



# EoRPA

European regional policy  
research consortium

## A TIME OF POLICY CHANGE: REFORMING REGIONAL POLICY IN EUROPE

ANNUAL REVIEW OF REGIONAL POLICY  
2018-2019

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The University of Strathclyde is a charitable body, registered in Scotland,  
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Stichting EPRC Delft is a foundation registered in the Netherlands (No. 69203288)





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## EXECUTIVE SUMMARY

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The policy context for regional policy in Europe is changing, part of a global trend of greater awareness of social and territorial inequality. Europe faces the triple challenges of ensuring economic growth to sustain its social model, responding to inequality, and managing the sustainability transition. A big question is how disparities in productivity, unemployment and poverty should be addressed within a broader policy framework to respond to the 'grand challenges' of sustainable development - demographic change, wellbeing, food security, secure and clean energy, green transport, climate action and inclusive societies.

In this context, the current period is remarkable for the extent of debate and reform of regional development policies across Europe. Nine of the EoRPA countries have reforms underway (Germany, Portugal) or are in the process of defining new strategic objectives or priorities (Finland, Norway, Poland, Sweden), institutional arrangements (France, Norway) or forms of intervention (Germany, Netherlands, United Kingdom).

Beyond EoRPA, most countries that depend substantially on Cohesion Policy funding for their regional policies are reviewing their strategic policy frameworks in preparation for the 2021-27 period, but there are also significant policy

developments in other countries such as Ireland and Belgium.

In each country, policy reforms are driven by specific national political and institutional factors, but it is possible to identify four broad sets of trends:

- a renewed **commitment to addressing territorial inequality**, following the financial and economic crises where national and sectoral policy objectives were often prioritised over regional policy concerns;
- recognition of the **regional dimension to major national or international challenges** (economic growth, sustainability, energy transition) requiring a regional policy response;
- a new wave of **regionalisation of responsibilities for regional and local development**, through de-concentration or devolution; and
- a more **place-based approach to regional development intervention**, focusing on the specific needs of individual regions, sub-regions or cities.

Questions for the EoRPA meeting discussion are as follows.

- (i) What are the political and economic pressures influencing



current thinking about the direction of regional development policies?

- (ii) Are regional social and economic disparities becoming more politically salient? If so, to what extent is this being addressed by a greater role for regional policy or a refocussing of horizontal and sectoral policy?
- (iii) Should regional policies continue their relatively narrow focus on regional economic development and competitiveness, or play a broader role in addressing the regional dimensions of the 'grand

challenges' such as climate change? And how?

- (iv) To what extent is there a significant conceptual shift in the rationale for regional development policies? Or are current changes more about adapting existing policy frameworks to meet changing priorities?
- (v) What experiences are there with place-based or regionally differentiated policy intervention? What lessons can be drawn?



# 1 INTRODUCTION

Over the past five years, the policy context for regional development has progressively shifted from a focus on the continuing effects of the economic crisis – marked by efforts to accelerate growth and deal with the social impacts – to a more strategic political concern with territorial inequality and its consequences. There are also policy concerns about the territorial implications of the 'grand challenges' facing European economies and societies, most notably associated with the climate crisis.

There is a widespread consensus on the importance of territorially differentiated policy frameworks, and there is some evidence of this translated into practice, in part through a new wave of regionalising regional and local development policy responsibilities. Stimuli have also come from the smart specialisation strategies under EU Cohesion Policy. Yet, there are many open questions about how 'place-based policies' can be implemented effectively, and it is not yet clear whether a fundamental shift in the paradigm of regional policy is underway.

This report explores these questions, providing an overview of regional development policies in Europe. The report is part of a series of annual EoRPA papers reviewing recent trends and the current state of play of national policies for spatial inequality and uneven development.<sup>1</sup> The report begins with a brief summary of the state of territorial development, particularly regional disparities and the broader territorial dimension of European challenges (Section 2). It then reviews the recent literature on regional and local development, focusing on four questions that have featured in academic and policy research in recent years (Section 3).

Section 4 begins the overview of policy developments among national regional policies in Europe, starting with the significant changes in EoRPA countries at the level of policy goals and strategic frameworks. Section 5 then discusses the spatial focus of regional policies, and Section 6 considers how institutional frameworks are changing. Questions for discussion at the EoRPA meeting are set out in Section 7.

The report draws on a programme of research on regional development and regional policy in 2018-19, including interviews with senior policymakers responsible for Cohesion Policy, regional aid and domestic policy in 30 European countries. More detailed country-specific information is available in:

- a) a report on regional policy for each of 30 European countries,
- b) comparative tables of regional policy instruments, including changes in 2018-19,
- c) fiches on domestic regional policy instruments,
- d) fiches on Cohesion policy in the EU28 in 2014-20,
- e) fiches on the institutional frameworks of regional policy in 30 European countries.





## 2 POLICY CHALLENGES AND THE ROLE OF REGIONAL POLICY

Increasing income inequality is a global trend, evident in the growing shares of national incomes received by the top ten percent of earners, and even more so by the top one percent of earners.<sup>2</sup> In 2015, the gap between rich and poor was the highest in 30 years, with the top ten percent of earners earning almost ten times more than the poorest ten percent.<sup>3</sup>

While the trend has been more moderate in Europe than in other parts of the world – attributable to factors such as progressive tax policies, access to education, social security systems and public investment – there has still been a growth in economic inequality in major European countries. OECD data indicate that the middle class are under particular pressure, with middle incomes barely growing, indebtedness increasing, and opportunities for social mobility among lower and middle-income families becoming more limited.<sup>4</sup> According to the recent World Inequality Report (WIR), Western European countries have seen massive transfers of public to private wealth (for example through privatisation) since the 1970s: the WIR argues that countries have become richer but governments have become poorer, limiting their ability to respond to inequality.<sup>5</sup>

Measured through Gini coefficients, there are big differences in income inequality in Europe (see Figure 1). Many of the lower coefficients, though not all, are in smaller countries, notably in the Nordic area. The coefficients of EoRPA countries are mostly below the OECD average of 31.5 points, with the exceptions of Italy, Portugal and the United Kingdom – and in the latter case, less than five points below the level sometimes considered critical.

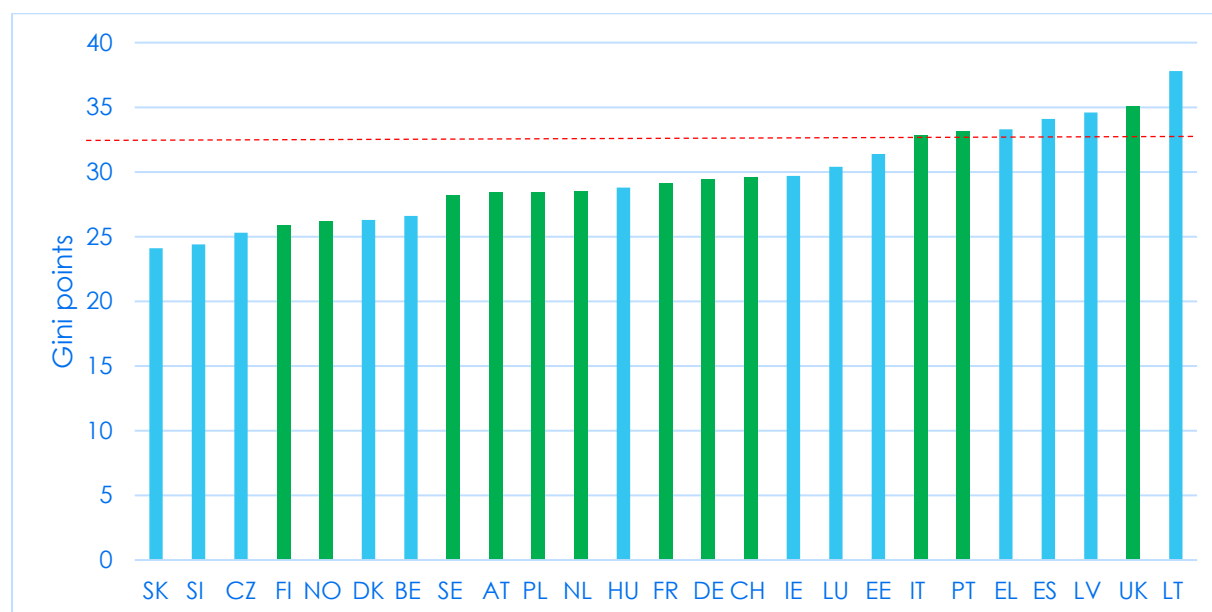
***“high levels of inequality generate high costs for society, dampening social mobility, undermining the labour market prospects of vulnerable social groups, and creating social unrest.”<sup>6</sup>***

The rationale for reducing inequality is that it is damaging to economic growth, social cohesion, environmental sustainability, human well-being, democracy, and societal obligations to distributive justice.<sup>7</sup> Others have argued that the real problem is poverty or that interventions to counter inequality may themselves damage economic growth.<sup>8</sup>





**Figure 1: Income inequality in OECD countries (Gini coefficient), 2016\***



Source: OECD Data Portal

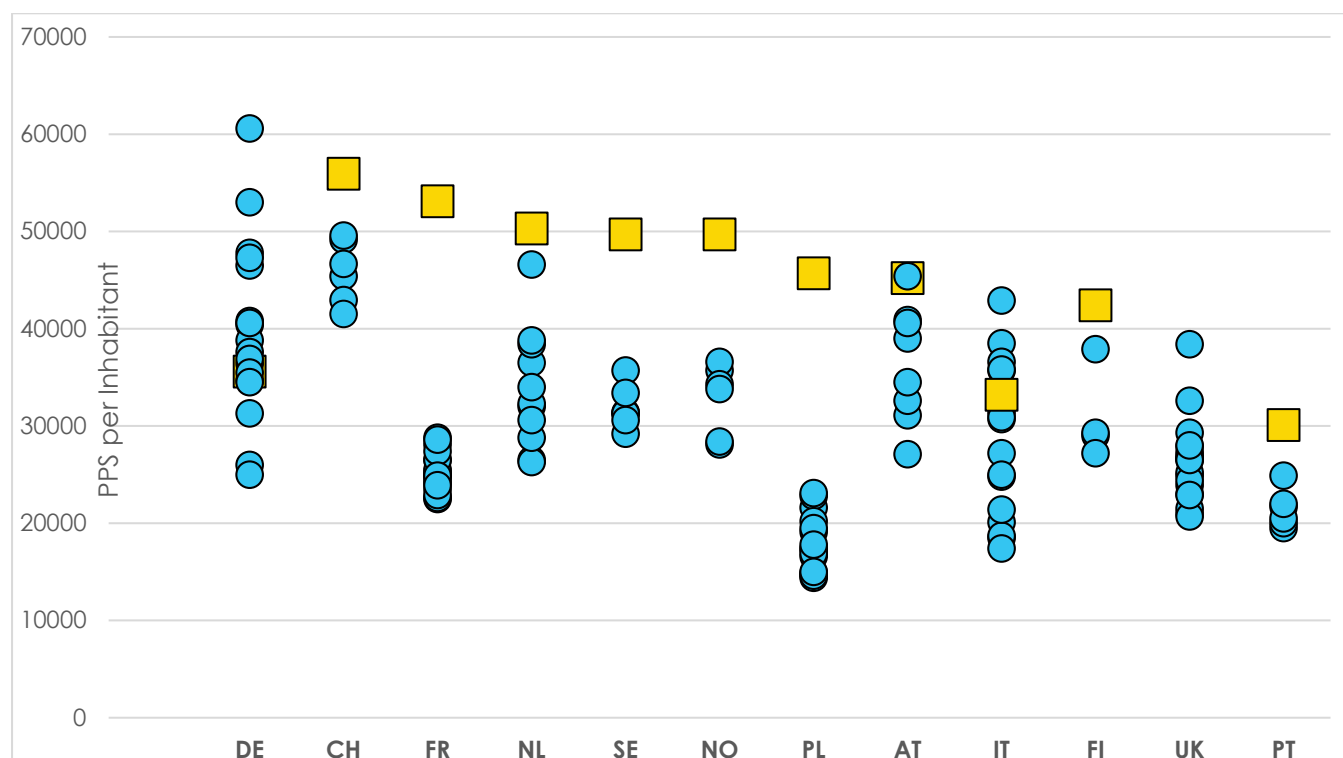
Note: \*2015 data for CH, DK, IE, LY, LV and 2014 for HU. EoRPA countries are shaded green.

Inequality clearly has an important territorial dimension. Over the past decade, the long-term trend of regional convergence in Europe has been reversed, driven by two main factors.<sup>9</sup> One is changes in economic structure, notably the geographic dispersal of manufacturing through, for example, outsourcing. The other is the change in what constitutes a 'favourable' endowment mix and the adaptive capacity of regions in terms of people, skills, sectors, institutions and innovation capabilities.

The most recent regional GDP data show a continued and pronounced core-periphery map of economic disparities across Europe (see Figure 9, Annex 1). Relative to the EU28 average, the more prosperous parts of Europe are in Germany, most of the Benelux countries, Austria, Switzerland, northern Italy, Denmark and much of Norway and Sweden – all of which are above the average - together with a few regions in other parts of western Europe and the capitals of several central and eastern European countries. The poorer regions are predominantly on the peripheries – much of non-metropolitan central and eastern Europe, the Mediterranean (southern Spain, southern Italy and Greece) and the Atlantic regions in Portugal and western parts of the United Kingdom. Among the EoRPA countries, there is almost universally a significant gap between the capital city region and other regions (see Figure 2).

