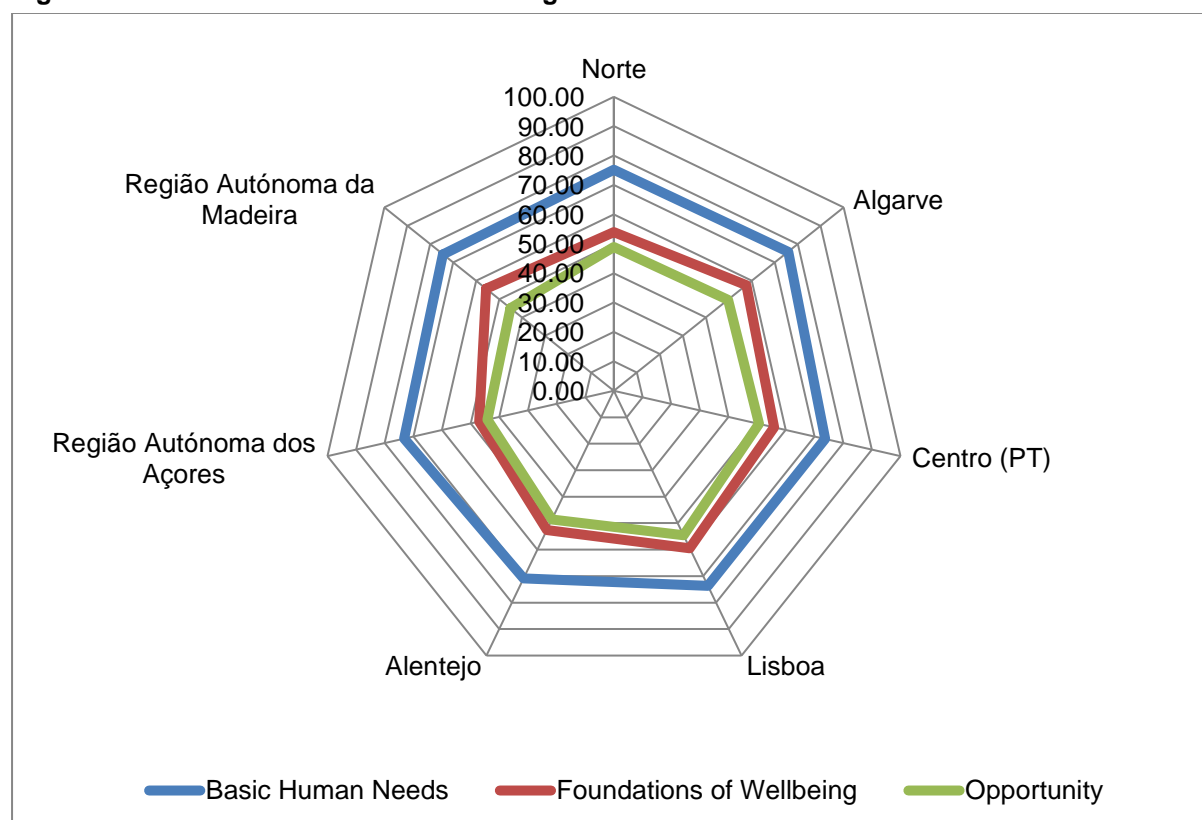
Source: EPRC calculations based on: CEC, Social Progress Indicator, http://ec.europa.eu/regional_policy/en/information/maps/social_progress

