



Responding to a Changing Policy Agenda: Recent Regional Policy Developments in the EU and Norway EoRPA Paper 06/1

Douglas Yuill

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

Tel: +44-141-548-3339/3061
Fax: +44-141-548-4898
e-mail: douglas.yuill@strath.ac.uk



Preface

This paper aims to provide a comparative review and assessment of recent regional policy developments in the countries of the EU and Norway, concentrating particularly on the period since the start of 2005. The paper has been prepared by the European Policies Research Centre (EPRC) under the aegis of EoRPA (European Regional Policy Research Consortium), which is a grouping of national government authorities from countries across Europe. The Consortium provides sponsorship for the 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. EoRPA members currently comprise the following partners:

Austria

- Bundeskanzleramt (Federal Chancellery), Vienna

Finland

- Sisäasiainministeriö (Ministry of the Interior), Helsinki

France

- Délégation interministérielle à l'aménagement et à la compétitivité des territoires (DIACT), Paris

Germany

- Bundesministerium für Wirtschaft und Arbeit (Federal Ministry for Economics and Labour), Berlin
- Ministerium für Wirtschaft, Technologie und Arbeit, Freistaat Thüringen, Erfurt

Italy

- Ministero dello Sviluppo Economico (Ministry of Economic Development), Dipartimento per le Politiche di Sviluppo e Coesione (Department for Cohesion and Development Policies), Rome

Netherlands

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

Norway

- Kommunal-Og Regionaldepartementet (Ministry of Local Government and Regional Development), Oslo

Poland

- Ministerstwo Rozwoju Regionalnego (Ministry of Regional Development), Warsaw

Sweden

- Näringsdepartementet (Ministry of Industry, Employment and Communications), Stockholm

United Kingdom

- Department of Trade and Industry, London
- Scottish Executive Enterprise, Transport & Lifelong Learning Department, Glasgow

The research for this paper 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 2006.

The paper has been drafted by Professor Douglas Yuill. It draws on country-specific research contributed by the following research team:

- Dr Sara Davies (Germany)
- Dr Martin Ferry (Poland)
- Dr Martin Ferry & Rona Michie (United Kingdom)
- Frederike Gross (Belgium, France, Luxembourg)
- Tobias Gross (Austria)
- Professor Henrik Halkier (Denmark)
- Dr Irene McMaster (Ireland, EU10)
- Carlos Méndez (Portugal, Spain)
- Professor George Petrakos and Yannis Pycharis (Greece)
- Laura Polverari (Italy)
- Heidi Vironen (Finland, Sweden)
- Professor Douglas Yuill (The Netherlands, Norway)

More detailed information on regional policy changes in the countries listed above can be found in the EoRPA Papers 06/2. At present, the country reviews focus on the EU15 plus Poland and Norway, with the remaining EU10 countries being combined together in a single review. The focus on the EU15, Poland and Norway reflects the historical coverage of EoRPA prior to enlargement and the fact that both Poland and Norway are members of the Consortium. The hope is, resources permitting, to increase the EU10 dimension to the overview in future.

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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.

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1. INTRODUCTION

For regional policy, the past year or so has been a period of intense preparation for the next EU budgetary and programming phase. The preparations for the 2007-13 period have been the more intense because, up until agreement of the EU budget at the European Council in December 2005, it was not at all clear what the coverage and scale of EU Cohesion policy would be in the different Member States nor the degree to which EU support would relate to domestic regional policy. In similar vein, for a long period during the development of the 2007-13 Regional Aid Guidelines, there was considerable doubt as to the extent to which regional aid would be available outside the Article 87(3)(a) areas. The indications were that the scope for traditional regional policy - aid-based support targeted at nationally-designated problem regions - would be severely constrained in many countries.

On top of these uncertainties with respect to EU policy frameworks, many countries have been reviewing the efficacy of their current policy approaches. In part, this relates to the development of National Strategic Reference Frameworks under the Structural Funds Regulations but it also responds to end-of-phase evaluations of current policy measures and approaches. In addition, longer-term changes to the perceived nature of the regional problem have added to the policy challenges. On the one hand, globalisation pressures, the need to improve regional and national competitiveness and the associated adoption of the Lisbon agenda, have seen regional policy take on a new and broader orientation in many countries. Increasing stress is now placed on an all-region approach to policy and on measures to improve the business environment, with less focus on regional aid and designated problem regions. On the other hand, decentralisation pressures, a growing desire to enhance regional inputs to the policy process, a related emphasis on programme-driven regional partnerships and more general reviews of policy and service delivery at the local and regional levels have brought issues relating to the implementation and coordination of regional policy centre stage.

The aim of this paper is to provide a comparative review and assessment of recent regional policy developments in the countries of the EU and Norway, concentrating particularly on the period since the start of 2005. The overview is based on detailed and structured reviews of policy developments in each the EU15 Member States, Poland and Norway, combined with a more general review of policy change in the remaining EU10 countries.¹ As well as highlighting the changes which have been taking place, drawing out policy contrasts and commonalities, the paper aims to identify the key factors underpinning recent policy change. It is in five further sections. Section 2 discusses how the different countries perceive the regional problem and how such perceptions have been changing. Section 3 then focuses on the policy response. It first reviews developments on a country-by-country basis before drawing together the main comparative themes to emerge. Section 4 looks in

¹ Yuill D (ed) *A Country-by-Country Review of Recent Regional Policy Developments in the Member States and Norway: Changes in 2005-06*, EoRPA Paper 06/2, European Policies Research Centre, University of Strathclyde, September 2006

more detail at the different components of policy. Following the structure adopted in the country reviews, it considers, in turn, regional aid schemes, support for the business environment, regional programmes and strategy development and other spatial policy initiatives. As with the rest of this overview, the focus is on policy change and the reasons for change. Section 5 then discusses recent administrative developments - on the one hand, moves to decentralise the delivery of regional policy and, on the other, the differing approaches that countries have been taking to enhance policy coordination. A final section identifies a number of concluding points and issues for discussion.

2. PERCEPTIONS OF THE REGIONAL PROBLEM

Traditionally, the perception of the regional problem was to have designated problem areas on the one hand, which suffered from high levels of unemployment and low rates of growth, and more prosperous areas on the other, which had their own problems related to in-migration, congestion and inflationary pressures. In more recent times, views of the regional problem have become more varied, with some countries not recognising a significant problem at all, others viewing the problem in a much more differentiated way and virtually all considering the problem not just from a disparity perspective but also in terms of the need to improve regional productivity, competitiveness and growth.

In reviewing current perceptions of the regional problem in the EU and Norway (see Table 1), it is possible to consider countries in terms of six broad groups. First, in Member States such as Austria, the Netherlands, Luxembourg and, to a lesser extent, Denmark, and Ireland, regional disparities are considered to be limited in both a national and an EU context, not justifying significant regionally-targeted interventions. In a second group - France, the United Kingdom and Belgium - regional disparities are recognised but are seen as increasingly differentiated, calling for more regionally-based and fine-tuned policy responses. A third group consists of the Nordic countries (Finland, Sweden, Norway), all with traditional and long-standing problem areas in the north but all now also with a commitment to an all-region, growth-oriented approach. Fourth, Germany and Italy display significant internal disparities which provide the key focus for policy - east-west in Germany, south-north in Italy. The penultimate group consists of the three remaining EU15 countries - Greece, Portugal and Spain. Despite marked internal disparities, the main policy concern is to improve levels of national development. Finally in the EU10, there are obvious dangers in making general statements about such a diverse group of countries. However, for the most part, internal disparities tend to be highly significant (particularly between capital city regions and lagging regions often along eastern borders) and there is generally also a major development gap with the rest of the EU. In these countries, too, the policy stress is on national growth and competitiveness.

Whereas the common feature of the regional problem has, historically, been the distinction between depressed areas and more prosperous regions, present perceptions of the problem are almost universally couched in terms of the need to release the growth potential of *all* regions, thus contributing to both regional and national development. The next sections provide a more detailed country-by-country review of the current nature of the regional problem for each of the six country groupings in turn.