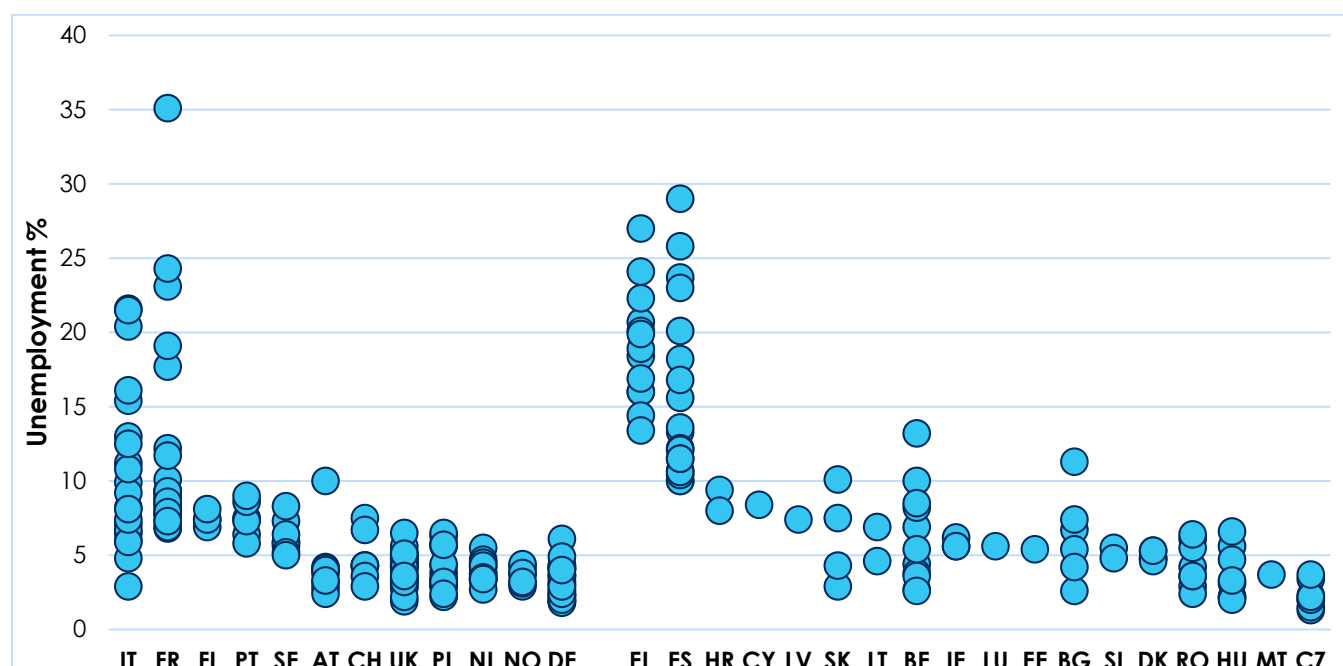


**Figure 2: Regional disparities in GDP (PPS per head) of NUTS 2 regions for EorPA countries (2017)**



Source: Eurostat, Note: Capital regions represented by yellow squares. UKI3 excluded (188,000); NO & CH data from 2016.

**Figure 3: Disparities in unemployment rates across NUTS 2 regions in Europe (2018)**



Source: Eurostat, Note: Each dot represents a NUTS 2 region. EorPA countries are shown on the left side of figure.



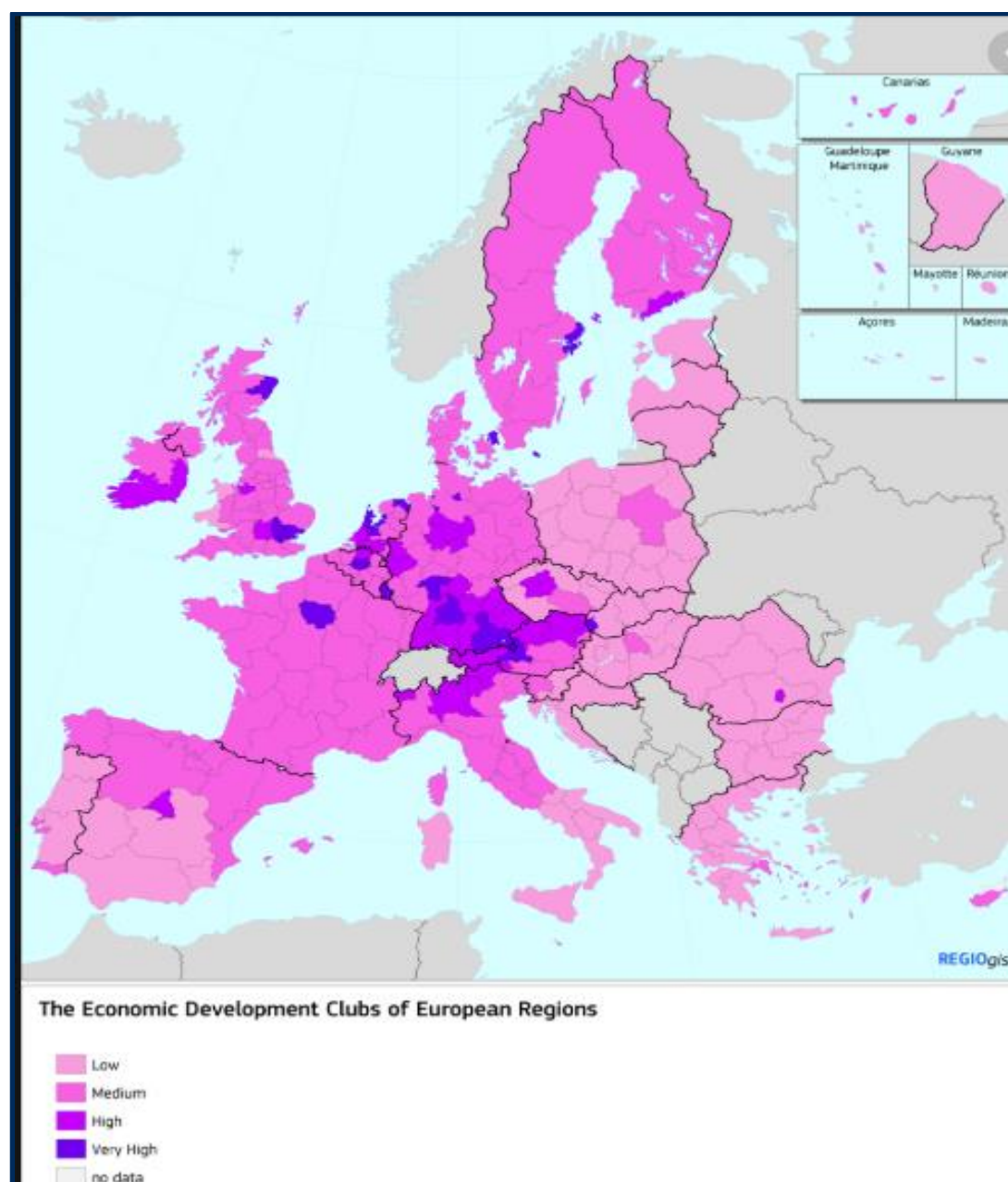
Labour market disparities show a different and more complex pattern (see Figure 10, Annex 1). In recent years, there has been significant recovery of employment from the deep job cuts of the economic recession, most notably for the high long-term and youth unemployment rates in some southern European countries (see Figure 11, Annex 1). Unemployment has fallen in virtually every region in Europe, although less in percentage point terms in some of the peripheral regions in Portugal, Spain, eastern Poland, Slovenia and southern Romania (see Figure 11, Annex 1). There remain sharp differences between the more buoyant labour markets of central and eastern Europe and many of the more developed European countries, and regions in Spain, Portugal, Greece, southern Italy and most of Finland. The southern European countries, with the exception of Portugal, but also France have the widest regional disparities (see Figure 3).

Research on uneven development in Europe has brought new geographical perspectives to bear on disparities. OECD research has identified differences in productivity performance across Europe between a small group of leading 'frontier regions' (mostly metropolitan centres in western Europe) and others, classed as 'catching-up', 'keeping pace' and 'diverging' regions – and a long-term widening gap between the frontiers and the rest.<sup>10</sup> A similar approach has identified a series 'development clubs' of European regions (see Figure 4) based on GDP per head and similarity of structural attributes such as levels of education, science and technology endowments, infrastructure quality and institutional quality.<sup>11</sup> Both sets of analyses provide important starting points for discussing differentiated combinations of policy tools.

***“The rise in inequality has put Europe in a territorial conundrum. On the one hand, Europe must continue to sustain the prosperity of its most dynamic regions in order to assert its economic stand in the world. On the other, persistent inequality is economically inefficient and, in the words of The Economist, has become too politically and [socially] dangerous to ignore.”<sup>12</sup>***



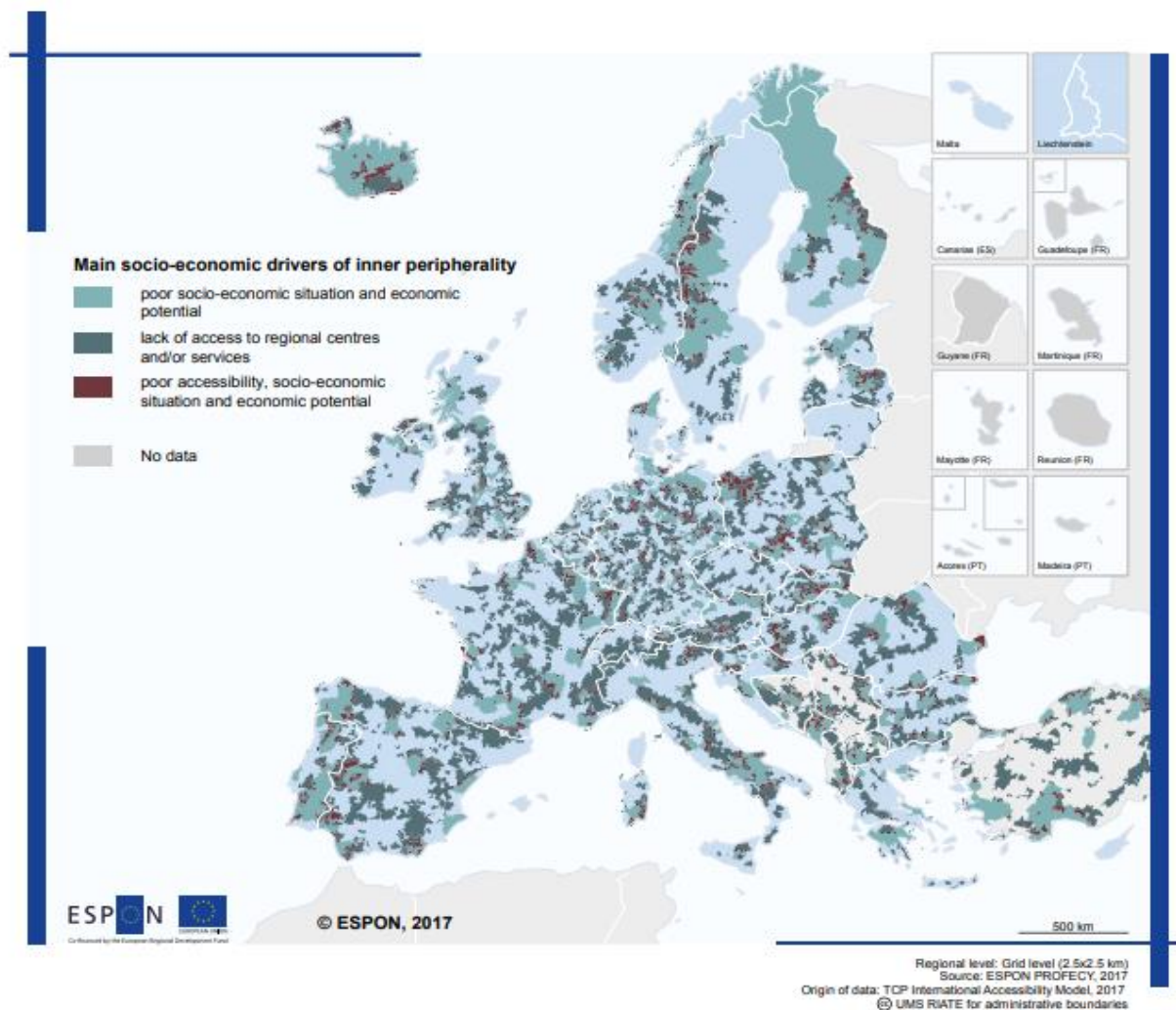
Figure 4: Economic development clubs of European regions



Recent years have also seen more attention being paid to the concept of 'inner peripheries'. Prominent in policy debates in (for example) Italy and Portugal, every European country has areas classed as so-called inner peripheries, whether in terms of poor socio-economic situation and economic potential or lack of access to regional centres and services, or a combination of the two (see Figure 5). In Italy, for instance, the 'Inner Areas' encompass a quarter of Italy's population (13.5 million), more than four thousand municipalities, and 60 percent of the national territory.<sup>13</sup> In a policy context that has focused on major centres and agglomeration effects as drivers of regional growth, such areas are in danger of being marginalised.



**Figure 5: Inner peripheries in Europe, and the main drivers of inner peripherality**



These analyses have acquired a political dimension over the past three years. Poverty, economic decline and limited opportunities are the perceived cause of popular discontent in elections and referenda across Europe, as so-called 'places that don't matter' or which have been 'left behind' revolt against the lack of opportunities.<sup>14</sup> While there is a strong territorial correlation between voting patterns and economic development, other explanations point to cultural and attitudinal factors relating to identity and a backlash against the consequences of globalisation (within Europe, EU integration).<sup>15</sup>

Economic and social measures of territorial inequality in Europe, however, form only part of the contemporary agenda for regional policymakers. The bigger question is how disparities in productivity, unemployment and poverty should be addressed within a broader policy framework to respond to the 'grand challenges' of sustainable development - demographic change, wellbeing, food security, secure and clean energy, green transport, climate action and inclusive societies.