Figure A 16: SPI Dimension Scores: Netherlands

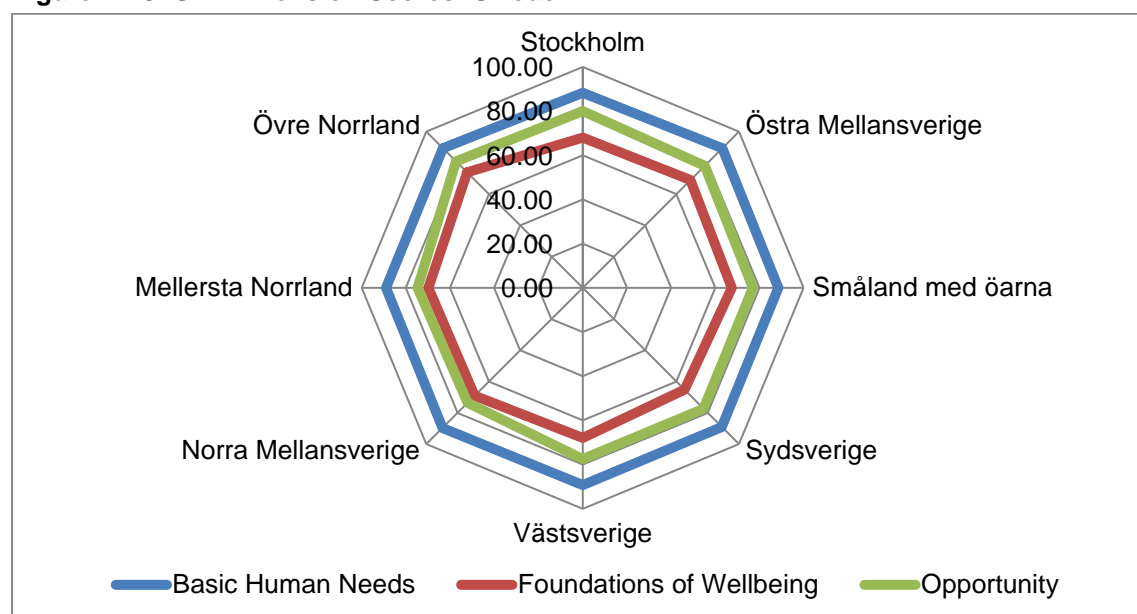
Source: EPRC calculations based on: CEC, Social Progress Indicator, http://ec.europa.eu/regional_policy/en/information/maps/social_progress

Figure A 17: SPI Dimension Scores: Poland

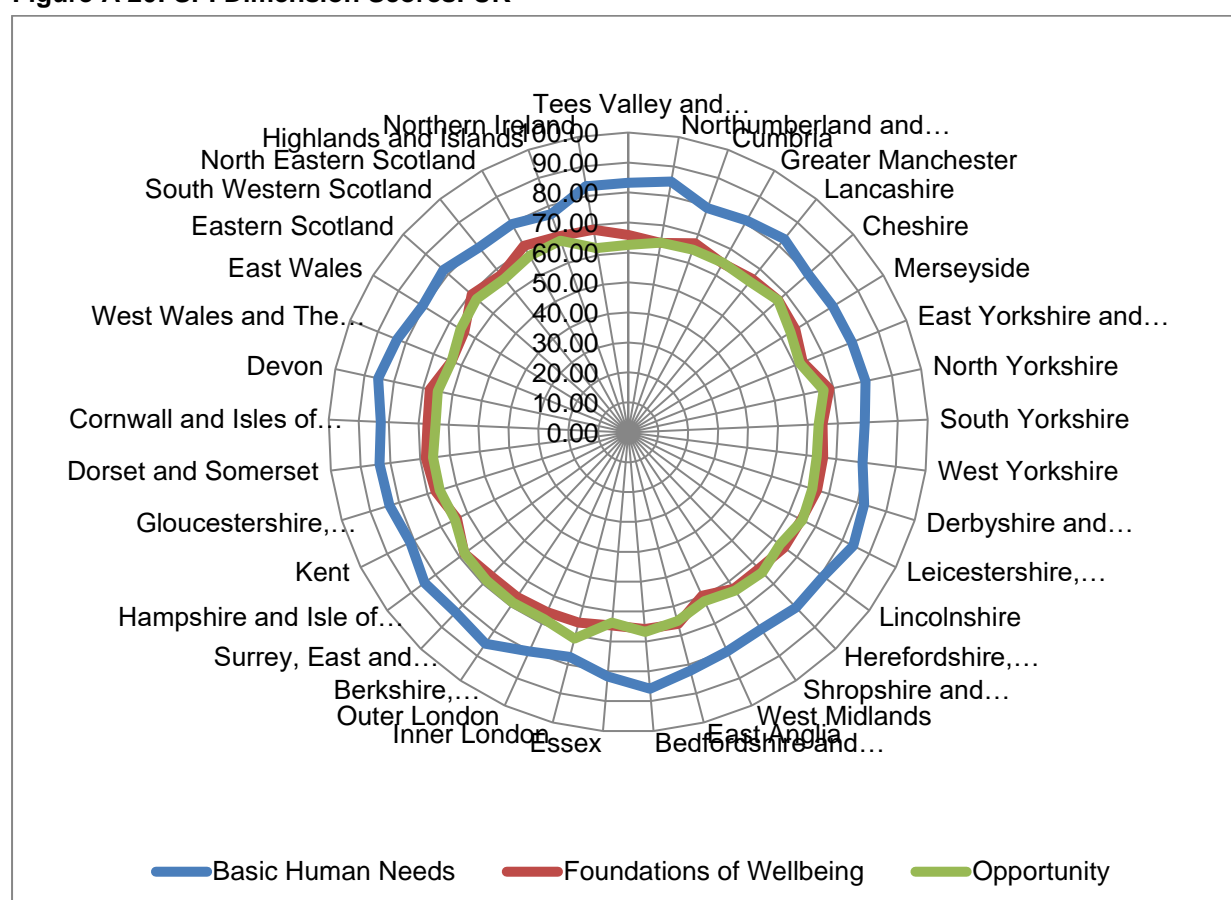
Source: EPRC calculations based on: CEC, Social Progress Indicator, http://ec.europa.eu/regional_policy/en/information/maps/social_progress