Table 1: Current perceptions of the regional problem in the EU15, Poland and Norway

Austria	Regional disparities are falling at NUTS II though rising at NUTS III. They are limited to the urban-rural dimension, not justifying large-scale regional interventions. Current concerns are: high commuting rates; demographic change and mountainous/rural areas; rising transport costs; market liberalisation and increasing social disparities; and border problems due to enlargement.
Belgium	Flanders is generally prosperous but has issues relating to old mining areas and agglomeration problems/lack of space. The focus has shifted over time from employment concerns to innovation potential/FDI. Wallonia has significant internal disparities, reflecting the need for industrial restructuring and low GDP/head in rural areas as well as concerns with skill levels.
Denmark	Standard regional disparities are very limited but regional differences remain in work-related income/head and unemployment. Policy aims to maximise regional contributions to national growth; there is also preferential treatment for less-well-off/underperforming peripheral areas.
Finland	Globalisation, EU integration/enlargement and innovation-driven growth have made policy more competitiveness-oriented. Traditional problems remain (sparse population, out-migration, fragile settlement structures) as well as relocation concerns. Population ageing is a growing issue.
France	Problems are now seen as more differentiated - DATAR (<i>aménagement du territoire</i>) is now DIACT, (<i>aménagement et la compétitivité des territoires</i>). Key concerns are the urban structure, rural areas and firm relocation. The emphasis is on wealth creation and on equity rather than equality. Policy stresses competitiveness/territorial attractiveness, but in a solidarity context.
Germany	The core problem is the structural disparity between old and new <i>Länder</i> in terms of GDP/head, productivity and unemployment. The new aid map rankings show that all regions in the new <i>Länder</i> underperform all those in the old <i>Länder</i> . Policy aims to help structurally-weak regions overcome their locational disadvantages and contribute to broader development processes.
Greece	Disparities with the rest of EU15 and internally are significant due to Greece's peripheral position, fragmented economic/physical space and unbalanced regional structure. Regional GDP/head disparities are modest in EU terms but other internal disparities are marked.
Ireland	Over the past decade, national GDP/head has come to significantly exceed the EU average. Post 2000, regional issues increased in profile, due to national catch-up with the EU, more pronounced internal disparities and new regional authorities. More recently, though regional disparities are still recognised, the policy focus is on R&D, innovation and competitiveness.
Italy	North-south economic and social dualism has traditionally been the key reason for regional policy intervention. The relative lack of policy success has led to the favouring of more differentiated approaches, with a renewed focus on the competitiveness of the <i>Mezzogiorno</i> (South). A related aim is to align policy with the EU (Lisbon/Gothenburg) objectives.
Luxembourg	The policy focus is on border issues and promoting international competitiveness/FDI. The regional 'problem' is traditionally associated with steel restructuring (south) and fragile agriculture (north). There is also a concern to increase the level of economic diversification.
Netherlands	Regional disparities are limited and have not recently declined (suggesting that traditional approaches may lack impact). Moreover, public service provision is uniform across the country and all regions are now thought to have growth potential. As a result, policy choices now aim to maximise the potential contribution made to national economic development.
Portugal	A new view of the regional problem has seen traditional north/south, coastal/interior divides replaced by: the emergence of two horizontal axes with Spain; a shift in underdevelopment from the interior to the periphery; and differentiation between the Porto and Lisbon regions. The policy focus is on improving national competitiveness, with Lisbon as the key engine for growth.
Spain	The national approach to regional development is embedded in the Structural Funds, with a stress on the competitiveness/productivity agenda; there is also a constitutional commitment to balanced development. In GDP/head terms, the north-east regions above the Ebro plus Madrid and Baleares are above average. Regional indicators of key Lisbon targets are being developed.
Sweden	Whilst recognising regional differences exist, the policy view is that all regions should be able to contribute to national growth. The main goal is to allow regions to exploit their growth potential though territorial cohesion is also a focus given the significance of demographic issues (ageing, depopulation) The aim is to maintain attractive living areas with good service levels everywhere.
UK	Basic patterns of regional differentiation seem entrenched, but with increasing variations within regions. Awareness of sub-regional disparities is keen and growing. The policy approach views productivity and employment differentials as the key obstacles to regional and national growth. Policy targets five productivity drivers (skills, innovation, investment, competition, enterprise).
Poland	There is increasing regional/sub-regional differentiation: the best performing areas grow fastest. Warsaw is dominant, but most large centres are doing well (Kraków, Poznań, Wrocław, Łódź), as is the west. The key problem is the 'eastern wall', very poor rural areas, mainly in the east and north, with poor infrastructure, sparse and poorly-qualified labour and fragmented agriculture.
Norway	The main regional challenges concern sparse population and peripheral areas with accessibility problems. The concentration of population in urban areas is also an issue, as are problems with industrial structure. Globalisation has led to a new goal: that all parts of the country should have the chance to exploit their growth potential. However, conditions in the periphery remain key.

2.1 Countries with limited regional disparities

In *Austria*, socio-economic disparities are viewed as both limited to the urban-rural dimension and relatively stable. At the *Land* level (NUTS II), traditional economic disparities are slowly declining, while at NUTS III there is some evidence of slightly widening disparities, particularly in areas close to external borders with the EU10. The general perception is that current levels of disparity are inevitable (given geography) and do not justify large-scale corrective interventions. There are, however, perceived to be a number of more specific challenges to balanced regional development which are causing some policy concern: the impact of high rates of commuting on the spatial structure; problems associated with demographic change, especially in sparsely-populated mountainous and rural areas where service provision has come under threat; issues relating to a future of high energy and transport costs; concerns that increasing liberalisation of labour markets and social security systems could increase social disparities (with spatial impacts); and potential dangers arising from EU enlargement including firm relocations. Such issues ensure that the policy agenda continues to have a spatial dimension, though with the traditional Austrian focus on regional problems rather than problem regions.

In *the Netherlands*, two major policy reviews published in July 2004 concluded that, if regional policy was to continue, its traditional focus on the less developed north was no longer justified. It was argued that regional income differentials were no longer significant, not least from an international perspective; that the basic quality of public service provision was no worse in the north; that at least the same could be said for the general quality of life; that the evidence was that the north had considerable growth potential and that, while unemployment rates were higher in the north, unemployment was a more significant issue in the major cities. On top of this, the strong view in government was that the limited resources available to regional policy would be better utilised if policy choices were made according to the potential contribution to *national* economic development. This was the philosophy adopted in the *Peaks in the Delta* White Paper. On the other hand, the particular situation in the north will continue to be recognised (until 2010) through the allocation of specific transitional support under the *Peaks* budget as well as a transitional allocation under the 2007-13 Structural Funds.

In *Luxembourg*, the size and border-region nature of the country has meant that there has never been a perceived regional problem as such. Rather, economic development concerns have tended to focus on national sectoral issues such as, historically, the restructuring of the steel industry in the south and fragile agricultural areas in the north. This national orientation meant that the whole country was eligible for investment support until 1993 and it was only due to EU state aid pressures that designated problem regions came into being. The policy focus remains on maintaining a diversified national economy through the promotion of endogenous development and the attraction of foreign investment.

In *Denmark*, differences in wealth between the capital city area and the rest of the country are viewed as low by international standards, though disparities are acknowledged to be more significant in work-related terms (that is, once social security and other spatially-equalising elements are excluded) and at the level of sub-regional travel-to-work areas. Since the 2003 *Regional Growth Strategy* White Paper, the perception of the regional

problem has had two dimensions: the need for all regions to maximise their contribution to national growth; and the acceptance that less well-off peripheral areas warrant a degree of special attention. This dual approach is reflected in the 2005 Business Development Act which identifies six priority fields for policy: four related to key drivers of economic growth across the country (innovation, ICT, entrepreneurship and human resources) and two concerned with the persistent underperformance of peripheral areas (tourism and peripheral development). Although the prime regional policy focus remains on growth and competitiveness in all regions, it is of note that the designated “outer” (i.e. peripheral) regions seem likely to benefit in future not just under regional policy but also from broader spatially-targeted initiatives from across government.

In *Ireland*, the traditional focus of policy has been on national growth and development, particularly during the period when overall levels of development lagged well behind EU averages. In the current (2000-06) policy phase, the regional dimension has increased in importance - in part, because regional disparities have become more pronounced (with rapid growth and associated congestion in the Dublin area); in part, because of the establishment of new regional authorities for EU policy purposes; and, in part, because of the introduction of a National Spatial Strategy with an explicit spatial dimension. Looking to the next policy phase, the new National Development Plan seems likely concentrate on national development issues (infrastructure, education, productive activities), with the promotion of the knowledge economy, innovation and competitiveness as the key development themes. On the other hand, balanced regional development remains part of the agenda, and may become a horizontal priority under the Plan. Certainly, the aim is to build the Plan’s approach to regional development around the National Spatial Strategy, with its emphasis on promoting growth through the designation of strategic regional ‘gateways’ and ‘hubs’.

2.2 Countries with differentiated regional problems

In *France*, the perception of the regional problem has undergone fundamental changes over time. Up until the late 1970s, a centrally-driven and relatively rigid planning approach saw regional problems as essentially uniform and predictable (*aménagement du territoire*). Moves towards a more decentralised approach led to more emphasis on regional potential and a more differentiated appreciation of the problem (*développement du territoire*). More recently, the multifaceted notion of space has been further developed, as reflected in the renaming of the DATAR as the DIACT, promoting *aménagement et la compétitivité des territoires*. The main fields of intervention reflect this more complex understanding of the regional challenge. They include: the relative importance of the Ile de France region and the perceived need to develop other major urban centres of European standing; the difficulties faced by rural areas (out-migration, agricultural dependence) and the requirement for a more differentiated policy response than in the past; and issues relating to industrial restructuring and firm relocation. The current policy focus is on wealth creation, with equality of opportunity stressed rather than equity. Moreover, regional disparities are increasingly viewed from a global perspective, leading to the development of policy measures which aim to enhance competitiveness and territorial attractiveness; at the same time, the policy role played by regions and other spatial entities such as cities is increasingly acknowledged.