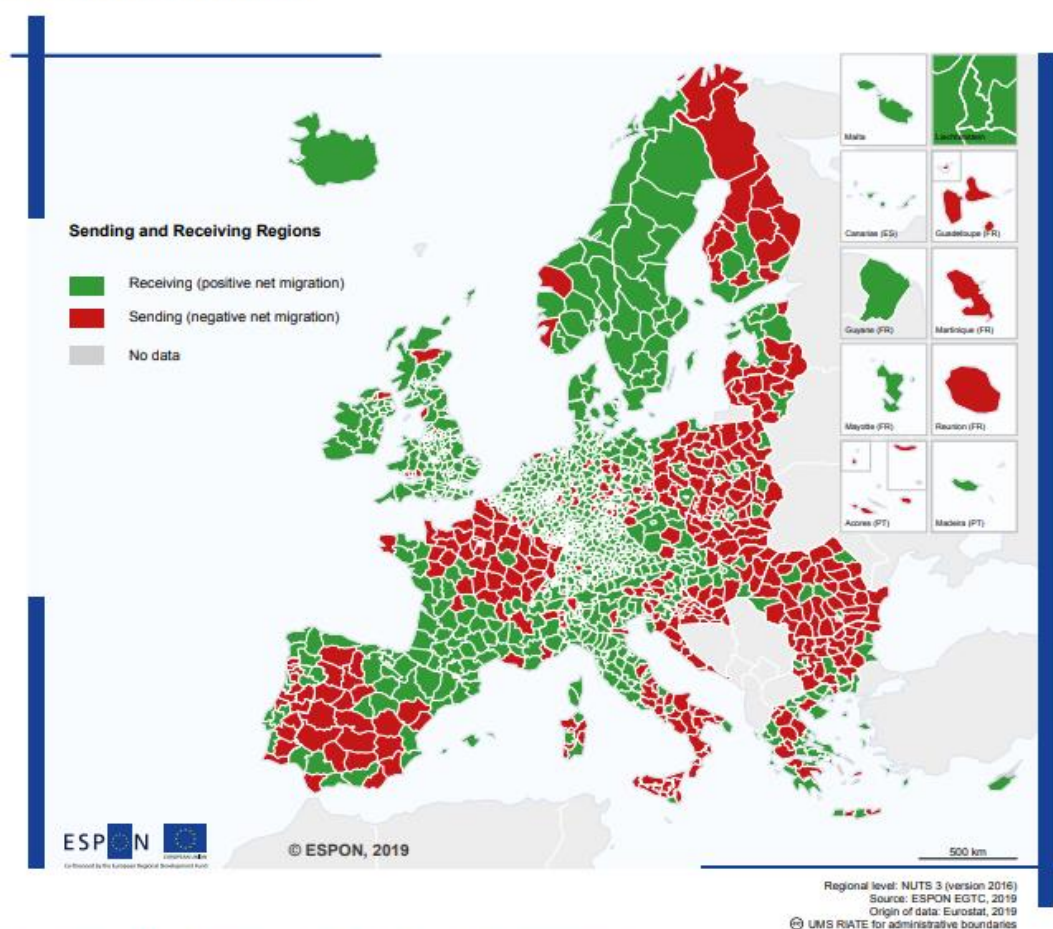




One example is labour migration in Europe, which is highly uneven spatially (see Figure 6). As research by ESPON and previous EoRPA research has noted, recent trends have seen significant internal migration (principally from rural to metropolitan areas), often causing problems of sustainability of services in sending regions and pressures of agglomeration in receiving areas, and also substantial cross-border flows, particularly affecting southern and eastern European regions.<sup>16</sup>

**Figure 6: Patterns of labour migration in Europe, 2017**

**In- and out-migration, 2017**



Source: ESPON EGTC, based on the ESPON EMPLOY project's methodology

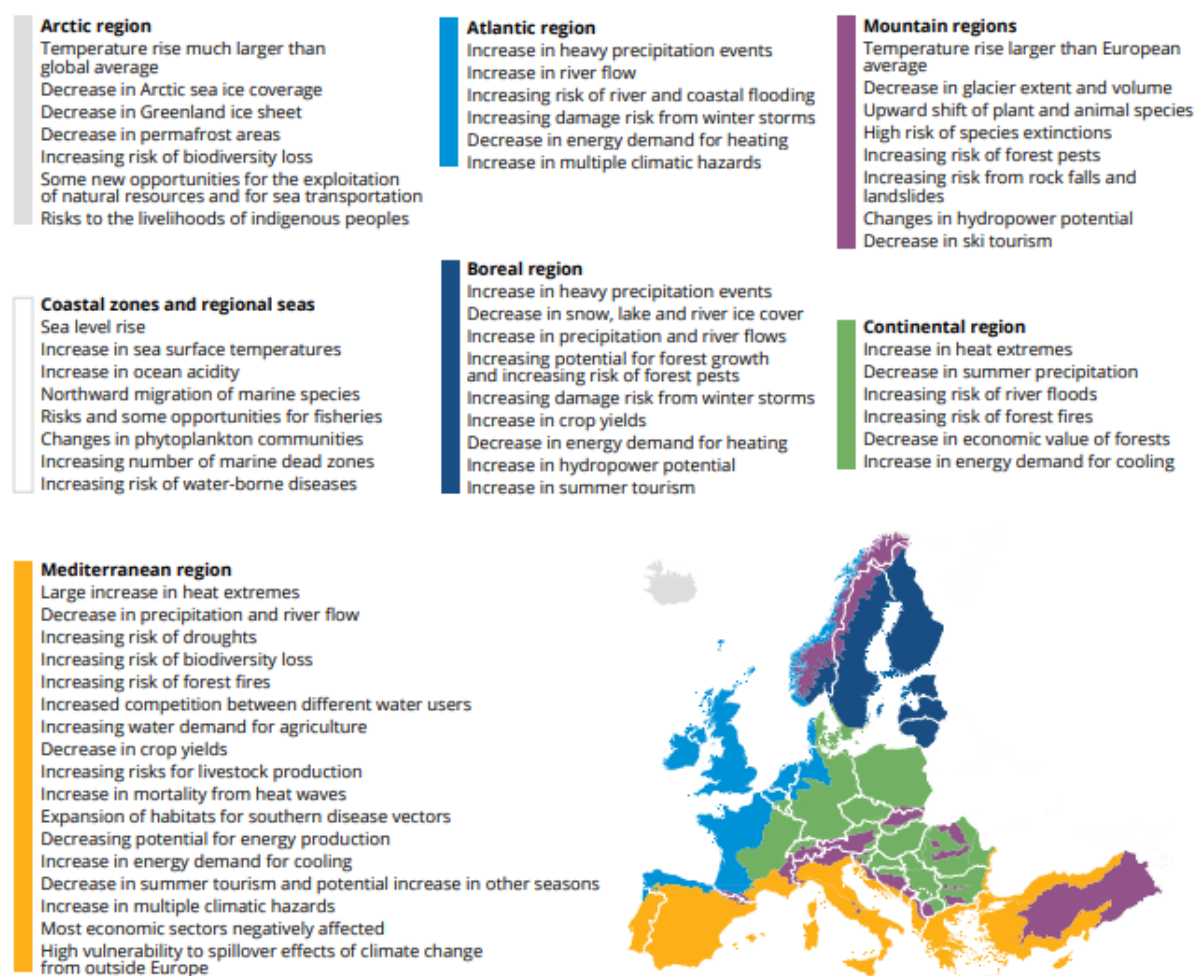
Another illustration is the regional effects of climate change. Understanding the spatial incidence of climate change is still evolving with uncertainty about the magnitude of sea level and surface temperature rises, the prevalence of heatwaves and increased rainfall (and associated flood patterns) across European regions. ESPON and European Environment Agency research,<sup>17</sup> reveal significant north-south, west-east and inland/coastal variation in projected climate change impacts by 2100 (see Figure 7).

A decade ago, the European Commission was warning of the major challenges to agriculture, forestry, fisheries, large scale energy production and the tourism industry as well as health care in certain regions and the substantial investment needed for adaptation and mitigation. These



concerns have become more urgent in recent years with the commitments made by the EU radically to change the models on which European economies and societies are based. In particular, the European Environment Agency has stressed the interaction of climate change effects with socio-economic development and its potential to widen disparities between social groups and parts of Europe (see Figure 7).

**Figure 7: Projected climate change impacts for main biogeographical regions in Europe, 2017**



Source: European Environment Agency

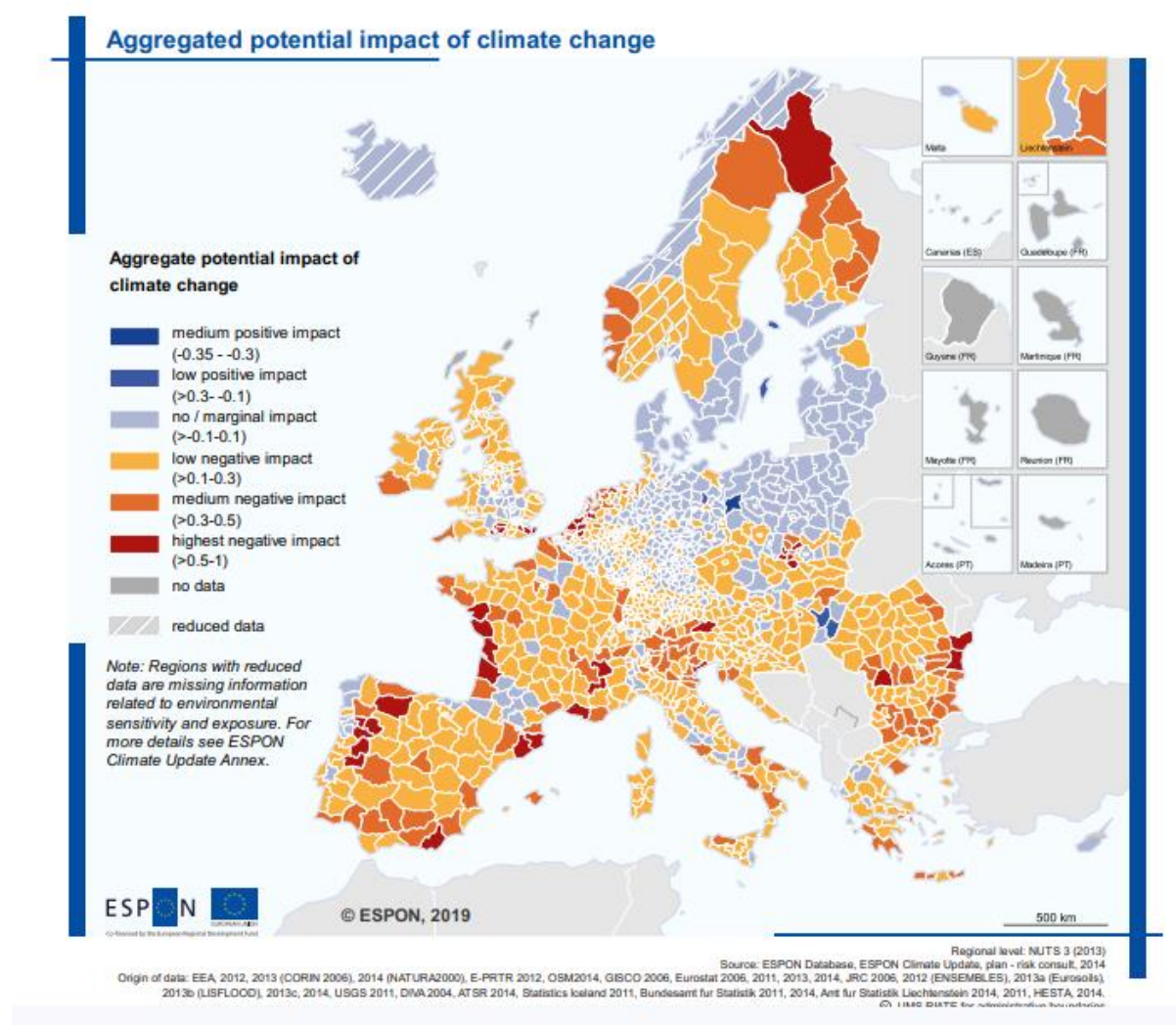
*Future climate change will interact with other socio-economic developments, including the ageing of the population and increasing urbanisation across Europe, projected decreases in population size in eastern Europe, and a narrowing economic gap between eastern and western parts of Europe.<sup>18</sup>*





Within the broad typology of climate change impacts across macro-regions presented by the European Environment Agency, there is a more differentiated pattern of regional effects (see Figure 8). Potential impacts are greatest in coastal and mountainous regions, or river basins, through vulnerability to flood risk. In southern Europe, the risks are particularly associated with drought, risk of forest fires and negative impacts on agriculture and tourism (ESPON 2019). However, as Figure 8 shows, neighbouring regions may experience very different potential impacts depending on the interaction of geographical factors as well as the capacity for mitigation and adaptation.

**Figure 8: Region-specific potential impacts of climate change**



Source: ESPON (2019)

Against this background, there are fundamental questions regarding the role of regional policy: should it continue its relatively narrow focus on regional economic development and competitiveness, or play a broader role in addressing the regional dimensions of the 'grand challenges' such as climate change? And how?



## 3 RESPONDING TO THE CHALLENGES: POLICY QUESTIONS

### 3.1 Place-based policy responses

The main contemporary answer to the policy challenges outlined in the previous section is advocacy - in both academic and policy literatures - for more regionally differentiated policy. Place-based policies were given prominence in the late 2000s, particularly through the Barca Report,<sup>19</sup> and have been consistently recommended by the OECD in its regional development research. For example, in its 2019 report, the OECD states that:<sup>20</sup>

***place-based policies are especially important in light of growing public discontent with the economic, social and political status quo in many regions.***

Other formulations, which seek to address the historic division between people-based and place-based strategies<sup>21</sup>, are 'place-sensitive distributed development policies'.<sup>22</sup>

The main principle underlying place-based policy intervention is that all regions have development potential. Exploiting this potential means capitalising on their specific competitive advantages, maximising the use of knowledge, and tailoring the mix of interventions (through infrastructure, human capital, research and technology, environment etc) to the specific needs and development opportunities of places.

The policy responses recommended in the literature are, however, demanding. They assume governance structures that can determine the optimal mix of investment priorities and achieve the necessary vertical and horizontal coordination to design and deliver integrated development strategies. They may involve a different geographical approach, for example via functional regions. They also involve opening up the process of developing policy interventions to greater transparency on the allocation of resources, and building bottom-up capacity, including the engagement of citizens. It is this combination of attributes that makes place-based policies not only difficult to implement but also to evaluate:

***there is no simple mapping from policy action to outcome. Increasing returns to scale, coordination failure, and the fact that multiple conditions have to be satisfied for policy to be effective are all sources of difficulty.***<sup>23</sup>

Reviewing recent literature on the implementation of place-based policies gives rise to several important questions.