Figure A 18: SPI Dimension Scores: Portugal

Source: EPRC calculations based on: CEC, Social Progress Indicator, http://ec.europa.eu/regional_policy/en/information/maps/social_progress

Figure A 19: SPI Dimension Scores: Sweden

Source: EPRC calculations based on: CEC, Social Progress Indicator, http://ec.europa.eu/regional_policy/en/information/maps/social_progress

Figure A 20: SPI Dimension Scores: UK

Source: EPRC calculations based on: CEC, Social Progress Indicator, http://ec.europa.eu/regional_policy/en/information/maps/social_progress

EoRPA RESEARCH

This report has been prepared by the European Policies Research Centre (EPRC) under the aegis of EoRPA (European Regional Policy Research Consortium), which is a grouping of national government authorities from countries across Europe. The Consortium provides sponsorship for EPRC to undertake regular monitoring and comparative analysis of the regional policies of European countries and the inter-relationships with EU Cohesion and Competition policies. Over the past year, EoRPA members have comprised the following partners:

Austria

- Bundeskanzleramt (Federal Chancellery), Vienna

Finland

- Työ- ja elinkeinoministeriö (Ministry of Employment and the Economy), Helsinki

France

- Commissariat Général à l'Égalité des territoires (General Commissariat for Territorial Equality, CGET, previously DATAR), Paris

Germany

- Bundesministerium für Wirtschaft und Energie (Federal Ministry for Economic Affairs and Energy), Berlin
- Ministerium für Wissenschaft und Wirtschaft (Ministry of Science and Economic Affairs), Sachsen-Anhalt

Netherlands

- Ministerie van Economische Zaken (Ministry of Economic Affairs), The Hague

Norway

- Kommunal- og moderniseringsdepartementet (Ministry of Local Government and Modernisation), Oslo

Poland

- Ministerstwo Rozwoju (Ministry of Development), Warsaw

Portugal

- Agência para o Desenvolvimento e Coesão (Agency for Development and Cohesion), Lisbon

Sweden

- Näringsdepartementet (Ministry of Enterprise and Innovation), Stockholm

Switzerland

- Staatssekretariat für Wirtschaft (SECO, State Secretariat for Economic Affairs), Bern

United Kingdom

- Department for Business, Energy & Industrial Strategy, London
- Scottish Government, Glasgow

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