In the *United Kingdom*, north-south differentials continue to be significant and there is little evidence that the gap is closing. Recent studies have stressed the complex interaction of the different components which help determine economic performance at the regional level; this has led to a more finely-grained view and understanding of regional development processes. Linked to this, the awareness of sub-regional disparities has grown. Differences in performance are attributed to variations in productivity (driven by competition, enterprise, innovation, skills and investment) and employment rates. This perception of the regional problem has caused policy to move away from its traditional targeting of problem regions and towards attempting to maximise the economic potential of all regions. Poor performance is attributed primarily to market failures and the lack of a good environment for business. This causes policy to focus on stimulating supply-side endogenous growth, based on the promotion of innovation and technology transfer, new firm formation, and training and education. Moreover, the emphasis on endogenous development has led to a more devolved approach to policy delivery. In line with this, the government's aim has been to empower regions to deliver locally-led policies within a explicit framework of accountability.

In *Belgium*, a clear regional policy distinction is drawn between Flanders and Wallonia; this distinction has increased in recent years with the replacement of federal-level framework legislation by separate regional aid laws for each region. In Flanders, there remain concerns about some former mining areas and about the inner city and suburbanisation problems of a number of the major cities. However, growing prosperity has seen regional policy move away from employment concerns (prominent in the early 1990s) and towards measures to enhance regional innovation potential and FDI attractiveness. In contrast, in Wallonia, problem regions continue to be important. There are concerns both about areas facing significant restructuring problems and about rural areas with low levels of GDP per head. The relatively poor qualification levels of the population as a whole are also an issue. As a result, and certainly when compared to Flanders, Wallonia places more regional policy stress on equity concerns as well as on the spatial orientation of policy.

2.3 Countries with sparsely-populated problem regions

In *Finland*, the perception of the regional problem has changed over the years. Globalisation, pressures arising from European integration and enlargement and growing international competitiveness have caused the focus of policy to shift from narrowly-defined problem regions towards strengthening competitiveness and economic growth in all regions. At the same time, there has been a move from investment-driven growth to innovation-driven development, with a growing emphasis on the role of urban areas in regional development. On the other hand, the challenges facing the traditional problem regions in the north and east remain, a reflection mainly of demographic issues related to sparse population, out-migration, fragile settlement structures and a tendency for production and employment to concentrate increasingly within regional centres. The regional impact of population ageing has also become a concern. Although the main goal of regional policy is to strengthen competitiveness in all regions, there are also secondary objectives to safeguard the service structure throughout the country and to achieve a balanced regional structure.

In *Sweden*, the policy view, as set out in the 2001 Government Bill, is that, while regional differences still clearly exist, all regions should be able to contribute to national growth and that the role of the state should be to support this process by providing the general conditions to facilitate such growth. The attainment of sustainable growth in the regions thus lies at the heart of policy. However, territorial cohesion is also acknowledged to be important, not least in ensuring that acceptable service levels are maintained in all parts of the country. It is, moreover, recognised that there are significant regional and local variations across the country. Such disparities arise not only from the traditional problems which remain in the north (associated with population ageing, sparsely-populated areas and continuous depopulation) and the particular challenges associated with single-industry towns mostly located in the South of Sweden but also from the acute social problems found in certain large urban centres. The particular problems associated with long distances and sparse population have caused recent policy discussions to highlight the role of larger and more diversified regions in the national and global economy. The view is that, through regional enlargement, competences can be reinforced and regional specialisation encouraged.

In *Norway*, the main regional challenges have always been sparse population and peripheral areas that experience accessibility problems due to long distances to regional centres and markets. Related, there has been an ongoing concentration of population within urban centres due to differential birth rates and migration, placing pressures on settlement structures. The industrial structure of the country has added to the problem, with certain areas over-dependent on single industries/enterprises. The 2005 White Paper set this traditional view of the regional problem in the context of broader international trends (increased globalisation, more international competition etc) and argued that, in response, there was a need to promote innovation and growth in all parts of the country. All regions were therefore brought within the scope of regional policy, though peripheral districts retained their special policy status. The subsequent 2006 White Paper was based on the same broad analysis of the problem, but saw the core challenge as being the need to counter depopulation and fragile settlement structures by ensuring a strong district element to policy.

2.4 Countries with major internal disparities

In *Germany*, the main regional problem remains the structural economic divide between the old and the new *Länder*. Levels of GDP per head and labour productivity are lower in the new *Länder* while unemployment rates are significantly higher. The policy emphasis is on structural economic disadvantage, with objective indicators used to designate eligible areas for different levels of regional policy funding and support. For the 2007-13 period, a single set of indicators has been used for the first time to rank and thus designate regions. The use of a single ranking reflects a degree of convergence on the part of the new *Länder*; however, strong disparities remain, with virtually all regions in the new *Länder* under-performing those in the old *Länder*. The general aim of policy is to help structurally-weak regions address their key locational disadvantages such that they can take part in broader development processes.

In *Italy*, regional policy has historically been based on the economic and social divide between the Centre-North and the *Mezzogiorno* (South). However, the lack of catching up of the *Mezzogiorno* has caused policy to shift towards treating the area in a more differentiated way. At the same time, the least-developed parts of the Centre-North were brought within the scope of policy from the mid-1990s. More recently, in the face of a disappointing national economic performance, the focus has shifted to the fundamental issue of the competitiveness of the national economy and its regions. The recent Economic and Financial Programming Document (DPEF) responds to three core demands: the need to resolve the crisis in the public finances; the need to respond to low growth and declining competitiveness; and the need to tackle the social problems arising from socio-economic and territorial disparities. With respect to the *Mezzogiorno*, the DPEF highlights a future policy stress on competitiveness factors. Related policy goals involve aligning national and EU approaches more closely and ensuring the strategic coherence of economic development policy with the Lisbon and Gothenburg objectives.

2.5 Countries with a national development focus

In *Greece*, there is clear recognition that disparities with the rest of the EU are significant, reflecting the country's peripheral position with respect to core EU markets, its difficult border conditions and its highly fragmented physical and economic space. In response, the main policy focus (see, for instance, the new Development Law 3299/2004 of December 2004) is on improving the competitiveness and attractiveness of Greece as an investment location, with support targeting strategic innovative sectors more than the development of lagging regions. On the other hand, internally, the dominant position of Athens and, to a lesser extent, Thessaloniki is an issue. There is, moreover, a view that internal disparities are not appropriately reflected in EU data (especially GDP per head) since the NUTS II boundaries downplay the role of Athens in the Greek economy.

In *Portugal*, the conventional conceptualisation of the regional problem has highlighted its coastal-interior and north-south dimensions. Recent research has replaced this simplified view with a more complex appreciation of the problem centred around three key themes: the emergence of a new spatial dynamic along two horizontal axes with Spain; a shift in the spatial basis of underdevelopment from the 'interior' to the 'periphery'; and a significant differentiation of the situation in the two main development poles - Grande Lisboa and Grande Porto. Economic development around Porto is perceived to be much weaker and more unbalanced. The policy focus is on improving national competitiveness, with Lisbon as the prime engine for growth.

In *Spain*, there is a constitutional commitment to balanced development and a significant fiscal equalisation system. However, partly due to the extensive economic development powers of the regions, regional policy is relatively low-key. The national approach to regional development is embedded within the Structural Funds system, and is linked to the operation of national sectoral programmes. The government has recently introduced a number of such programmes with significant regional implications - a programme for competitiveness, an innovation programme and a major, long-term infrastructure strategy. In terms of regional disparities, the territorial pattern tends to see Madrid, the Balearic islands and regions to the north-east of the Ebro river on the one hand, and less prosperous

parts of the country on the other. Looking to the future, the government has indicated that it will develop regional versions of the key Lisbon indicators to allow it to judge the relative position and progress of the Spanish regions.

2.6 EU10 Member States

In *Poland*, the pattern of regional disparities is based on levels of urbanisation and industrialisation, with more developed regions in the south and west and less developed regions in the north and east. Since the 1990s, the main cities have grown more rapidly than the rest of the country, with the fastest growth in metropolitan regions with large urban centres. In comparison, agricultural regions in the east and north have struggled, due to their weak infrastructure, poorly-qualified labour, low productivity and out-moded and fragmented farming. This has led to rapid depopulation to other parts of the country and abroad. There is also a challenge to be faced in restructuring centres of heavy industry, many of which have a specific regional focus (eg Silesia). Picking up on these various dimensions to the regional problem, a distinction can be drawn between the Warsaw region, other key metropolitan areas, some western regions which are performing reasonably well and the 'eastern wall' which is facing major challenges. In addition, there is a growing awareness of sub-regional disparities. The policy response, as reflected in the wide range of policy documents emerging for the 2007-13 period, is: to create a strategic and integrated framework for the disbursement of funds; to adopt an all-region orientation with a stress on endogenous potential; and to increase the policy focus on competitiveness and productivity, with a particular emphasis on developing the competitiveness of cities and towns.