### 3.2 Is smart specialisation a viable strategy for all regions?

One of the most prominent applications of the place-based policy concept is the requirement for smart specialisation strategies to be a core component in the programming of EU Structural



and Investment Funds programmes in the 2014-20 period. The concept is the latest iteration of a succession of strategies to promote regional innovation in Europe over the past three decades. It involves countries and regions reflecting on their strengths and weaknesses for innovation, identifying the capabilities and potentials for regions to specialise and prioritise domains (fields, sectors etc) for the future through an entrepreneurial discovery process, and concentrating resources on a limited set of research and innovation priorities to stimulate RTD investment. In the EU context, it requires not just action through Cohesion Policy but also linkages with RTD policies under Horizon 2020.<sup>24</sup>

Recent debate has, however, raised some critical questions about the application of smart specialisation including:<sup>25</sup>

- confusion about the concept, notably the distinction between specialisation and diversification;
- a potential contradiction between the focus on science and technology models of innovation and entrepreneurial activity and aspects of social wellbeing fundamental to the sustainability transition;
- the risk of the entrepreneurial discovery process being taken over by vested interests and regional lock-in to negative path dependence;
- doubts about whether there are sufficient capabilities in structurally weak regions; and
- questions about the availability of indicators and data for adequate evaluation of smart specialisation.

While there is clearly still a learning process underway, and significant experience is being gained in diverse regional contexts,<sup>26</sup> these questions highlight the complexity of smart specialisation. Many of the concerns are also applicable to place-based policymaking more generally.

### 3.3 How important is 'regional resilience'?

'Resilience' and 'regional resilience' are concepts that have become increasingly prevalent in the dialogue and literature of regional economic development. Regional resilience is increasingly understood in relation to complex adaptive systems and viewed as the long term ability to adapt and change in response to stress or shocks, and to "reconfigure their industrial, technological and institutional structures in an economic system that is restless and evolving".<sup>27</sup>

Three broad categories of factors are associated with the ability of a region to be resilient:<sup>28</sup>

- **compositional factors** - the make up of the regional economy, sectoral mix, firm size etc;



- **collective factors** - the relationships and networks between firms and local institutions which make up the regional economic culture; and
- **contextual factors** - the wider context within which the other factors operate, including the national and international governance and policy environments.

More specifically, these factors can include: the industrial portfolio, and extent of sectoral specialisation; business structures and entrepreneurship; innovativeness; workforce skills; institutional arrangements including knowledge networks; and governance structures. Path dependency and historical decision-making may have an important role to play.

Resilience is an *explicit* theme in a number of regional policies, for example in some Nordic countries. It has been a focus of Norwegian regional policy, underpinning policy and the aim of creating 'sustainable regions' especially with respect to skills. In Finland, the new government programme uses the term 'regional resilience' in its policy approach, especially with respect to instruments supporting the 'proactive management of structural change' in the regions. There is a focus on: (i) forecasting and proactive measures; (ii) regional responsibility for the development of businesses and their renewal; and (iii) the reinforcement of smart specialisation and an experimental culture in order to improve the resilience of the region or the sector.

In other countries (e.g. Germany, Switzerland), the policy targeting of structural economic disadvantage and structural change is *implicitly* intended to build underlying resilience.

In the United Kingdom, the current (non-governmental) UK2070 Commission undertaking an inquiry into regional inequalities has argued that economic resilience and recovery have been neglected in policy thinking for half a century. Specific policy instruments and governance arrangements operating for a limited period have taken an insufficiently long-term approach to the role of public expenditure as a whole. Instead, the Commission argue, a more foundational , resilience-oriented approach is required:

***Local economies need to be reinforced, developing their foundations and resilience for example for health, care, education, access and housing, as well as creating 'great places'. We will therefore want to clarify the role of national policy in working with local government and other institutions who deliver and support the foundations of local economies.***<sup>29</sup>

Again, though, research suggests that effective policies for regional resilience place major demands on the quality of governance, particularly a coordinated and long-term approach to sustainability.<sup>30</sup> Local resistance, the unwillingness of central agencies to delegate, political or institutional constraints on learning, and the independent decisions of multinational companies and other private actors are all common obstacles to regional resilience strategies – and again more broadly for place-based policy intervention.



### 3.4 Does place leadership matter?

An important factor for place-based policies, including smart specialisation and regional resilience strategies, is human agency: how “human actions and behaviour interact with key structural and environmental factors and constraints”.<sup>31</sup> The effectiveness of institutional leadership influences regional and local ability to identify and implement new policy approaches or development paths.

The concept of ‘place leadership’ has become more prevalent in recent years. This is not about the dominance of a single organisation or leader – although the motivational attributes of leaders are recognised - but more about the ability to collaborate and work together for the genuine effective implementation of policies mutually benefitting the area in question. The emphasis in the academic literature is on the collaborative nature of effective regional and local development where multiple actors have to come together to own and pursue a common development vision (or response to external shock), overcoming potential areas of conflict between competing interests.<sup>32</sup> With reference to resilience strategies, for example, there is a perceived requirement for “intelligent leadership with a heightened sensitivity and/or preparedness for rapid and pervasive changes... literally making sense of the moment with credibility and authority should not be underestimated in what can be confusing, uncertain and fearsome circumstances for people and places”.<sup>33</sup> Indeed, it has been argued that:

***there is an emerging consensus that place leadership is the missing piece in the local and regional development puzzle.***<sup>34</sup>

From a policy perspective, the problem is that place leadership is not linear but involves a mix of fragmented, dispersed and collective actions and activities involving numerous organisations. Research on ‘effective’ place leadership is still emerging but recent research (including case studies from Finland, Germany, Italy and the United Kingdom) has produced interesting conclusions.<sup>35</sup> These include: (i) the importance of coalitions of professionals at local and regional levels, but accountability and external representation by political leaders to manage public perceptions; (ii) an emphasis on ‘boundary spanning’, where key individuals and agencies are willing to engage with others beyond existing networks; and (iii) the need for leadership to be embedded in the cultural values and norms of the places and communities being served.

### 3.5 What role is accorded to foreign direct investment?

The final question concerns the role of foreign direct investment (FDI). The attraction of foreign investment has long been a component of regional policies, and indeed sometimes the main factor in the design of regional investment aid instruments, especially in less-developed and structurally weak regions.

Much of the FDI into Europe goes to the larger economies, and to capital cities and major urban areas in western Europe, especially London, Paris, Amsterdam and Luxembourg.



However, intra-European FDI appears to be more beneficial for regional development, with a higher proportion (than extra-European FDI) going to less-developed regions, generating greater productivity spillovers in more types of region and supporting more employment in weaker or disadvantaged regions.<sup>36</sup>

A particular question to be raised in recent years is associated with Chinese FDI.<sup>37</sup> This has increased substantially, rising from €1.6 billion in 2010 to €35 billion in 2016, and is focused mainly in greenfield projects. The UK, Germany, France and Italy receive the majority of the investment (75 percent in 2017), although the Netherlands, Sweden and Belgium have also seen increases. A distinctive aspect of Chinese investment is the investment in infrastructure under the 'One Belt, One Road' initiative, such as port facilities (Greece), energy (Portugal) and transport (United Kingdom). However, increased screening of Chinese FDI by a number of EU countries and under an EU-level framework has led Member States to review state-supported investment, as well as investment in sensitive technologies and critical infrastructure. This is one of the factors that has led to a recent decline in Chinese FDI. Concerns about Chinese FDI include: the role of Chinese state and potential political influence; lack of reciprocity and fair competition; the risk of losing competitiveness and technological leadership; and security concerns.

The wider issue is how best to maximise the potential of FDI as part of place-based policies. While the traditional approach to FDI attraction focused on potential job creation, more recent strategies have taken a discriminating approach, emphasising the contribution of foreign firms to economic development in a particular place. Important factors are the impact on the competitiveness of local firms, the scope for collaboration and productivity spillovers.<sup>38</sup> The key challenge is whether FDI strengthens industrial clusters, encourages upskilling, and contributes to long-term regional resilience. Alongside the potential benefits, research has shown negative effects for regional and local development, notably where there has been a failure in linking FDI into local economies, the creation of a 'dual economy', over-dependence on a single major employer and associated problems if the FDI is downgraded or relocated.<sup>39</sup>

These questions are some of the issues currently being considered in debates about regional development policies in European countries, particularly in the context of place-based policy thinking. The next section turns to the recent developments in the design and implementation of regional policies.





## 4 POLICY CHANGE: NEW GOALS AND PRIORITIES FOR REGIONAL POLICIES

**The current period is remarkable for the extent of debate and reform of regional development policies across Europe.** Previous EoRPA reports<sup>40</sup> have noted the significant changes to domestic regional policies as well as initiatives by policymakers to generate and agree new policy ideas. Across a number of countries, policy concern with industrial restructuring has been growing and there is a more diversified approach to providing support for business.

The institutional context is also evolving. **The focus and delivery of regional policy have been affected by broader public sector reforms** (e.g. in France), including changes to fiscal equalisation systems (Austria, Germany), the allocation of tasks between national/regional/local levels (Denmark, France, Portugal, United Kingdom), and the structure/orientation of sub-national authorities (Finland, France, Norway, Sweden). There are renewed efforts to re/locate public sector entities and employment outside the capital city region or to structurally weaker regions (Germany, Denmark, Estonia, Norway). Within the sphere of regional policy, efforts continue to improve coordination and cooperation between governmental levels, including via contractual approaches (Finland, France, Norway, United Kingdom). Institutional and administrative capacity-building is also a priority in some countries (e.g. in Italy and Poland).

These trends form the backdrop to the **extensive policy-level trends observed over the 2018-19 period**. Nine of the EoRPA countries have reforms underway (Germany, Portugal) or are in the process of defining new strategic objectives or priorities (Finland, Norway, Poland, Sweden), institutional arrangements (France, Norway) or forms of intervention (Germany, Netherlands, United Kingdom).

Beyond EoRPA, most countries that depend substantially on Cohesion Policy funding for their regional policies are reviewing their strategic policy frameworks in preparation for the 2021-27 period, but there are also significant policy developments in other countries such as Ireland and Belgium.

In each country, policy reforms are driven by specific national political and institutional factors, but it is possible to identify four broad sets of trends:

- a renewed **commitment to addressing territorial inequality**, following the financial and economic crises where national and sectoral policy objectives were often prioritised over regional policy concerns;
- recognition of the **regional dimension to major national or international challenges** (economic growth, sustainability, energy transition) requiring a regional policy response;





- a new wave of **regionalisation of responsibilities for regional and local development**, through deconcentration or devolution; and
- a more **place-based approach to regional development intervention**, focusing on the specific needs of individual regions, sub-regions or cities.

The following sections outline the major policy developments underway over the 2018-19 period.

An important preliminary point, however, is to emphasise the differences between European countries in some fundamental aspects of their approach to territorial differences. One set of differences relates to the objectives of regional policies (see Table 1). These range from a predominant or exclusive focus on the reduction of regional disparities to the primacy of national growth, with varying combinations of the two goals in between.

**Table 1: The formal objectives of regional policies in Europe**

Reduction of regional disparities	National growth and Reduction in regional disparities	Development of all territories and Reduction in regional disparities	Development of all territories	National growth
Germany, Spain, Switzerland	Bulgaria, Croatia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia	Czech Rep, Finland, France, Italy, Norway, Portugal, Sweden, UK (Sco & Wal)	Austria, Belgium, Denmark, Estonia, Ireland, Slovenia, UK (Eng & NI)	Cyprus, Luxembourg, Netherlands

Other important differences relate to the institutional frameworks (see Table 2). These range from federal countries, with complete or substantial exercise of regional policy responsibilities at regional level, through those countries with regionalised or decentralised systems but retaining a significant role for the national government, to 'unitary' countries where sub-national entities have a secondary role.

**Table 2: Institutional frameworks of regional policy in Europe**

Federal: responsibilities are mainly regional, with only a minor role for national coordination	Regionalised: responsibility is mainly regional but with active national coordination	Decentralised: national level has main responsibility but regions have some tasks	Unitary: essentially national but possibly some role for sub-national entities
Austria, Belgium, Germany, Switzerland	France, Italy, Netherlands, Spain, UK (NI, Sco, Wal)	Czech Republic, Denmark, Finland, Greece, Norway, Poland, Slovakia, Sweden	Bulgaria, Croatia, Cyprus, Estonia, Hungary, Ireland, Latvia, Lithuania, Luxembourg, Malta, Portugal, Romania, Slovenia, UK (Eng)



## 4.1 Germany: A new policy for structurally weak regions

Turning now to developments in EoRPA countries, one of the most wide-ranging reforms of German regional policy is currently underway, expected to be in place from January 2020.

Based on the outcome of a Commission on Equivalent Living Conditions,<sup>41</sup> and drawing on a commitment in the federal government's coalition agreement of March 2018<sup>42</sup> (as well as other government studies and reports)<sup>43</sup>, the top priority policy goal for the next decade has been defined as '**equivalent living conditions throughout Germany**'. This goal has five components: active regional structural policy; digitalisation and mobility; strong and liveable municipalities; local public services (*Daseinsvorsorge*); and social engagement and cohesion.

In practice, the reform involves a nationwide support system for structurally weak regions ("*ein gesamtdeutsches Fördersystem für strukturschwache Regionen*") based on the following four principles:

- subsidiarity i.e. regional economic development policy will continue to be a competence of the *Länder* (as set out in the constitution, Articles 28 and 30), and federal funding will aim to support the *Länder*;
- autonomy of individual funding programmes i.e. individual programmes will retain their administrative and financial goals and autonomy;
- a rules-based approach i.e. funding will be oriented towards structurally weaker areas, with area designation defined on the basis of indicators, using the composite indicator of the Regional Joint Task (GRW, the main German regional policy instrument; and
- the goal of increasing competitiveness / locational attractiveness in structurally weak regions.

The system will be made up of 22 (existing) federal government programmes focused on: business investment, business-oriented infrastructure, R&D and innovation, and digitalisation; and regional infrastructure, local public services, and locational and living conditions. In addition, a new programme called 'Region Future' will launch specific competitions aimed at identifying new themes and piloting new solutions.