In the rest of the *EU10*, most countries have development levels substantially lower than the EU average as well as major regional disparities which tend to be most pronounced between capital city regions and lagging rural and heavy industrial areas. In each of the larger Member States, GDP per head in capital city regions is significantly more than twice the level registered in the least developed regions. Within the smaller countries, too, regional disparities are often marked. The 2004-06 policy focus is, in most EU10 countries, on promoting overall economic development and achieving convergence with the EU25 average. In line with this, there is no strong regional component to the Cohesion policies of, for instance, Estonia and Latvia. However, elsewhere, there tends to be at least a broad commitment to balanced regional development. Looking to the next policy period, the indications are that the main policy goal will be to maximise the development potential of all regions, thus contributing to overall economic competitiveness. In addition, there seems likely to be different elements of spatial targeting - in some countries making specific support available to lagging regions, in others favouring growth poles and, in the larger countries, creating region-specific programmes.

2.7 Comparative points

A number of points can be made by way of concluding this discussion of the regional problem. Perhaps the most obvious one is that, compared to the situation a decade or so ago, there has been a significant change in the way the regional problem is viewed. In most countries, the traditional policy focus on narrowly-defined problem regions has all but

disappeared (other than under regional aid policy, as discussed further in Section 4.1). Instead, the regional problem is now almost everywhere couched in terms of creating the conditions to allow the development potential of *all* regions to be released.

A second point is that, notwithstanding this all-region perspective, there is an appreciation that the regional problem is increasingly differentiated in most countries. The nature of the regional challenge is seen to vary from region to region and policy responses are also more region-specific. More than this, in a number of countries there is a growing focus on the sub-regional dimensions of the problem. Related, regional-level inputs towards identifying and understanding the nature of the regional challenge are playing a growing policy role, not least through the operation of regional programming. Also important, countries are developing new ways of analysing the regional problem to obtain a more detailed picture of the issues arising. To highlight just four examples: in *Denmark*, an intensive development project is underway to improve the information basis for policy development and provide a more sophisticated understanding of the economic situation to inform policymaking and aid evaluation; in *France*, a new *Observatoire des territoires* has been established to allow regional characteristics to be better appreciated through a comprehensive set of indicators linked to territorial development; in *Portugal*, an index of territorial competitiveness and cohesion has been constructed; and, in *Spain*, moves are being made to develop regional-level indicators of the key Lisbon targets. More generally, there is now considerable policy emphasis on ensuring that there is a suitable information base for making policy choices and evaluating policy performance.

Third, the competitiveness agenda is prominent almost everywhere. This reflects not only the influence of EU priorities but also national responses to globalisation and enhanced international competition. The stress on improving competitiveness and productivity is also related to new conceptual underpinnings to policy - the shift to an endogenous view of economic development; the associated move from investment-driven growth to innovation-driven development; the growing importance attached to the key drivers of productivity; and the increasing policy weight devoted to redressing market failures.

Finally, despite the foregoing, the point is worth underlining that traditional regional problems have, in most countries, not disappeared. Significant regional disparities remain in many and there is an associated broad recognition that such disparities are an appropriate focus for policy. Having said that, the nature and weighting of the policy response is now quite different from that found a decade ago. The next section considers the new and developing forms of regional policy in more detail.

3. THE POLICY RESPONSE

The aim of this section is to provide a broad overview of recent policy developments. This is done, first, by considering the key policy changes on a country-by-country basis and then by identifying the main comparative points to emerge.

3.1 A country-by-country review of change

Beginning with the EU15, in *Austria*, there was no strong regional policy prior to EU accession in 1995;² the response to regional issues tended to be fragmented across a range of actors and instruments and to focus on regional problems (for instance, low levels of innovation) rather than on problem regions. This approach changed somewhat in response to EU frameworks (the Structural Funds and the Regional Aid Guidelines), with designated areas playing more of a policy role. The long-term nature of EU frameworks also meant that policy change became less frequent and was concentrated at the start of each policy phase. In light of this, the most important recent development has been the preparation of strategic documents for the 2007-13 period - the National Strategic Reference Framework, known as STRAT.AT, and the regional Operational Programmes of the nine *Länder*. In line with the new EU objectives related to the Lisbon and Gothenburg goals, emphasis will be placed in future on strengthening the competitiveness of the regions and fostering an innovation culture all over the country. The general objectives of the strategy are “*to ensure the quality of life, income and employment, to strengthen the competitiveness of the regional economies and to increase the attractiveness of Austria’s regions based on the principles of sustainable development*”.³ Although support for economically-weaker areas continues to be considered necessary, and although there will be differences of emphasis amongst the different *Länder*, most funds seem likely to be used to support innovation, technological change and regional strengths.

In *Belgium*, regional policy has traditionally been relatively narrowly defined, being focused primarily on regional aid. A key development in recent years (a response to Commission state aid pressures) has been the replacement of former federal framework legislation (the 1970 and 1978 Economic Expansion Laws) by decrees and secondary legislation at the regional level. A new decree was adopted in Flanders in January 2003 covering a wide range of support, including investment aid for firms (SMEs everywhere, large firms in the designated aid areas), aid for environmental investment, horizontal support for advisory measures and training aid. This was followed by secondary legislation in October 2003 (amended January 2005) for SME investment aid; in December 2003 for investment support for large firms; and in October 2004 for environmental aid. The new investment aids are budget-limited and call-for-tender based while environmental support is also more selective. In Wallonia, new legislation was adopted in March 2004 and then, after the election of a new government in July 2004, was modified in September 2005 and April 2006. More so than in Flanders, the focus is on the designated aid areas. Also in Wallonia, a so-called “Marshall Plan” was introduced in August 2005, setting out the regional government’s priority actions for 2005-09. These include the creation of competitiveness poles; measures to stimulate economic activity; lower business taxes; enhanced research/innovation within firms; and increased skill levels. In addition, two agencies were

² In Austria, regional policy and spatial development have no definition in law so that all federal and *Land* measures which focus on specific areas can be interpreted as regional policy. While spatial planning is a *Land* responsibility, the federal level (in the form of the Federal Chancellery, BKA) plays an important coordination role, as does the Austrian Conference on Spatial Planning, ÖROK.

³ STRAT.AT (2005), Executive summary, 31 October 2005.

set up under a February 2006 decree to improve coherence across economic and technological support policies - the Agency for Economic Stimulation and the Agency for Technological Stimulation.

In *Denmark*, the last few years have seen preparations for significant regional policy change, with the passing of legislation for a major reform of local government from 1 January 2007 and a new Business Development Act of 16 June 2005. These new legislative developments fit within the broad strategic thrust of regional policy laid down in the *Regional Growth Strategy* White Paper of May 2003. This continued the long-standing policy emphasis on maximising the contribution of every region to national growth (mainly through framework measures to develop the business environment) but, at the same time, introduced a degree of preferential treatment for peripheral areas (the designated “outer” regions). As part of the local government reform, 14 *Amter* have been replaced by five regions which have been given the statutory task of promoting economic development by establishing (one or more) partnership-based regional growth fora. Under the Business Development Act, these fora have been given powers with respect to six priority areas: innovation, ICT, entrepreneurship, human resources, tourism and peripheral areas. The first four of these areas are essentially growth-oriented while the latter two are more equity-based, responding to the needs of peripheral localities. The past two years have been dominated by bringing in the new organisational structures and carrying through an intensive process of strategy development in the new regional growth fora. Agreement has also been reached on the funding distribution between the fora: some 60 percent is to be distributed on a needs basis with the remaining 40 percent being population-based.

In *Finland*, there has been only limited regional policy change following the Government Decision of January 2004 which laid down the government’s regional development targets for its period of office (which ends in March 2007). In line with the Government Decision (and the Regional Development Act 2002 which provides the overall framework for regional policy) there are currently three broad policy goals: to strengthen competitiveness in the regions; to safeguard the service structure throughout the country; and to achieve a balanced regional structure. The past year has been dominated by preparations for the next policy period (both EU and national). First, a new Structural Funds Act has been under development. It will aim to make EU programme management more efficient while increasing the role of the regions and improving centre-region coordination. Second, the Regional Development Act has been revised and will enter into force in 2007. It will leave the broad goals of policy unchanged but will strive to achieve those goals more effectively. The renewal of the Government Decision will increase the policy emphasis on urban areas (and on the creation of a balanced regional structure) while strengthening links to the Lisbon agenda (promoting levels of knowledge and innovation in the regions). Third, in each region, new strategic regional programmes have been developed to come into force from the start of 2007. They lie at the core of domestic regional policy in Finland and also provide the foundations for the preparation of the 2007-13 Structural Funds programmes. Fourth, a new Business Development Act will soon come before Parliament; this regional aid legislation is not expected to include major changes but will respond to the new Regional Aid Guidelines and to a recent evaluation of the support available under the Act. Finally, regarding the delivery of policy, increasing stress is being placed on policy coordination. In

this context, the revised Regional Development Act will see the Regional Councils given more decision-making authority in the allocation of regional funding and wider influence in ensuring policy coordination with the centre.