A further development is the preparatory work underway by the federal government for a '**Structure Strengthening Law for Coal Regions**' (*Strukturstärkungsgesetz Kohleregionen*), which will be put to the federal cabinet in autumn 2019 (see section 5.2.1).<sup>44</sup>

## 4.2 Portugal: reforms to policies and institutions

Since 2017, there has been a process of strategic review of the priorities of economic and social development for the Portugal 2030 strategy, which is informing planning for the 2021-27



Cohesion Policy period. In parallel, the National Spatial Policy Programme has been revised and, following parliamentary approval, will set the strategic guidelines for territorial and sectoral strategies – again with a time horizon to 2030.

Two key reforms relevant to regional and local development are currently underway. The first is the **refocusing of economic development intervention on the interior of the country** to counter depopulation and low levels of socio-economic development. A specific State secretariat responsible for the interior has been created, and a Programme for Enhancing the Interior encompasses a large number of measures – across a range of sectoral policy areas - to attract employment-creating investment, improve the environment, and promote equitable access to public services.

The second area of reform is a regionalisation process, now underway since 2015 and involving the **decentralisation of government tasks and strengthening the autonomy of local authorities**. The progressive transfer of competences to local authorities and inter-municipal authorities has been supported with 2018 legislation to provide the requisite financial and human resources. Work on a wider, medium-term reform of the territorial organisation and functions of the State is also underway, drawing on international benchmarks and practices of deconcentration/decentralisation.

### **4.3 Poland a new national strategy for regional development**

The Polish Government is embarking on a wide-ranging reappraisal of the institutional and policy context for regional development. New directions for the policy were already set out in the Strategy for Responsible Development (SOR), launched in 2017 and now being implemented. The SOR included the objective of increased cohesion, with a mix of both regional and local integrated strategies, and place-based project intervention. Within the overall framework of the SOR, the Government is now finalising a new National Strategy for Regional Development (KSRR), setting out a revised model for Polish regional policy. Of particular note is **an increased focus on 'sensitive areas', such as peripheral, rural or declining areas**, alongside the main economic growth centres, as well as more emphasis on mobilising funding sources beyond Cohesion Policy and providing support for administrative capacity building for the implementation of development policy at sub-regional levels. The KSRR anticipates a significant drop in EU funding through Cohesion Policy and the need to strengthen domestic policy intervention. The launch of the SOR and the KSRR also highlight long-term challenges in the management and implementation of Polish regional policy and the need to develop efficient coordination arrangements between sectoral and territorial components of development policy, between different domestic and EU funding sources and between national, regional and sub-regional tiers.



## 4.4 Finland: preparing a new Regional Development Law

The past two years have seen extensive debate and preparations for reform on the future of regional policy. This process includes major planning (currently discontinued) to create a third tier of elected regional government between the local and national levels. It also encompasses scenario development for the future regional structure up to 2030 (regional growth zones vs. city-focused development),<sup>45</sup> and a substantial urban agenda, with a new 'regional city programme' to develop business growth opportunities and labour market potential in c. 50 regional cities.<sup>46</sup>

Following the formation of a new coalition government in June 2019, preparations for a new Regional Development Law and Regional Development Decision have started with a view to having a new Law by 2021 coinciding with the start of the new Cohesion Policy programme period. The drafting process will utilise the work carried out for the discontinued regional reform and spans a range of sectoral as well as regional policy areas.

Some early insights into the direction of development can be gained from the new Government's Programme 'Inclusive and Competent Finland'. The Programme refers to **regional and urban development which is to be 'socially just, environmentally sustainable and economically responsible'**. It notes the importance of: ensuring good accessibility (functioning transport infrastructure and services, including data links); the spread of colleges and secondary education and R&D&I activity across the different parts of the country; availability of skilled labour; and creating attractive environment for businesses, all of which enable growth across Finland. Support for all types of regions and urban areas is underlined stating that *'a viable and socially strong Finland will be built on the success of the Greater Helsinki region, growing urban districts and rural areas alike'*. Unlike the previous Government's Programme, the new Programme also specifically lists the different types of regions and urban areas including: the metropolitan area; larger cities with a population of over 100,000 and University cities; medium-sized urban areas; smaller regional cities (*seutukaupungit*); as well as sparsely populated areas. Although the Programme notes the need *'to reduce the level of divergence between regions and within municipalities'*, it recognises the role of the metropolitan area and larger cities in providing growth and sustainable development for the entire country.<sup>47</sup>

Other aspects highlighted in the Programme include the need for a collaborative and thematic approach that takes account of the special characteristics of each region and urban area on the basis of contracts and partnerships. The use of a contractual model will be specified in the new Regional Development Decision at the end of 2019, but may include, for instance, contracts to promote structural change.<sup>48</sup>



## 4.5 Netherlands: revival of commitment to regional policy

A set of new policies and policy changes facilitated by the 2017 coalition agreement points to some important regional policy development trends in the Netherlands. These include: a greater recognition of the regional dimension in national policy changes; stronger appreciation of the capacity of regional actors to address development challenges within their territories; and a broader scope of regional policy, in particular a greater recognition of socio-economic regional disparities and of environmentally sustainable development transitions. This represents a break with the former approach which relied on the idea that each level of government should focus on its own core interests. At the same time, regional cohesion in the Netherlands is diverging rather than converging. The Dutch Environmental Assessment Agency (*Planbureau voor de Leefomgeving*, PBL) concludes that investment in weaker regions also strengthens the position of stronger regions ('trickle up'), but there is no evidence that strong economic regions contribute to growth in weaker regions ('trickle down').<sup>49</sup>

## 4.6 Sweden: debates on sustainability, skills & regional growth

The formation of a new Government at the start of January 2019 has led to renewed consideration of future regional growth priorities and the adoption of a possible new strategy. The Government requested that regions submit proposals on future regional growth priorities covering: (i) an analysis of the challenges and opportunities for regional growth; (ii) regional priorities; (iii) a description of how the analysis and regional priorities relate to the future Cohesion Policy 2021-27; (iv) a description how the priorities consider cross-border cooperation; (v) a description of each county's development needs with regard to cooperation with government agencies; and (vi) a description of how the analysis and priorities contribute to socially, economically and environmentally sustainable development. The regional proposals, completed by 30 April 2019, are feeding into the development of the future regional growth and Cohesion Policy focus in Sweden.<sup>50</sup> Although there is, as yet, no overview of the results, one theme emerging in the regional proposals relates to skills shortages and regional disparities concerning skills supply.

Among several studies currently underway, analysis by the Swedish Growth Agency (*Tillväxtverket*) has underlined **the increased need for a place-based approach in the light of the complexity of the societal challenges** and the need to understand the unique circumstances of different places, their capacities and their ability to cooperate (i.e. knowledge of regional conditions). This entails developing knowledge beyond the regional level (e.g. functional regions, municipalities, specific areas within municipalities etc.) to deliver a real place-based policy. In order to enable a more effective and better tailored policy for the future, the study recommends a government inquiry (*inredning*) into the conditions of regional growth policy and a pilot project to test new ways of working.<sup>51</sup> This would include: analysis of the objectives and priorities of regional growth policy; responsibilities between the



regional and national level; the role of administrative capacity in the delivery of national policy; and how regional growth policy relates to other policy areas.

## 4.7 Norway

A White Paper currently under development in Norway potentially heralds at least **two important shifts in regional policy with respect to its spatial focus (focusing more on rural areas), and the role of regions in developing region-specific development strategies.**

Specifically, it is anticipated that the White Paper will focus on the *distrikts*, the rural areas, rather than Norway as a whole. This distinction had been made more explicit, including in budgetary terms, in the current (2017) White Paper, even though the two are not strongly differentiated in terms of regional policy conceptualisation. Further, an important element of the emerging policy context is local government reform. This includes stronger emphasis on the role of the new counties in devising more explicit regional development strategies than has been the case in the past, and which is to be based at least loosely around smart specialisation strategies. In parallel, an internal review by the Regional Policy Department (of the Ministry of Local Government and Modernisation) is considering the priorities for action. In part, this reflects the declining budget for regional policy in Norway, the perceived need to engage with other ministries to influence their objectives and align them with regional policy priorities, as well as the progressive delegation of direct policy action and instruments to the county level. The timescale for the White Paper foresees its completion and parliamentary adoption by the end of 2019.

## 4.8 France: restructuring national-regional relations

The national government under President Emmanuel Macron, elected in spring 2017, has set the objective of fundamentally reforming national, regional and local governance in France. Far-reaching reforms already adopted include labour market, social policy, energy policy and the national railway system. Regional policy is also undergoing transformation.

First, a national agency for territorial cohesion is being created (subsuming the General Commission for Territorial Equality, CGET) and is intended to redefine relations with sub-national authorities by focusing on capacity building. It should also streamline the current contracting approach as new integrated territorial cohesion contracts are envisaged as part of the creation of the agency.

Second, planning and debate is underway on the distribution of tasks and funding between national and sub-national authorities. One important element is the programme to transform the public administration by 2022, which includes proposals for **strengthening the decision-making powers of the deconcentrated State administrations** (*programme action publique 2022*). In addition, in May 2018, the government presented a proposal to change the constitution which would open further possibilities for experimental cooperation initiatives



between sub-national authorities and allow for a particular policy task to be implemented differently by different authorities (territorial differentiation). Further, in June 2018, President Macron stated that the constitutional reform would allow the territorial organisation of France to follow an approach based on a 'decentralisation of projects' (*décentralisation de projets*). In practice, this would mean a focus on individual projects, with less rigid territorial structures and greater flexibility in project implementation.

## 4.9 United Kingdom: Post-Brexit regional policy planning

**Territorial and social inequality has gained a much higher political profile** in the UK over the past three years, with considerable debate on the policy and institutional responses to deep and long-term economic and social disparities. However, the policy agenda (across all policy areas) is dominated by Brexit. Much of the work of government is taken up with managing the exit from the EU with limited scope for new major policy development.

A key issue is planning for a replacement of ESIF funding from 2019. The 2017 Spring Budget included a budget line for 'assumed domestic spending in lieu of EU transfers', amounting to annual allocations of £12-14 billion (€14-16 billion) from 2019-20 to 2021-22. The UK Government plans to create a new UK Shared Prosperity Fund 'to reduce inequalities between communities' but there is currently no detail in the public domain on the proposed content or delivery of the Fund.<sup>52</sup>

An ongoing theme is the complex geography of funding, with individual deals and contracts negotiated on a case-by-case basis. New sub-regional strategic frameworks are emerging in England, where a first wave of local industrial strategies (to facilitate more coordinated implementation of national and local funding streams and private investment) has been launched. Two further waves have been announced for publication over the next year. Further investment in England is being made in local clusters (to encourage innovation and networking) and community development in areas of disadvantage. These developments underline the trend of UK regional development policy promoting different 'economic geographies', with an implicit place-based approach to developing strategies and allocating funding.

The thrust of territorial policies of the Devolved Administrations, which have also been under review, is following a similar route. New regional-level strategic frameworks are emerging in Scotland and Wales, alongside economic development agendas with a strong focus on social inclusion and decarbonisation. In Scotland, regional economic partnerships are being established to manage a more decentralised and coordinated approach to economic development tailored to the needs of each region. A new development agency has also been created for the South of Scotland. In Wales, a more localised model of regional investment is being developed as part of a new regional investment strategy.<sup>53</sup>





## 4.10 Other strategic changes

The reforms underway or planned in EoRPA countries reflect a wider process of new thinking and policy change across Europe. In part, this is stimulated by preparations for a new Cohesion Policy period but it also reflects a greater commitment to balanced development and addressing regional disparities and the needs of specific regions. Of particular note is the planning underway in several countries (e.g. Czech Republic, Poland) to build up domestic regional policies in anticipation of declining receipts from European Structural and Investment Funds.

**Table 3: Strategic changes to policy goals or strategic objectives in Europe**

Country	Changes in policy goals / strategic objectives
<b>BE</b>	Regional policy in Belgium is decentralised to the provinces. In Wallonia, a new Investment Plan (replacing Marshall Plan 4.0) has been launched, focusing on energy transition, innovation, territorial economic attractiveness, education and training, and digital innovation.
<b>BG</b>	A Roadmap for New Approaches to Regional Development Policy was approved by the Minister of Regional Development and Public Works in 2018 with the aim of providing a clearer strategy for reducing regional disparities, enhancing the effectiveness of regional policy and improving regional development management and planning. The National Concept for Spatial Development 2013-25 is also being updated to guide programming for future EU funding. Longer term, a new National Development Programme for the period to 2030 has been commissioned by the Minister of Finance to provide a coherent strategic policy framework for both sectoral and territorial policies.
<b>CZ</b>	Preparatory work on a new Regional Development Strategy of the Czech Republic 2021+ is ongoing. New strategic goals include ensuring support according to regional needs, developing strategic planning based on functional regions, supporting territorial dimension within sector policies.
<b>EE</b>	The Government Office and Ministry of Finance are leading the creation of a new State development strategy for 2035. <sup>54</sup> The strategy is intended to provide a coherent framework across different policy fields and for EU funding.
<b>EL</b>	Legislative changes to the Public Investments Programme are under discussion including: (i) the introduction of multiannual planning based on the EU Partnership Agreement model; (ii) a change in the way funding to municipalities is channeled, moving from a system where funding is provided through regions to direct funding to the municipalities for projects they programme; (iii) a system of management and control for the funds of the national part of the PIP; and (iv) a widening of the definition of public investment to include entrepreneurship. <sup>55</sup>
<b>HU</b>	In December 2018, the Government adopted a new resolution on reducing territorial inequalities of economic wealth. This recognised the need to create a comprehensive development strategy, addressing both opportunities and constraints. Policy interventions aim at promoting the local manufacturing capacity, putting in place a new economic programme in order to unlock the potential of production based on agricultural and natural assets, and traditions, including the provision of technical and integration support for small-scale local



	producers. Measures also include improved access to finance and employment via social enterprises and social cooperatives, public works, the expansion of childcare and social services.
<b>HR</b>	The National Development Strategy 2020 is expected to be launched in 2020 providing foundation for more effective and efficient cooperation among different national, regional and local bodies.
<b>IE</b>	Following a period since 2008 which saw regional development issues subordinated to crisis response and recovery, a new approach to regional growth has been emerging in recent years. In 2018, the <i>National Planning Framework: Project Ireland 2040</i> set out a commitment to balanced development, with a strong regional dimension including objectives to empower regions to lead planning and development, recognising the importance of regional centres and regional accessibility. This is supported by three Regional Spatial and Economic Strategies, a regional business development plan (Powering the Regions) and nine Regional Enterprise Plans.
<b>LT</b>	Following the approval of a Regional Policy White Paper 2017 setting out a new strategy for "harmonious and sustainable development" (and series of action plans), in March 2019 the Government set out 'National Regional development Priorities to 2030'.