In *France*, recent regional policy developments have mainly consisted of the implementation of previously-announced measures set in the context of policy continuity. This followed a major change in policy direction in 2002. Responding to EU enlargement, internationalisation and decentralisation pressures, the new approach was built around five main objectives: to encourage the international orientation of regions (enhancing the role for large towns); to involve all parts of France in national development (especially rural areas); to use regional development to contribute to wealth creation (making policy more forward-looking and introducing new *pôles de compétitivité*, competitiveness poles); to correct regional inequalities through promoting equal opportunities (rather than equity); and to revise the relationship between central and local government. The general drive for competitiveness which underpinned the 2002 changes was confirmed by the June 2005 government. It was seen, for instance, in the selection of competitiveness poles in 2005 but also in the renaming of the DATAR (*Délégation à l'aménagement du territoire et de l'action régionale*) as the DIACT, (*Délégation interministerielle à l'aménagement et à la compétitivité des territoires*) at the start of 2006. Although the competitiveness poles can be regarded as just one of a range of policy measures, they have had a wider impact on the competitiveness agenda as well as on policy delivery. More generally, the focus is increasingly on potential as well as on problems. Thus, while urban policies are still based on a zoning approach, the role of cities as growth motors has been enhanced through the promotion of metropolitan cooperation; while rural policies continue to utilise “zones of rural development”, entrepreneurship and innovation are being stimulated in newly-created rural excellence poles; and industrial restructuring challenges are being tackled not only through short-term responses to job losses but also through developing longer-term strategies linked to regional competitiveness.

In *Germany*, a number of debates on the future of regional policy have been resolved. In June 2006, agreement was reached on constitutional reforms to the country's federal structures, notably in relation to the allocation of tasks between federal and *Land* authorities. This confirmed the need for ongoing joint federal-*Land* instruments such as the Joint Task for the Improvement of Regional Economic Structures (*Gemeinschaftsaufgabe 'Verbesserung der regionalen Wirtschaftsstruktur'*, GA), which provides the framework for the operation of regional policy in Germany. Within the GA, change has been limited in what has been a preparatory period for the next policy phase. A particular focus has been on the development of a new regional aid map which, for the first time since reunification, uses a single set of indicators. Policy continues to target the structurally-weakest areas, mainly through a mix of investment aid and infrastructure support. Recent annual GA framework plans have seen some extensions of support for ‘softer’ forms of assistance, including a new initiative for cooperation networks and cluster management from 1 January 2005, and extensions to the eligibility rules and award ceilings for certain R&D support. On the other hand, broader funding constraints have seen the federal government reduce its contribution to the GA budget by €100 million annually. In contrast, funding under the second Solidarity Pact, which aims to support capital spending in the new *Länder*, remains

as agreed for the 2005-19 period. Also with respect to the new *Länder*, but separate from the GA, a law has been passed which makes the Investment Allowance scheme available over the 2007-11 period. The Investment Allowance provides tax concessions for business investment in the new *Länder* and previously operated over the 1999-2004 and 2005-06 periods.

In *Greece*, the election of a new government in early 2004 led to a new Development Law (3299/2004) in December 2004, "Private investment incentives towards economic development and regional convergence". As the title of the law suggests, it has twin goals. Its main purpose is to change the investment profile of the country and improve its development potential by enhancing the competitiveness and attractiveness of Greece as an investment location. However, it also aims for balanced growth and development combined with regional convergence. That having been said, the main focus of the law seems to be more about the support of strategic innovative sectors than the development of specific lagging regions. Beyond incentive policy, and of symbolic importance, the new government has moved all the functions of the Ministry of National Economy relating to Interreg programmes from Athens to Thessaloniki in order to highlight the importance of the northern Greek regions to regional integration and cross-border cooperation. It has also introduced a series of sectoral spatial plans (to improve the regulatory environment for the location of investment and housing); and has taken a more bottom-up approach to the development of the 2007-13 CSF, with active and coordinated dialogue at the local and regional levels about strategic objectives and suitable policies for each region.

In *Ireland*, core elements of regional economic development policy are evolving as the 2000-06 National Development Plan (NDP) and current EU Structural Funds programmes enter their closing stages. The overall objectives of regionally-oriented economic development policies are likely to remain broadly unchanged, with a continuing commitment to balanced regional development and planned coherence with the National Spatial Strategy (NSS). However, the key themes under the new (2007-13) NDP seem likely to be the development of the knowledge economy, innovation and the stimulation of competitiveness. Looking to the next programme period a number of points emerge. First, there will be a substantial reduction of Cohesion policy funding for Ireland - to approximately €800 million in Structural Funds for 2007-13, compared to €3.35 billion from the Structural Funds and €586 million from the Cohesion Fund for 2000-06. Second, the Structural Funds will be programmed separately from a new, domestically-funded NDP. Third, existing trends towards greater financial and policy resources for promoting innovation, R&D and competitiveness policies will be reinforced and increasingly embedded within strategic plans and programmes. Fourth, the profile of the NSS, launched in 2002, will increase. However, it remains to be seen how and to what extent policy will specifically target regional development disparities. Certainly, it seems likely that there will be less scope for targeted support for lagging regions and more of an orientation towards enhancing the development potential of all regions. There will be a particular stress on those key towns and cities which have the necessary scale of infrastructure and services to enhance economic development.

In *Italy*, there has been only limited change over the past year or so with respect to the implementation of regional policy, with adjustments to the main regional aid under Law

488/1992 and the tax credit under Law 388/2000 plus the withdrawal of some traditional (but latterly underused) measures. At the same time, the broad approach to policy has remained consistent with that set down in 2000, focusing on creating the conditions for an endogenous, sustainable and virtuous development of lagging regions. On the other hand, a number of important contextual developments have occurred which may impact on future regional policy. A key change has been the replacement of the previous Centre-Right government by a Centre-Left government following the April 2006 elections. Related, the new government had its Economic and Financial Programming Document (DPEF) for 2007-11 approved in early July 2006. The DPEF stresses *development* (the need to respond to low growth and declining competitiveness), *recovery* (of public finances) and *equity* (the need to tackle socio-economic and territorial disparities). With respect to *Mezzogiorno* policy, the DPEF sets out four core goals: the development of knowledge networks; improving quality of life, security and social inclusion; strengthening productive clusters, services and competition; and helping to internationalise and modernise. Also of importance, a constitutional reform initiated by the previous government was rejected in a June 2006 referendum. While there has been no change *per se* (since the *status quo* obviously prevails), the rejection of the reform (with its proposed move from a unitary to a federalist state and with further devolution of competences to the regions) can be viewed as support for the role of the state as an actor ensuring “substantial equity” under the Constitution (Article 3). A further development with possible future implications is the creation of a new Ministry for Economic Development and the inclusion within it of the Department for Development and Cohesion, the key regional development institution. Finally, the past year has been taken up with developing the new National Strategic Reference Framework (NSRF). This is set to become the main pillar of future regional policy in Italy, the single reference point for both EU and domestic regional policies. Although still in draft form, it is broadly in line with the policy goals laid down in the DPEF.

In *Luxembourg*, regional policy has demonstrated a high level of continuity over the past few years. The general orientation of economic policy has been maintained, with a focus on promoting endogenous development and attracting foreign investment. The last significant regional policy change was in 2000 when a new law on regional aid was adopted. This was part of a broader shift away from the use of framework legislation, covering all the key economic development measures, and towards separate laws for each of the main aid schemes, aligned with the relevant EU state aid frameworks (regional aid in 2000, environmental aid in 2004). The new laws have allowed for more flexibility in the revision of individual aid schemes, more specific legislative texts and more correspondence with national budget headings. Alongside these aid-related developments, there has been a growing stress on improving the general business environment, infrastructure and access to finance. In addition, more weight has been placed on horizontal aids, particularly for R&D and SMEs. Finally, a debate on territorial and administrative reform is underway, focusing particularly on the possibility of merging municipalities which may lack the critical mass to provide services. A special commission was formed to lead discussion on this issue in December 2004 and a reform plan was produced in May 2005. However, the reform debate still has some way to run.

In *the Netherlands*, the past two years can be viewed as a preparatory phase for Dutch regional policy. An interdepartmental review (IBO) and a new policy memorandum in July 2004 (*Peaks in the Delta*), introduced two major changes: a refocusing of policy away from the traditional problem regions in the north and towards economic priorities in all Dutch regions; and a move towards more selective policy interventions involving explicit policy choices in the national interest. The new policy aim is “*to stimulate economic growth in all regions by exploiting region-specific opportunities of national significance*”.⁴ *Peaks in the Delta* was a strategic document which, following parliamentary approval in October 2004, required implementation measures. Rather than adopt a sectoral, instrument-based approach (investment aid, industrial estates etc), there was a move to geographic, programme-based policymaking centred on a “single pot” budget. The intention has been to create sufficient budgetary flexibility to allow the Ministry of Economic Affairs to influence and respond to development opportunities in the regions which are in line with national priorities. In line with this goal, the Spatial Economic Policy Directorate of the Ministry has been reorganised along regional lines. In addition, each region was charged with establishing a Programme Commission, with representatives from business, the knowledge economy and decentralised public sector bodies and with a senior Ministry of Economic Affairs’ official completing the group. Each Commission had to devise a coherent and sustainable programme against which proposals arising from project calls-for-tender could be measured and prioritised. Programmes for the six Peaks regions began to be published from June 2006. The new approach will become fully operational in 2007, at which time the new Structural Funds programmes will also enter into force.

In *Portugal*, a new Centre-Left government took office in February 2005. The new government’s strategy centred on: ‘a new contract of confidence, a plan and a commitment’. The contract of confidence had a number of components, including a new Programme for Investment in Priority Infrastructure (PIIP), measures to increase competition across various policy sectors and the creation of a favourable environment for business development. The PIIP was approved in June 2005. It involved planned investment of €25 billion structured under three priorities: *basic infrastructure* (€16.8 billion), mainly transport and energy; *territory* (€3.8 billion), including measures for cities, tourism and the natural heritage; and *knowledge, information and training* (€4.4 billion). The ‘plan’ element of the strategy was a Technology Plan, which focused on the stimulation of knowledge, innovation and technology and aimed to mobilise the public and private sectors around a growth and competitiveness agenda. And the ‘commitment’ related to the restoration of public finances to a sustainable position. In progressing the strategy, several sectoral plans have recently been approved relating to sustainable development, spatial planning, technology and levels of educational attainment (the new opportunities initiative). In addition, the EU Community Support Framework, which is closely intertwined with domestic regional development measures, has been reprogrammed. There is now more support targeted at the development of human resources (in line with the new opportunities initiative) and more funding for the new operational programme for the economy (the ‘new PRIME’). This takes a more concentrated and selective approach to

⁴ Ministry of Economic Affairs *Peaks in the Delta: Regional Economic Perspective*, The Hague, July 2004, Section 1.2.

economic development, focusing particularly on the three pillars of the Technology Plan (knowledge, technology and, especially, innovation). Bringing these various developments together, the NSRF for 2007-13 identifies five strategic priorities - *qualification* (promoting levels of educational attainment); *sustained growth* (enhancing the competitiveness of territories and businesses); *social cohesion* (increasing employment and strengthening employability and entrepreneurship); *urban and territorial participation* (pursuing environmental gains, promoting spatial planning and enhancing the connectivity of the territory); and *governance efficiency*.

In *Spain*, there have been no recent changes to the main elements of national regional policy - the Inter-Territorial Compensation Fund (FCI), which provides regional governments in Objective 1 regions with support to finance investments in the fields of infrastructure, public works, irrigation, planning, housing, transport and communications; and the Regional Investment Grant, which is co-financed by the Structural Funds in Objective 1 areas. The lack of change to these two measures reflects, on the one hand, the stress placed on maintaining a stable environment with respect to regional aid and, on the other, the importance of the Structural Funds in Spain and their current end-of-programme phase. It should also be noted that regional, or other spatially-oriented, policies anyway form only a small element of the national policy framework, particularly in light of the highly decentralised nature of policymaking and the key role played by regional governments in economic development. On the other hand, the new government which entered into office in March 2004 has approved some wider national policy initiatives which have impacts on regional development including a new programme for competitiveness launched in early 2005 (reflecting the increasing stress placed on the competitiveness agenda in Spain), a new innovation programme, Ingenuity 2010, and a major long-term infrastructure strategy, the Strategic Plan for Transport Infrastructure (PEIT), which includes 'social and territorial cohesion' as one of its four underlying objectives. In the current political context, the most pressing issue on the government's agenda concerns territorial governance, with all the regions currently immersed in the process of drawing up new statutes of autonomy as a basis for a further decentralisation and consolidation of power, including at the local level, and ongoing moves towards the federalisation of the political system.

In *Sweden*, the last major regional policy change was the introduction of the 2001 Government Bill '*A Policy for Growth and Viability throughout Sweden*'. Since then, policy has essentially been responding to the innovations introduced by this legislation. The Bill brought together traditional regional policy (mainly aid-based and problem-region-oriented) and the newer programme-based regional industrial policy. The new regional development policy which emerged aims to produce "*well-functioning and sustainable local labour market regions with an acceptable level of service in all parts of the country*".⁵ It introduced a number of important changes to the Swedish approach to regional development, including: an increased stress on a whole-country approach, a greater focus on issues of regional competitiveness, growth and employment, the more explicit involvement of a wider range of policy areas in regional development, a clearer distribution of responsibilities between government and local authorities, and the encouragement of

⁵ Regeringens proposition 2001/02:4, *En politik för tillväxt och livskraft i hela landet*

programming and policy learning. The policy is, on the one hand, efficiency-oriented, emphasising the role of the regions in contributing towards national sustainable growth and prosperity, but it also has a significant geographical component, given the reference to acceptable levels of service provision in all parts of the country. From the start of 2004, new Regional Growth Programmes were introduced. These lie at the core of the new policy approach, encapsulating the key principles of regional partnership and policy coordination. In July 2005, revisions were made to the regional aid package. The Regional Development Grant, Employment Grant and Rural Aid all changed their scope, eligibility criteria and titles in line with the underlying principle of less but better aid. More recently, the future orientation and delivery of the Structural Funds has been under review. The 2007-13 NSRF aims to further align EU and national policies. It should guide the preparation of Regional Growth Programmes and the activities of national authorities. The NSRF also highlights the importance of dialogue and cooperation between the different local, regional, national and EU actors. More fundamentally, a parliamentary committee is currently considering the division of tasks between government levels with a view to improving service provision; the committee's final report is due in February 2007 and seems bound to impact on the future delivery of regional policy.

In the *United Kingdom*, the regional policy agenda set in the 2003 consultation document, *A Modern Regional Policy for the United Kingdom*, continues to frame UK responses to the regional challenge. The key characteristics of this agenda remain in place: an interpretation of the regional problem based predominantly on the productivity agenda; a focus on regional and local market and coordination failures as the most important cause of national and regional disparities; and a commitment to devolved or decentralised arrangements for regional policy delivery. The policy aim continues to be that all parts of the country should achieve their full potential in order to maximise national economic performance, while the specific performance target for regional policy is to make *"sustainable improvements in the economic performance of all regions by 2008, and over the long term reduce the persistent gap in growth rates between the regions, demonstrating progress by 2006."*⁶ In recent years, some important trends are worth highlighting. In terms of *content*, the UK regional policy portfolio continues to expand. This can be seen not only in the ongoing diversification of 'supply-side' business support measures but also in the incorporation of a broader range of policy areas, as reflected in the expanding remit of England's Regional Development Agencies (RDAs). With respect to *delivery*, debate is ongoing over how best to respond to the (November 2004) rejection by voters of an elected regional assembly in the North East of England. The autonomy and funding available to RDAs continues to grow but not without presenting challenges. The coordination of 'top-down' and 'bottom up' initiatives has required strong national direction and a new RDA tasking framework is seeking to provide a mechanism to better ensure that RDA efforts to tackle regional priorities also simultaneously serve Government targets. RDAs are also having to assume serious political responsibilities without direct

⁶ This is set down in the Regional Economic Performance Public Service Agreement (REP PSA) targets, to which the Treasury, the Department for Trade and Industry (DTI) and the Department for Communities and Local Government (DCLG) are joint signatories. PSAs are high-level targets, set by the Government, that include key aims and objectives and outcome-focused performance targets.

accountability in the region, though recent moves to strengthen the strategic role of cross-departmental Government Offices in the regions could provide support in this respect.

Moving to the EU10, in *Poland*, economic policy in the transformation years was dominated by macroeconomic and sectoral priorities designed to establish a new, more market-oriented system. Lack of funding and limited internal disparities saw a low priority attached to regional policy; it consisted of narrowly-targeted interventions for areas with high structural unemployment together with major restructuring programmes in specific regions (like Upper Silesia) which were facing the social and economic problems of the mining, iron and steel industries. The persistence of regional disparities, recognition of the institutional weakness of the regions and the demands of EU accession pushed the reform of regional policy up the agenda; consequently, the legislative framework for policy was passed in 1999. More recently, following EU accession in 2004 and the operation of the 2004-06 programmes, a plethora of strategic documents has been prepared for the 2007-13 period. Viewed together, they represent a departure from traditional approaches to regional development: they aim to create a strategic and integrated medium-term programming framework for the disbursement of regional development funds; they take an all-region approach rather than focusing on specific regions and localities; they place an increased focus on competitiveness and productivity, with more stress on the development role of cities and infrastructure links; and they challenge the traditional top-down approach to policymaking with a stronger programming role for elected regional governments. On the other hand, the new policy directions are not wholly settled. Tensions remain between external and internal convergence, between EU, national and regional goals, between different funding priorities (infrastructure, human capital, innovation) and between central and regional delivery mechanisms.