## 5 SPATIAL REFOCUSING OF POLICY INTERVENTION

As part of the strategic policy reforms noted above, and as reported in previous EoRPA annual reports, the geographical focus of policy intervention is changing in several ways, involving a more regionally discriminating approach to support. Developments in 2018-19 provide examples of a more place-based policy approach (Czech Republic, Poland) and policy programmes for specific areas.

### 5.1 Place-based policy approach

In the Czech Republic, the new Regional Development Strategy (RDS) 2021+ is taking **a more place-based policy approach, distinguishing between different types of places and territories based on their functional characteristics**. The RDS 2021+ has six strategic objectives based on specific types of territory. The first five are: internationally competitive metropolitan areas; agglomerations using their development potential; economically stabilised regional centres; revitalised and economically restructured regions; and good quality of life in economically and socially threatened territories. The sixth objective is focused on regional development planning and will cover the whole State territory. It will focus in particular on inter-municipal cooperation and strengthening the role of municipalities.

The strategic goals of the RDS 2021+ foresee a combination of regional policy support for structurally weaker regions as well as territorialising relevant sector policies. Specifically, the aims are:

- to ensure support is provided according to the needs of regions;
- to support a territorial dimension to sector policies;
- to develop strategic planning based on functional regions;
- to strengthen the cooperation of stakeholders in each territory;
- to improve coordination of strategic and spatial planning;
- to develop smart solutions; and
- to improve data analysis in regional development.

**Regional discrimination is also central to the new policy frameworks in Poland.** Strategic projects in the national Strategy for Responsible Development (SOR), and provisions in the draft National Strategy for Regional Development (KSRR) set out a revised model for Polish regional policy by delineating 'sensitive areas' where regional policy support should be concentrated and 'growth centres' where specialisation should be pursued. Initiatives for



targeted areas with development challenges (in addition to EU-funded support for the structurally weaker eastern regions) include the following:

- A **supra-regional programme for the economically weakest areas 2020+**. The SOR identifies 46 clusters of municipalities (which may cross regional borders) in northern and eastern Poland. These municipalities are mostly rural with small towns of up to 15,000-20,000 inhabitants. The main features of these areas are: low GDP per capita; low level of education; depopulation; ageing population; low number of enterprises (and thus low tax receipts for local government); poor public services; and limited capacity of local administrations to address these challenges or apply for available funding.
- A **Package of Actions for medium-sized cities that lose socio-economic functions**. This applies to cities over 20,000 residents and cities over 15,000 residents which are district capitals (with the exception those that are also regional capitals); currently this covers 255 towns and cities throughout Poland.
- A **Programme for the Silesia** which aims to change the economic profile of the region and replace traditional sectors of the economy (including mining and metallurgy sectors) with more innovative and high-tech sectors.

## 5.2 Policy programmes for specific regions

The past decade has seen regional policies in Europe introduce specific interventions for areas suffering from serious job losses and industrial restructuring, rural and sparsely populated areas, border areas, and areas of environmental significance. Three types of areas are targeted in the latest policy initiatives to be introduced: areas affected by the energy transition (Germany, Netherlands); rural areas including mountainous areas (Switzerland, Croatia, Cyprus) and islands (UK-Scotland, Croatia); and areas suffering from job loss (Belgium-Flanders).

### 5.2.1 Areas affected by the energy transition<sup>56</sup>

The most significant programme for specific types of regions is in Germany to phase out lignite (brown coal) mining as part of efforts to meet the country's climate change commitments. Preparatory work by the Federal Government is underway to introduce a '**Structure Strengthening Law for Coal Regions**' (*Strukturstärkungsgesetz Kohleregionen*), which will be put to the federal cabinet in autumn 2019.<sup>57</sup> The law would regulate funding amounting to c. €40 billion up to 2038. A coordination committee with advisory powers is being set up to support the Law's interventions, chaired by a State Secretary from the Federal Ministry for Economic Affairs and Energy (BMWi), and made up of State Secretaries from other relevant federal ministries and representatives of four *Länder* (Brandenburg, North-Rhine Westphalia, Saxony and Saxony-Anhalt). The law will cover two sets of interventions.



- A new Investment Law for Coal Regions (*Investitionsgesetz Kohleregionen*) will provide for federal funding allocations to the relevant *Länder*, amounting to €14 billion by 2038 for significant investment projects initiated and managed by the *Länder* and local authorities. Funding will be regulated by an agreement between the federal authorities and the four *Länder*, and will be allocated to types of interventions outlined in the Constitution (Articles 104b and 104c) including business-oriented infrastructure, R&I, business investment, and training.
- The federal government will allocate up to €26 billion by 2038 (up to €1.3 billion annually) for priority investment projects in the four lignite regions.

The same climate change objectives underpin the steps being taken in the Netherlands to **develop a Regional Energy Strategy (*Regionale Energiestrategie, RES*)**. Currently, 31 regions are working with societal partners (civil organisations, businesses, environmental organisations, grid operators) on a multi-annual national programme that integrates the Climate Agreement (*Klimaatakkoord*, June 2019)<sup>58</sup> into regional energy challenges. The governance structure follows that of the national environmental vision, NOVI, required by the 2021 Environmental and Planning Act. Provinces and municipalities have to agree to a RES that fits their bespoke strategies as formulated in POVI and GOVI (the respective provincial and municipal level visions also required by the 2021 Act<sup>59</sup>) and in consultation with the following sectors: electricity and built environment; industrial clusters; mobility (MIRT); agriculture and land use (*Gebiedscommissies*).<sup>60</sup> By comparison with the German programme, national involvement is low, with the Dutch Ministry of Economic Affairs and Climate only being involved when specific expertise is needed.

### **5.2.2 Rural areas – mountains and islands**

Rural areas are also on the agenda as a focus for regional policy in some countries, particularly mountainous areas and islands (Switzerland, United Kingdom – Scotland, Croatia and Cyprus).<sup>61</sup>

In Switzerland, the move from the 'old' Swiss regional policy, based on the Investment Assistance Law (*Investitionshilfegesetz, IHG*), to the New Regional Policy (NRP) created a perceived lack of attention to mountainous areas amongst stakeholders. Following parliamentary requests in 2017 to address this issue, SECO (the State Secretariat for Economic Affairs, and key player in Swiss regional policy) decided to set up a 'Programme for Mountainous Areas' (PMA, *Berggebietsprogramm*) as part of the forthcoming four-year-round of the NRP 2020-23.<sup>62</sup> The PMA will focus on structurally weak areas and be used to experiment with new policy approaches. Areas that qualify for support are being defined in cooperation with the cantons. According to the proposals (at time of writing), territories in 16 of the 26 cantons would fall into the funding perimeter. Eligible municipalities need to be located at least 20 minutes away from the next regional centre. The PMA will be funded by the resources previously earmarked for the current tourism impulse programme as, in the current four-year



period 2016-19, only about half of the envisaged additional tourism funding of CHF 210 million (€188 million) was used.

In the **United Kingdom (Scotland)**, the Scottish Government promotes the socio-economic development of remote and island communities through support for ferry services and affordable air transport services. The Islands (Scotland) Act was passed by the Scottish Parliament in 2018 with the intent of 'island-proofing' Scottish legislation and policy. The Act will be implemented through two main instruments being launched in late 2019 – the National Islands Plan and Island Communities Impact Assessments, through which relevant authorities can consider the impact of policies, strategies or services on islands.<sup>63</sup> Rather than the legislation including an exhaustive list of relevant areas, the intention is for the National Islands Plan to “develop organically from the data gathered during the consultation process” launched in spring 2019.<sup>64</sup>

In **Cyprus**, a development policy for mountain areas was approved in spring 2018 with a range of aims including: the increase in the added value of agri-food; increases in the attractiveness of animal husbandry and farming; striking a balance between the development and the protection of mountain areas; and the improvement of social amenities and accessibility. A related strategy for the Development of Mount Troodos mountain communities is also being drafted. Other strategies will cover the mountain areas of Pafos and Larnaca.

In **Croatia**, two recent pieces of legislation focus on mountains and islands. A new Law on Islands came into force in January 2019, introducing a new coordinator for each island, a modified Development Index for islands that will consider the specific characteristics of the islands under the local self-government framework in Croatia, and support for the most relevant activities/projects for local economies on islands. A new Law on Upland and Mountainous Areas also came into force in January 2019 with modified criteria for defining upland and mountainous areas, focusing on areas with vulnerable populations, and a new set of measures for building the development capacity of the selected areas (through cooperation among local government units).

### **5.2.3 Managing industrial restructuring and the local impact of business closures**

A common policy challenge for regional policymakers in several countries over many years has been to deal with the consequences of industrial restructuring (e.g. the Czech Republic, Finland, Germany, the Netherlands, Poland and the United Kingdom). Especially in the context of the crisis conditions and slow recovery, national and regional governments have been concerned to manage the impact of plant closures, notably in areas where there are limited opportunities for alternative employment.

The latest such initiatives have been in Belgium, where the Flemish Government is taking a more **spatially targeted approach in response to major business closures** in Genk (Limburg)



and Turnhout (Antwerp). First, the Strategic Action Plan for Limburg (*Strategisch Actie Plan voor Limburg in het kwadraat*, SALK) was intended to prepare Limburg for the progressive closure of a large car factory. It consisted of a vision for the future of the province and an action plan containing short-term and long-term measures. SALK is seen as a successful initiative to combat unemployment after the factory closure – 89 percent of projects have been realised or are on track - and is set to continue under the new Flemish government.<sup>65</sup> Second, there have been changes to the municipalities in and around Limburg that are eligible for regional aid. Third, Flanders has taken up the federal initiative to set up aid zones benefiting from business tax relief in the areas around Genk and Turnhout.





## 6 NEW GOVERNANCE ARRANGEMENTS

### 6.1 Strengthening the role of the regions & better cooperation

The long-term development of regional policies in Europe has generally witnessed the regionalisation of policy responsibilities for regional and local development. Whereas up to the 1980s, regional policies were generally designed and implemented by central government authorities (with the exception of federal countries), there was a 'paradigm shift' from the 1990s onwards which saw a deconcentration or devolution of policy implementation to regional offices of the State or to regional self-governments. This process was interrupted following the onset of the economic crisis, with a recentralisation of policy responsibility and/or the abolition of regional institutions that had carried out economic development functions (e.g. Ireland, Netherlands, United Kingdom).

In recent years, there has been a new wave of institutional reforms, affecting both regional and local levels. More effort is being placed on improving coordination (both formal and informal) between government ministries and between national and sub-level levels.<sup>66</sup> Lastly, the efficiency of institutions has been a focus of policy attention with increased investment in administrative capacity.

#### 6.1.1 Sweden: evolutionary decentralisation

The role of the regional level has been the focus of numerous investigations and discussions on how it should be organised and which actors should take responsibility for regional development. Sweden has pursued a process of on-going, 'evolutionary' decentralisation, involving a change from a strongly 'context-dependent' to an increasingly uniform approach.<sup>67</sup> On 1 January 2019, this process culminated with all counties (*län*) becoming directly-elected county councils and gaining responsibility for regional development in line with the Parliament's approval of the Government's proposal 2017/18:206 on changes to existing laws (with the exception of Gotland). A more uniform approach has also been recommended for the State authorities based in the regions, with a view of having a clearer regional structure and better conditions for cooperation and coordination of the state in the regions.<sup>68</sup>

The sub-national level has consequently started to play an increasingly active role in economic development.<sup>69</sup> As part of the regional reform, the various decision-making and resource allocation responsibilities have been brought together at the ('regional') level, as opposed to multiple stakeholders at different levels. Previously (before 1 January 2019), responsibilities for regional growth policy in the counties were carried out by one of three bodies, namely: (i) the directly-elected county councils; (ii) municipal cooperation bodies (local government decision-making forums tasked with regional development); or (iii) the County Administrative Board (the national government's representatives in the regions). The opportunities for greater regional and local cooperation are emphasised within the new regional structure.



With respect to regional development, the roles of the county councils include:

- developing and establishing a strategy for the development of the county;
- coordinating efforts to implement this strategy;
- deciding on how funding for regional growth should be used;
- monitoring, evaluating and reporting on the results of development work for the government;
- performing tasks in the framework of EU Structural Funds; and
- establishing and defining the county plans for transport infrastructure<sup>70</sup>

Despite the more uniform approach, the ability of the regions to plan and implement an increasingly broad policy scope varies, not least due to their different capacities. Regions adopt a range of approaches to addressing policy priorities and have differing resources at their disposal, depending on their specific circumstances. While the new regional framework simplifies the national level task of steering, the varying regional conditions mean that it continues to be difficult to build an overview of the regional situation. This emphasises the continued importance of dialogue between the different levels in the future regional growth policy in Sweden.<sup>71</sup>

Besides changes at the regional level, a Government inquiry into the municipalities, which started in 2017, is to continue until the end of February 2020. The aim of the inquiry is to produce a strategy that would help strengthen the capacities in the municipalities to deliver their tasks and address their challenges.<sup>72</sup> The inquiry will not necessarily entail changes to the number of municipalities, but focuses on how they are dealing with demographic and economic challenges, especially in terms of improving coordination between municipalities, and the implications of asymmetric responsibilities (with smaller municipalities having fewer responsibilities than larger ones). Currently, small municipalities have the same service delivery responsibilities as large cities. One of the issues under consideration is whether cooperation could increase between smaller municipalities and whether responsibilities could be shared.