In the remainder of the *EU10*, regional policy has recently been subject to both continuity and substantial change. On the one hand, efforts are being made to embed and reinforce key policies, practices and institutions introduced in preparation for the 2004-06 round of Cohesion policy programmes. On the other hand, regional policy is changing as policymakers respond to new challenges, take on lessons from the current programming period and adapt to new EU regulations. Notwithstanding the obvious differences between countries, a number of broad trends can be identified. First, there is seen to be a broad need to develop more coordinated, coherent and effective policy strategies to tackle the main regional development issues; these are increasingly viewed in terms of improving growth and competitiveness in all parts of the country. Second, while regional policy interventions and strategies often involve 'traditional' forms of support (in particular, business aid and strategic infrastructure), greater emphasis is being placed on broader policy measures: establishing a knowledge-based economy, strengthening the role of R&D and innovation in economic development and enhancing regional competitiveness. Third, EU Cohesion policy remains at the heart of regional policy planning in the EU10; currently, this focuses on the promotion of overall economic development and convergence with the EU average. Looking to the future (and the substantial funding increases for the next policy period), the key objective of the emerging NSRFs and operational programmes remains to maximise the development potential of all regions. There is, however, some variation around this theme, with some countries stressing on the needs of lagging regions, others prioritising growth

poles and a few establishing multi-region programmes. In the larger countries - the Czech Republic, Hungary, Poland, Slovakia - provision has been made for Regional Operational Programmes, offering regions the scope to develop their own strategies and priorities.

Finally in *Norway*, regional policy has been undergoing fundamental changes in recent years with the publication of two important regional policy White Papers. The first was submitted to Parliament in May 2005 by the Centre-Right government which subsequently lost the September 2005 elections. It continued the new orientation of regional policy thinking which the government had introduced from 2002, with its emphasis on innovation, regional growth, small and medium-sized cities and an all-country perspective. The subtitle of the White Paper, "*A policy for different regions*", suggested a regional policy which applied in all regions and was adapted to regional needs, challenges and opportunities. The Centre-Left coalition which won the September 2005 election committed itself to a more pro-active regional policy, which took more explicit account of the position of municipalities (districts) located mainly in rural, sparsely-populated areas. A June 2006 White Paper saw a move away from a *regional* policy focused on framework conditions and regional growth centres to a *district and regional* policy concerned also about improving the service provision and financial situation of municipalities, not least through enhanced funding but also via improved policy coordination across Ministries. In this context, the introduction of "district" into the title of the White Paper (and its positioning before "regional") was significant. The previous government had first reversed the traditional order of the two terms (in 2002) and then dropped the reference to districts in the 2005 White Paper. The 2006 White Paper also stressed the importance of traditional policy measures (like the social security concession which ESA, the EFTA Surveillance Authority, declared compatible with the new Regional Aid Guidelines in July 2006), though the proposal of the previous government to introduce a new Centre of Expertise Programme was progressed. The 2006 White Paper also emphasised the role of partnership in regional development, the need for coordination across sectoral policies and the importance of infrastructure provision (especially transport infrastructure).

3.2 A thematic review of change

3.2.1 *The scale and scope of change*

The above country-by-country review makes clear that, within domestic regional policy, the level of strategic change since the start of 2005 has been relatively limited. Only a few new regional policy laws or White Papers have been introduced over the past eighteen months. In some respects, this is unsurprising given the current policy phase and the uncertainties regarding the EU policy frameworks that will set the parameters for domestic regional policy for the next seven years. In addition, considerable policy effort has been focused on developing National Strategic Reference Frameworks compatible with current and likely future domestic policy approaches. At the same time, the extent to which policy has been developing "on the ground" is of note. A number of interesting new policy initiatives and approaches have been introduced, most of which aim to help implement the new strategic directions for policy which have been brought in over the past few years.

Table 2 identifies the main legislative developments since the start of 2005, together with broader policy reviews in the form of strategy documents, White Papers and policy memoranda. At the strategic/policy level, the main developments have been in Norway, Germany and Denmark. In *Norway*, a 2005 White Paper confirmed the all-region growth and competitiveness approach which the then government had first adopted in 2002, while a subsequent 2006 White Paper (following a change of government) was much more oriented towards traditional problem regions and instruments. On the other hand, the later White Paper retained significant elements of the previous approach, including a stress on regional partnership and sectoral coordination and a new Centre of Expertise programme. In *Germany*, an important development has been the agreement to retain the joint Federal-*Land* approach to regional policy following a period when its abolition was seriously under consideration. While the *Land*-level remains responsible for policy implementation (including project selection, setting aid rates and establishing priorities), the case for a Federal-*Land* coordination mechanism has been accepted, both in a domestic context and regarding regional aid negotiations with the Commission. Recent developments in *Denmark* have also been significant. At one level, these have not changed the strategic orientation of policy, this remaining as laid down in the 2003 *Regional Growth Strategy* White Paper; on the other hand, the 2005 Business Development Act has introduced significant changes to the context for implementing policy. The five new regions which are to replace 14 *Amt*er from the start of 2007 under a major reform of local government have been given statutory responsibility for economic development. They have established partnership-based regional growth fora to create economic development strategies in the regions.

Recent policy changes in a range of other countries have also focused on developing implementation mechanisms for previously-adopted strategic approaches. Thus, in *France*, for instance, the policy emphasis has continued to be on the new five-strand orientation for regional policy adopted in 2002. Significant new policy initiatives include the selection and establishment of competitiveness poles as well as measures to improve metropolitan cooperation, complementary initiatives for medium-sized towns and cities and new rural poles of excellence. In *the Netherlands*, the July 2004 *Peaks in the Delta* White Paper represented a major new strategic direction for regional policy. Since its adoption by parliament in October 2004, considerable effort has been devoted to ensuring that an appropriate budgetary and organisational framework is in place for implementing the Peaks approach from the start of 2007. In similar vein, ongoing policy developments in *Sweden*, continue to respond to the strategic approach set out in the 2001 *Growth and Viability* Bill, as for instance with the introduction of Regional Growth Programmes in 2004; in *Finland*, recent new initiatives, such as the decisions to launch new calls-for-tender under the Centre of Expertise and Regional Centre programmes, continue the policy path laid down by the January 2004 Government Decision and the 2002 Regional Development Act; and, in the *United Kingdom*, the policy framework remains that set by the 2003 *Modern Regional Policy* consultation paper, leading to a more devolved approach to regional policy, a significant expansion of its coverage (reflected, for instance, in the growing remit of the English Regional Development Agencies) and associated coordination challenges.

Table 2: Recent legislative change and broader regional policy reviews (2005-06)

	Detailed incentive/policy legislation	Broader policy reviews/changes
Austria	No change. Incentive guidelines (<i>Richtlinien</i>) apply for the full 2000-06 period. The ERP loan is the sole regional investment aid.	No change. New EU strategic element (Lisbon etc) and lack of micro-zoning may lead to more stress on <i>Land</i> -level strengths.
Belgium	Flanders: January 2005 amendments to 2003 decree on economic aid policies (including regional aid); Wallonia: 2005 and 2006 modifications to 2004 regional aid legislation.	Flanders: 2004 Strategic Plan for Spatial Economy, leading to an industrial estates action plan. Wallonia: January 2005 Future Contract followed by August 2006 Marshall Plan.
Denmark	New Business Development Act, <i>Lov om erhvervsfremme</i> , L47 of 16 June 2005. This gives the new regions in Denmark statutory responsibility for economic development.	The general thrust of regional policy remains as laid down in the May 2003 White Paper, <i>The Regional Growth Strategy</i> . A major reform of local government will come into force in 2007.
Finland	No change. The Aid to Business Act came into force on 1 January 2001. A new Act is currently in preparation for 2007-13.	No change following the January 2004 Government Decision. A revised Regional Development Act will come into force in 2007.
France	The main incentive legislation dates from 2001. Minor changes were made in <i>décret</i> 2005-584. New legislation is in preparation following an evaluation exercise and the new RAG.	New 2002 government led to re-orientation of policy. The new 2005 government confirmed the drive for competitiveness and, amongst other things, introduced competitiveness poles
Germany	Annual regional policy (GA) plan. The 35th plan (2006-09) came into force in January 2006. Change in certain R&D eligibility rules. Law passed on IZ scheme (2007-11) in new <i>Länder</i> .	Agreement to continue regional policy GA framework, though cut in federal budget of €100 million annually (for public expenditure reasons). New Solidarity Pact (2005-19).
Greece	No change. Following the election of a new government, Development Law 3299/2004 was introduced in December 2004.	Broader changes include: the relocation of certain functions from Athens to Thessaloniki; a series of new sectoral spatial plans; and more bottom-up inputs to the 2007-13 CSF.
Ireland	No change. The main incentives were approved for EU state aid purposes in October 2000.	No change. The National Development Plan runs from 2000-06 and the National Spatial Strategy dates from 2002. A new (mainly domestically-funded) NDP is being developed for 2007-13.
Italy	Law 488/1992 (industry) support was revised by Law 80/2005 and related decrees and circulars. Grant aid was replaced by a combination of grants, soft loans and commercial loans.	No change. The DPEF sets out competitiveness-oriented goals for <i>Mezzogiorno</i> policy. The NSRF is linked to this and will be the future reference point for EU and domestic regional policies
Luxembourg	No change. Law on Economic Development of Certain Regions of 22 December 2000 amended the form, coverage and intensity of regional aid (in line with the EU Regional Aid Guidelines).	No change. To counter the steel run-down, two new innovation-oriented industrial sites are being developed. Also, the country's administrative structure is under review.
Netherlands	No change since Regional Investment Project Grants Decree 2000 (Statute Book 22.08.2000, 354)	IBO policy review plus <i>Peaks in the Delta</i> (July 2004). Focus on promotion of regional strengths of national importance. Move to operationalise: single budget; new implementation approach.
Portugal	Further changes to the SIME and SIPIE in 2005 and 2006 including the introduction of the SIME-Innovation and SIME internationalisation.	New 2005 government brought in new infrastructure programme (PIIP), new Technology Plan and new economic programme.
Spain	No change to the legal basis of the Regional Investment Grant or to the Inter-Territorial Compensation Fund.	No change. Government has introduced some related measures: competitiveness programme; innovation programme; long-term infrastructure strategy. Focus on territorial governance issues.
Sweden	New regulations relating to the Regional Development Grant, Employment Grant and Rural Aid from 1 July 2005.	No change. Ongoing implementation of the 2001 Bill. New Regional Growth Programmes from 2004. Territorial governance under review.
UK	No change following replacement of Regional Selective Assistance by Selective Finance for Investment in England in April 2004.	No change - see 2003 paper, <i>A Modern Regional Policy</i> . Aim to improve productivity/tackle market failures in a devolved environment.
Poland	No recent change. Legislation reforming the Polish regional policy system dates from the late 1990s.	No change. A number of strategic documents have been prepared for the next policy phase: NDP 2007-2013, a revised Regional Development Strategy, NSRF 2007-2013, NRF 2005-2008.
Norway	No change since the budget and operation of regional aid was regionalised in 2003. ESA agreement on future social security concession.	May 2005 White Paper emphasises innovation, regional growth, all-country perspective. June 2006 White Paper aimed at districts. Review of regional system of administration.