### **6.1.2 Italy: debating 'differentiated autonomy'**

In Italy, the past year has been characterised by an acceleration of the debate on fiscal federalism, that is on the reform of the regional governance system towards more differentiation across regions (*autonomia differenziata*). This is not regional policy in the strict sense, but it would have an impact on regional disparities as it could reassign significant additional competes in the fields of (potentially) environmental protection, healthcare, education and welfare to only some of the Italian regions but not others. These competences would be transferred in line with the provision of art. 116 of the Italian Constitution (as modified



in 2001) based on requests by nine regional authorities (especially Lombardy and Veneto, which held informal referenda on this issue in October 2017, and Emilia Romagna, which has passed related legislation). The proposals proved controversial, and neither the Gentiloni government, nor the Conte government were able to agree a bill with the regions that could be passed to the Italian Parliament. Given the high political salience of the reform, and the political weight of the regions championing it, the debate may resume once the new government is appointed. If the reform goes ahead, it would entail a different redistribution of resources and competences from the State to the regions favouring the most 'virtuous' Italian regions (which are also the wealthiest) and potentially causing an exacerbation of regional disparities. Agreement on equalisation mechanisms is not yet close to being reached.

### **6.1.3 Norway: an increased role for the counties**

An important element of the emerging policy context in Norway is the local government reform. The outcome of the reform had not been fully fleshed out by the time the 2017 White Paper was finalised. Nevertheless, the narrative acknowledged these reforms and emphasised **the role of the new counties in devising more explicit regional development strategies** than in the past, based at least loosely around smart specialisation strategies. The Ministry of Local Government and Modernisation (KMD) has provided guidance on smart specialisation strategies for the counties to work with. This has been a collaborative process (involving ten of the current counties, municipalities and Innovation Norway, in particular) and has drawn on EU experience. The expectation is that the new counties will devise plans based around these guidelines. Although this will not be mandatory, the formation of the new counties provides a good opportunity to integrate this thinking into the more strategic role expected under the new structure. In the past, the extent to which counties have operated strategically has been quite variable, partly reflecting size and administrative capacity. At the same time, an explicit link is being made with planning legislation, partly in order to pre-empt potential conflicts between physical planning and economic development, but also to embed economic development planning into statutory requirements. It is anticipated that smart specialisation strategies will cover a 5-6 year period, but there is no funding explicitly associated with them. Instead, counties are expected to lever influence over Innovation Norway (of which they own 49 percent) and over the direction of national spending priorities through their cooperation with the Industrial Development Corporation of Norway (SIVA) and the Research Council of Norway.

### **6.1.4 Bulgaria – reviewing multi-level governance**

A multi-level governance review agreement between the Ministry of Regional Development and Public Works (MRDPW) and the OECD was signed in December 2018, and was ratified by the National Assembly of the Republic of Bulgaria in February 2019. The agreement provides for the OECD to undertake a study entitled 'Multi-level Governance Review - Making Multi-level Governance and Decentralisation Work for Regional Development in Bulgaria'. The main aim of the Agreement is cooperation in **reforming regional policy and decentralising**



**responsibilities to regional development authorities** in the light of the ongoing socio-economic growth challenges and uneven development in the country. It stipulates that, over a 15-month period, the OECD will help the Ministry in structuring the relationships between the different levels of governance and strengthening the capacity of structures at the regional level to develop sub-national public investments and strategies and implement effective regional development policies. It will take into account trends and mechanisms for financing investment in territorial development post-2020 and will support the implementation of the National Regional Development Strategy up to 2022 and the preparation of the new National Development Programme 2030.

### **6.1.5 Latvia and Croatia: territorial administrative reforms**

In March 2018, the **Latvian** Government decided to continue with administrative territorial reform and entrusted the Ministry of Environmental Protection & Regional Development to develop a model and to begin negotiations and consultations with local governing bodies. By 2021, economically capable administrative territories run by local municipalities must be established. Those municipalities should be able to exercise autonomous functions, as provided for by legislation, of comparable quality and availability and to supply citizens with quality services at a reasonable cost. As a result of the reform, municipalities will be divided into two basic types of administrative territories – republican cities (the capital city Riga and the resort city of Jurmala); and municipal counties (*novada pilsētas*) and townships (*novada pagasti*). The reform will also substantially reduce the number of elected representatives on local municipalities from the 1,614 in 2019 to just 686.

In **Croatia**, the new Strategy for Regional Development aims to stimulate reform of the local and regional administration framework, but crucial steps are required by the Ministry of Public Administration. Currently, the regional institutional framework encompasses a large number of entities comprising 21 counties and 576 local governments. An action plan for implementing the Strategy for developing local administration was launched in December 2016 including the objective of building a functional and accessible public administration. It involved a number of measures to increase the efficiency of the public administration institutions with the rationale that a more effective and functional public administration at local level would support the fiscal equalisation system and, more broadly, allow the more effective modification of financing of county and local authorities in line with the specific needs of Croatian regional development.

In this context, the Ministry of EU Funds and Regional Development emphasised three goals in 2018: introducing a system for quality and competence in public administration; decentralisation; and digitisation. The implementation of a number of projects and regulations has been started, such as the development of a competency framework for public administration employees, the introduction of quality management systems to the public administration, e-Stamp, e-Business, e-Signature, shared service centres and regulation for the rating system of public sector employees.



## 6.2 Policy synergies

Several of the above initiatives aim to improve institutional coordination. Two further examples of new institutional arrangement focus on achieving greater policy synergies.

### 6.2.1 Italy: domestic regional policy reform enhancing synergy with EU co-funded regional policy

The formation of a new government, in June 2018, led to an important change to domestic regional policy in Italy, namely the alignment of the operational logic of the domestic Development and Cohesion Fund (*Fondo Sviluppo e Coesione, FSC*) with that of EU Cohesion Policy. This change stemmed from awareness that the implementation of the FSC has been hampered by a number of weaknesses including: a lack of strategic vision (given the emphasis on ready-to-implement investments with no linking strategy or synergies between different projects); fragmentation; unclear additionality; and an inefficient financing/payment system. To address these problems, the 'Growth Decree', passed by the Italian government in April 2019 and converted into law in June 2019 (law no. 59), obliges all tiers of administration that implement FSC projects to draft a single multiannual 'Cohesion and Development Plan' for all FSC-funded investments, similar to Operational Programmes under EU Cohesion Policy. These plans have to be approved by the Inter-ministerial Economic Programming Committee (CIPE) by end of August 2019. This move is intended to strengthen the strategic nature of the projects funded by the FSC and their synergy with Cohesion Policy, to reduce fragmentation, to provide more certainty in the financial disbursements from the central state, and to strengthen accountability.

### 6.2.2 Netherlands: initiatives to improve horizontal and vertical cooperation

The responsibilities of ministries in relation to regional policies were reconsidered in 2017 (following the last change in 2010). There is now a stronger emphasis on the need for greater cooperation between ministries in achieving integrated approaches and for more flexibility in their responses to policy development on the ground.<sup>73</sup> Regions are increasingly defined as functional economic areas, that is agglomerations of municipalities that vary per theme and sometimes include provinces and water boards (e.g. labour market regions, Safety Regions, RES regions, REOS regions, mobility regions, Deal-regions and others). Recent challenges are recognised to be supra-sectoral and require the involvement of range of bodies, for example in the case of the circular economy and energy transition, the agricultural sector, blue economy and SMEs. Ministries (including the Ministry of Economic Affairs and Climate Policy) are frequently assigned advisory roles, where their expertise is required. It remains to be seen how far organisations are able to accommodate change and to what extent thematic fragmentation between Ministries and regional instruments can be prevented.



## 6.3 Improving capacities and empowerment

Alongside the territorial reforms and coordination measures, several countries have been investing in improvements to administrative capacity with the latest developments in Austria and Croatia.

In **Austria**, the states (*Länder*) have historically been the principal subnational level with responsibilities for regional and local development. In recent years, a series of initiatives have sought to strengthen the role of the 'region' (between the Land and municipalities). In 2014, an 'implementation partnership' was established to 'strengthen regional levels', now being followed up a new project to identify ways in which regions can be empowered to contribute to sustainable spatial development.

In **Greece**, the Kleisthenes reform programme legislated in 2018 is the latest development in a process of regionalisation over the past decade. The Kalikratis law of 2010 modernised the legal framework for regional development, allocating more responsibilities to decentralised regional administrative offices of the State and to self-governing regional councils and municipalities. The latest reforms gives new legal powers to sub-national authorities to take on (or participate in) regional and local development tasks.

The **Italian** government is continuing its efforts to raise the quality and efficiency of Italian administrations with a second generation of Administrative Strengthening Plans (*Piani di Rafforzamento Amministrativo*, PRA). The PRAs were included in the Italian 2014-2020 Partnership Agreement and are two-year programmes in which the national and regional administrations in charge of the management of ERDF and ESF programmes outline actions to be taken to strengthen administrative capacity at all applicable levels (national/regional/local/ stakeholder) and put in place the necessary administrative reforms, tools and actions required for the effective and efficient implementation of the programmes. After the end of the first two years, the government issued new guidelines for the subsequent two. These stipulated that the PRAs will continue to support measures related to five separate dimensions of administrative capacity – legislative and regulatory simplification, management and control procedures, personnel, IT systems and support activities (e.g. helpdesks, coaching etc.) – but also introduced a number of improvements. These include: (i) rationalising and harmonising the interventions across different administrations; and (ii) strengthening centrally led direction, particularly for those administrative capacity building measures that develop core competences for which common national standards should be applied.





## 7 QUESTIONS FOR DISCUSSION

This report has provided a review of the territorial challenges facing regional policymakers, some of the conceptual debates in the academic and policy literatures, and the changes that have taken place to regional policy frameworks, spatial focus and governance over the 2018-19 period.

The report provided a basis for discussion at the EoRPA meeting focused on the following questions:

- (i) What are the political and economic pressures influencing current thinking about the direction of regional development policies? Or are current changes more about adapting existing policy frameworks to meet changing priorities?
- (ii) Are regional social and economic disparities becoming more politically salient? If so, to what extent is this being addressed by a greater role for regional policy or a refocussing of horizontal and sectoral policy?
- (iii) Should regional policies continue their relatively narrow focus on regional economic development and competitiveness, or play a broader role in addressing the regional dimensions of the 'grand challenges' such as climate change? And how?
- (iv) To what extent is there a significant conceptual shift in the rationale for regional development policies?
- (v) What experiences are there with place-based or regionally differentiated policy intervention? What lessons can be drawn?

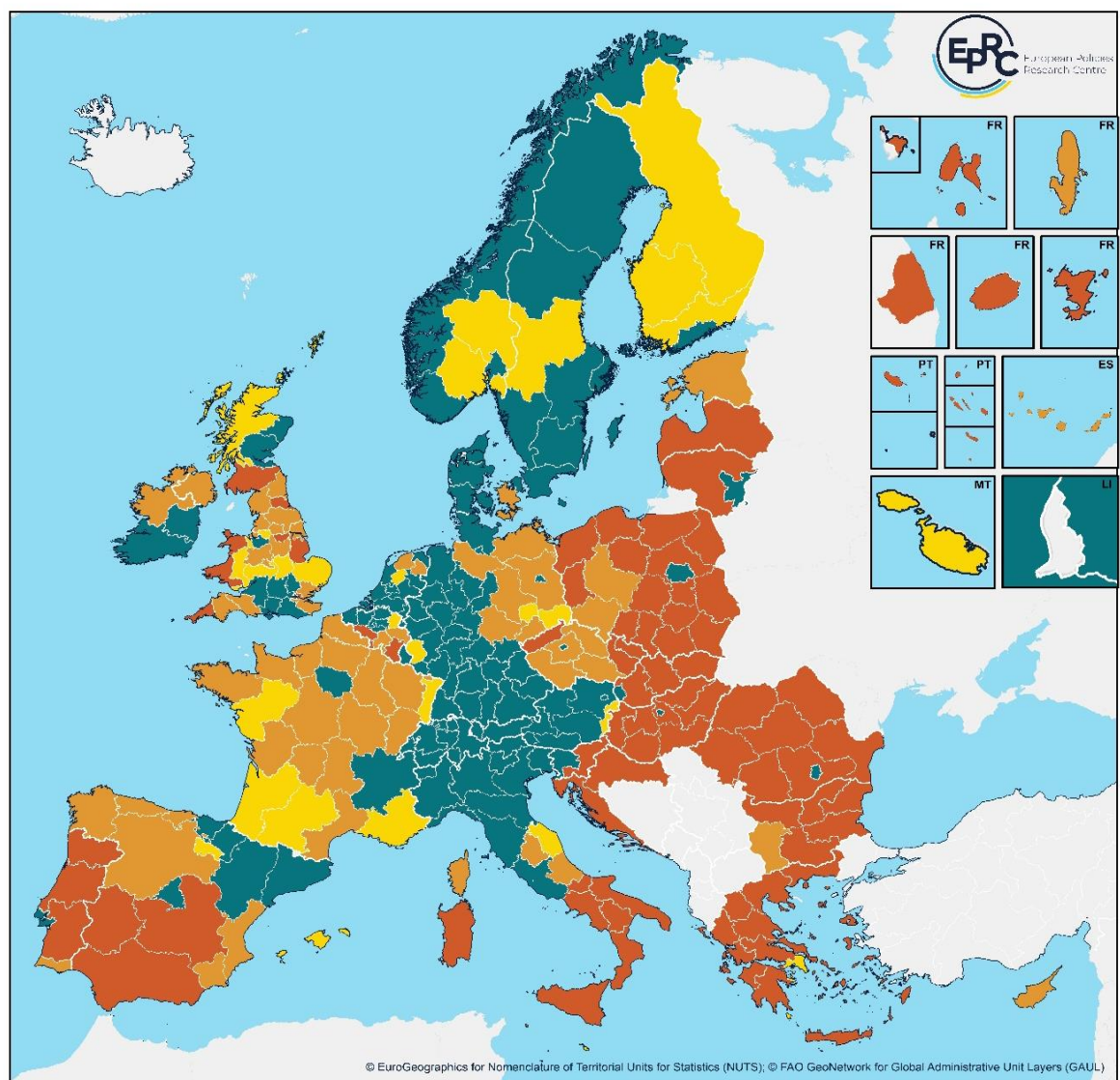




## 8 ANNEXES

### 8.1 Regional disparities in Europe

Figure 9: Regional GDP per head, 2017 (PPS, current prices)



Gross domestic product (GDP) at current market prices by NUTS 2 regions  
Purchasing power standard (PPS) per inhabitant as a percentage of the EU28 average.

- <75%
- 75-90%
- 90-100%
- >100%

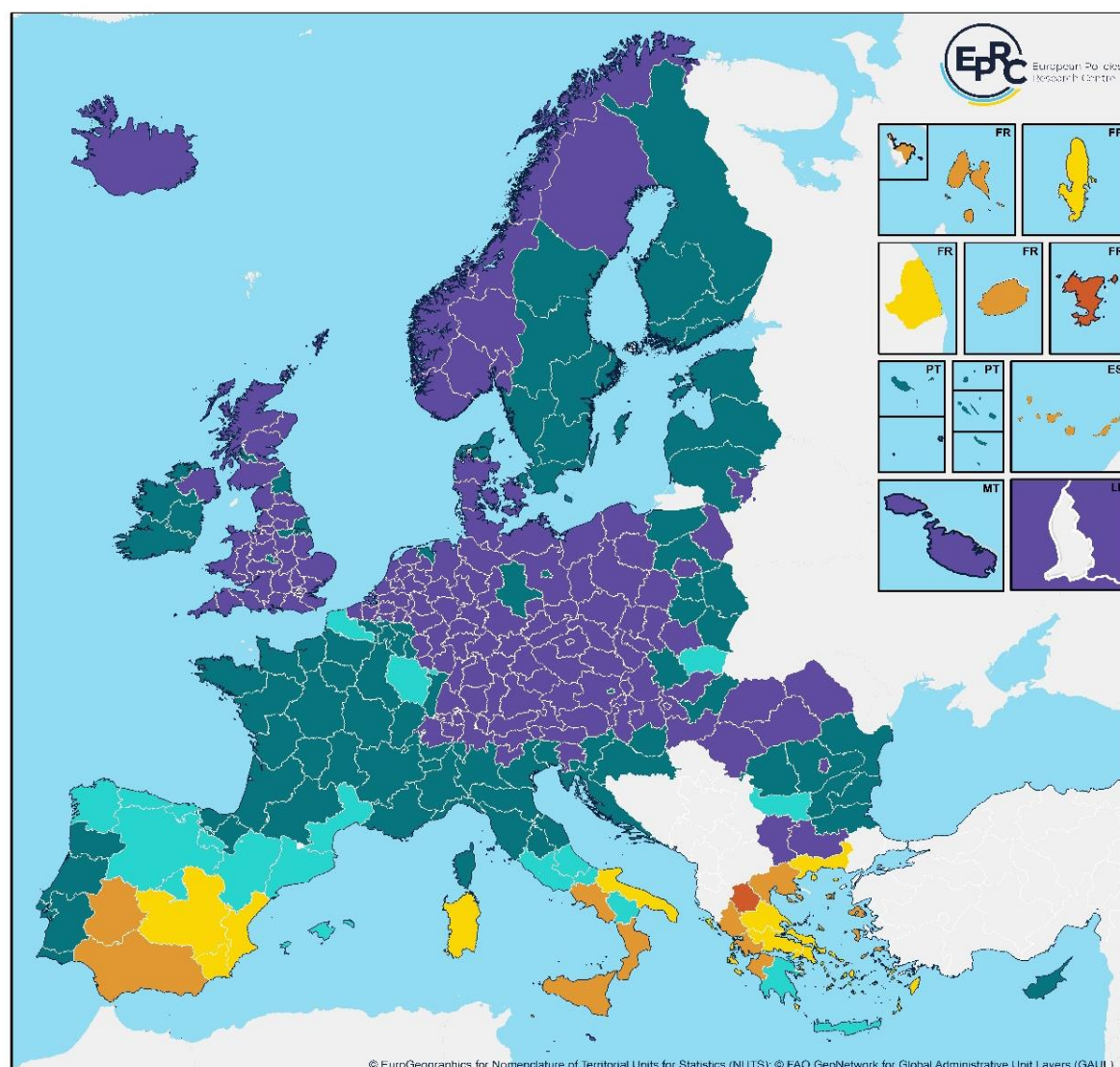
0 125 250 500 750 1,000 km

Data sources: EUROSTAT, Statistics Norway, Federal Statistical Office Switzerland

Data for Switzerland and Norway are for 2016 and related to the EU28 2016 average.



Figure 10: Regional unemployment rates, 2018



Unemployment rates in NUTS 2 Regions (%)

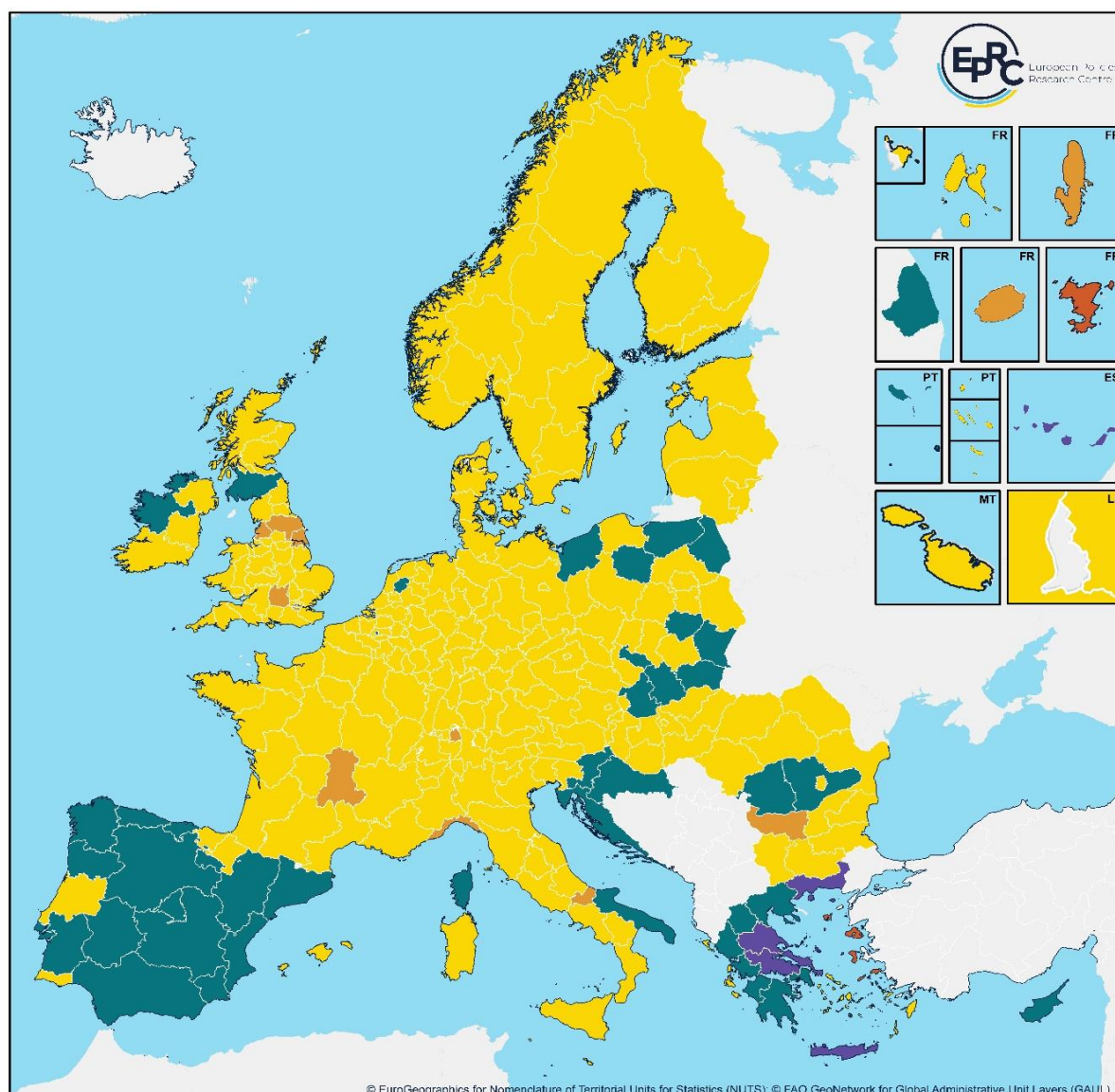


Data Source: EUROSTAT





Figure 11: Change in regional unemployment rates (percentage point change), 2015-18



Percentage point change in unemployment from 2015-2018

- <-9
- 6 - -3
- 3 - 0
- 0 - 3
- 3 - 6

0 125 250 500 750 1,000 km

Data Source: EUROSTAT







## Notes

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- <sup>6</sup> Quotation of Angel Gurría, OECD Secretary-General in Keeley B (2015) *Income Inequality The Gap between Rich and Poor*, OECD Insights, OECD, Paris
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- <sup>14</sup> Rodríguez-Pose A (2017) The revenge of the places that don't matter (and what to do about it). *Cambridge Journal of Regions, Economy and Society*, 11 (1). pp. 189-209.
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- <sup>44</sup> BMWi (2019c) *op. cit.*
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<sup>47</sup> Government of Finland (2019) Government Programme - Inclusive and Competent Finland, 6 June 2019

<sup>48</sup> *Ibid.*

<sup>49</sup> PBL (2019) De economische samenhang tussen regio's in Nederland, available online via <https://www.pbl.nl/publicaties/de-economische-samenhang-tussen-regios-in-nederland> (accessed 8 July 2019)

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<sup>55</sup> Naftemporiki (2017) <https://www.naftemporiki.gr/finance/story/1307827/poies-allages-prothountai-gia-to-programma-dimosion-ependuseon>.

<sup>56</sup> This issue is explored in more detail in the accompanying EoRPA report on the energy transition: Davies S, den Hoed W and Michie R (2019) *Energy Transition in Europe's Coal Regions: Issues for Regional Policy*, European Regional Policy Research Consortium, University of Strathclyde, Glasgow and Technical University of Delft

<sup>57</sup> BMWi (2019c) op. cit.

<sup>58</sup> Ministerie van Economische Zaken en Klimaat (2019), *Klimaatpakkoord*. Available online at <https://www.klimaatpakkoord.nl/documenten/publicaties/2019/06/28/klimaatpakkoord> (accessed 9 July 2019).

<sup>59</sup> NOVI, POVI and GOVI are national, provincial and municipal 'environmental visions', policy documents based on the Environment Act which comes into force in 2021. In these 'environmental visions', national, provincial and local governments are required to present a long-term and coherent strategic vision for the physical living environment in their area of responsibility.

<sup>60</sup> *Handreiking Regionale Energie Strategieën*, December 2018 [https://vng.nl/files/vng/handreiking\\_res\\_versie\\_21-12-2018.pdf](https://vng.nl/files/vng/handreiking_res_versie_21-12-2018.pdf).

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<sup>66</sup> This issue is explored in more detail in the accompanying EoRPA report on policy coordination: Ferry M (2019) *Pulling Things Together – What Works in Regional Policy Coordination?* European Regional Policy Research Consortium, University of Strathclyde, Glasgow and Technical University of Delft

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<sup>68</sup> Statens Offentliga Utredningar (2018) *Myndighetstgemensam indelning – samverkan på regional nivå*, Volym 1, SOU 2018:10

<sup>69</sup> OECD (2017b) *op.cit.* p. 61

<sup>70</sup> Sveriges Kommuner och Landsting (2018) *Äntligen flyttas det regional utvecklingsansvaret*, News item, 25 June 2018

<sup>71</sup> Tillväxtverket (2018) *Politik för utvecklingskraft i hela Sverige Utveckling, prioriteringar och resultat inom den regionala tillväxtpolitiken*, *op.cit.*

<sup>72</sup> Regeringskansliet (2019) *Regeringen förlänger Kommunutredningen*, Press release, 11 April 2019

<sup>73</sup> <https://www.platform31.nl/nieuws/kansen-voor-partnerschap-rijk-en-regio> (accessed 1 July 2018)



## **EoRPA RESEARCH**

This report was 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. During 2018-19, EoRPA Members have comprised the following partners.

### **Austria**

- Bundesministerium für Nachhaltigkeit und Tourismus (Ministry for Sustainability and Tourism), Vienna

### **Finland**

- Työ- ja elinkeinoministeriö (Ministry of Economic Affairs and Employment), Helsinki

### **France**

- Commissariat Général à l'Egalité des territoires (General Commissariat for Territorial Equality, CGET), Paris (membership renewal pending)

### **Germany**

- Bundesministerium für Wirtschaft und Energie (Federal Ministry for Economic Affairs and Energy), Berlin
- Niedersächsisches Ministerium für Wirtschaft, Arbeit, Verkehr und Digitalisierung (Lower Saxony Ministry for Economic Affairs, Employment, Transport and Digitalisation), Lower Saxony

### **Italy**

- Agenzia per la Coesione Territoriale (Agency for Territorial Cohesion), Rome

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



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- Ministerstwo Inwestycji i Rozwoju (Ministry of Investment and Economic 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 (State Secretariat for Economic Affairs), Bern

## United Kingdom

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

The research for the country reviews was undertaken by EPRC in consultation with EoRPA partners. It involved a programme of desk research and fieldwork visits among national and regional authorities in sponsoring countries during the first half of 2019. The EoRPA research programme has been directed over the past year by Professor John Bachtler, Dr Sara Davies and Professor Fiona Wishlade, and managed by Ruth Downes.

This paper should be referred to as Bachtler J and Downes R (2019) *A time of policy change: Reforming regional policy in Europe*, Paper prepared for the 40th meeting of the EoRPA Regional Policy Research Consortium at Ross Priory, Loch Lomondside, 29 September - 1 October 2019.

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Many thanks are due to everyone who participated in the research. Thanks also to Lynn Ogilvie, Jayne Ogilvie, Alyson Ross and Marie Devine for editorial, technical, coordination, and secretarial support. In addition, the European Policies Research Centre gratefully acknowledges the financial support provided by the members of the EoRPA Consortium.

**Disclaimer:** It should be noted that the content and conclusions of this paper do not necessarily represent the views of individual members of the EoRPA Consortium