In most of the remaining countries there has been no recent published review of domestic regional policy. However, the development of National Strategic Reference Frameworks (NSRFs) has, in many countries, confirmed the growing strategic focus on regional growth and competitiveness and the increasingly close relationship between EU and domestic regional policies. In *Italy*, for instance, the draft NSRF aims to be the future single reference point for both EU and domestic regional policies; at the same time, the Economic and Financial Programming Document (DPEF) of the new government has placed competitiveness-oriented objectives at the centre of *Mezzogiorno* policy. Similarly, the draft NSRF in *Austria* emphasises the need to strengthen the competitiveness of regions and foster an innovation culture in line with EU policy goals. In *Ireland*, too, the key themes in the evolving National Development Plan concern the knowledge economy, innovation and the stimulation of competitiveness, though some weight is also attached to regional balance. The EU15 Cohesion countries (*Greece, Portugal, Spain*) also have a significant competitiveness orientation to their regional policy goals, alongside major new infrastructure and technology programmes.

In the *EU10*, the recent strategic focus has also been on developing 2007-13 NSRFs, taking account of experiences under the current 2004-06 programmes and the new EU regulations. In general, the focus has been on developing more coordinated, coherent and effective strategies to help improve growth and competitiveness in all parts of the country though, as already discussed, there is also a geographic component to policy to varying degrees. In *Poland*, the aim of the 2007-13 policy documents which are currently under development is to create a strategic and integrated medium-term programming framework which covers all regions, stresses competitiveness and productivity and the development role of cities and infrastructure, and places more emphasis on regional inputs than in the past.

Turning to consider the specific legislative changes in Table 2, they are recorded in respect of some two-fifths of the countries covered. A number involve relatively low-key amendments to the regional aids on offer - as in *Belgium, France* and *Portugal* (see Section 4.1). More significant have been the legislative developments in Denmark, Germany, Greece, Italy and Sweden. The changes in *Denmark* have already been mentioned. A new Business Development Act has given the five new Danish regions statutory powers for economic development (but not for regional aid which was abolished in 1991). The new regions also have powers to establish strategy-oriented regional growth fora/partnerships. In *Germany*, GA aid-related changes have been limited but there has been important new legislation to continue the tax-related Investment Allowance scheme in the new *Länder* over the 2007-11 period. The Investment Allowance lies outside the scope of the GA and takes the form of an investment-related tax concession; it was first introduced in 1999 and then extended in 2004. In *Greece*, the Development Law introduced in December 2004, following a change of government, aims to improve the competitiveness and attractiveness of the country as an investment location. In *Italy*, grant aid under Law 488/1992 (the main regional aid legislation) was reformed by Law 80/2005 and replaced by a mixture of grants, soft loans and commercial loans. In *Sweden*, the regular regional aid review cycle has seen a number of adjustments to the main schemes as well as cutbacks in Aid Area B support. The changes which have been made are in line with the government goal of less but better aid, while preparing the ground for 2007-13.

Finally in relation to Table 2, it should be noted that, in *Norway*, ESA has recently (19 July 2006) announced that a proposed new social security concession meets the criteria laid down in the 2007-13 Regional Aid Guidelines and will become available from 1 January 2007. The new scheme takes advantage of the fact that the guidelines permit operational support in very low population density areas (less than 8 inhabitants per square kilometre). Its form and coverage will be very similar to the scheme which was available prior to 2004 and then had to be phased out in response to ESA (and EU) state aid policy pressures.

3.2.2 Thematic developments

A number of themes emerge from the policy changes introduced since the start of 2005. They relate to the objectives of regional policy, its spatial orientation, instruments and delivery. Each is now discussed briefly in turn.

(i) *Stress on regional growth but problem regions remain a policy focus*

With respect to *policy objectives*, the earlier discussion of the changing perceptions of the regional problem made it clear that, almost everywhere, the competitiveness agenda is playing a significant and, in most cases, growing regional policy role. This is confirmed by Table 3 which provides an overview of regional policy objectives in the EU15, Poland and Norway. Virtually all of the new legislation and White Papers over the past four years, plus those 2007-13 strategies under development, lay considerable stress on raising regional competitiveness, productivity and growth. At the same time, designated problem areas remain a focus for policy in a range of countries. Considering the 2005 and 2006 changes, specific provisions in favour of designated peripheral areas were introduced in *Denmark* in 2005 under the Business Development Act (following on from a 2003 White Paper), after a period of more than a decade when regional policy had been wholly growth-oriented and had applied uniformly across the country. In addition, the 2006 White Paper in *Norway* re-oriented regional policy back towards the rural, peripheral districts in reaction to the 2005 White Paper (under the previous Centre-Right government) which had confirmed the all-region, growth-oriented approach that the government had first introduced in 2002.

More generally, Table 3 shows that all the Nordic countries have an explicit problem region element to their policy objectives. In *Finland*, the policy goals include safeguarding the service structure throughout the country and achieving a balanced regional structure; in *Norway* they involve providing equal living conditions and maintaining settlement patterns; and in *Sweden* they ensure acceptable levels of service provision in all parts of the country while making every region as attractive as possible. Regional policy under the GA in *Germany* also explicitly focuses on structurally-weak regions, while a core objective in *France* is to correct regional inequalities through promoting equality of opportunity. In addition, balanced development is on the regional development agenda in *Ireland* and *Greece*, is a spatial planning goal in *Portugal* and has constitutional weight in *Spain* and *Italy*. The *UK* also has a commitment to spatial equity through the PSA target of reducing the regional growth rate gap, while in *Austria* EU policy frameworks ensure a degree of spatial targeting via designated aid areas (plus additional ERDF support in border regions). Finally, in *Poland*, the policy focus on competitiveness is balanced in the NSRF by a commitment to counter social, economic and spatial marginalisation.

Table 3: Regional policy objectives in the EU15, Poland and Norway

Austria	Draft NSRF: to ensure the quality of life, income and employment, to strengthen the competitiveness of the regional economies and to increase the attractiveness of Austria's regions based on the principles of sustainable development. National objectives are aligned with EU goals (Lisbon agenda).
Belgium	No national-level objectives. Regional policy is a regional responsibility.
Denmark	2003 White Paper and 2005 Business Development Act: It is seen as important that each region maximises its contribution to national growth (priority areas: innovation, ICT, entrepreneurship, human resources); peripheral areas are favoured to ensure they are not cut off from the growth occurring elsewhere (priority areas: tourism and peripheral areas). The aim is to maintain Denmark's leading position as one of the countries with the smallest differences between regions.
Finland	2002 Regional Development Act: to strengthen competitiveness in the regions; to safeguard the service structure throughout the country; to achieve a balanced regional structure. The revised Act which will come into force in 2007 will retain these objectives. The renewal of the Government Decision in 2007 will increase the focus on urban areas and a balanced regional structure while strengthening the link to the Lisbon strategy (stressing knowledge and innovation).
France	2002 government goals (re-confirmed in 2005): to encourage the international role of regions (more focus on large towns); to involve all parts of the country in national development (especially rural areas); to use regional development to contribute to wealth creation (e.g. via competitiveness poles); to correct regional inequalities through promoting equality of opportunity (rather than equity); to revise the relationship between central and local government.
Germany	GA policy: to ensure that structurally-weak regions can take an equal part in economic development through addressing locational disadvantages. Within the GA, there is an emphasis on supporting the export base in structurally-weak regions. Constitutional commitment to 'equal living conditions'.
Greece	2004 Development Law: to change the investment profile of the country and improve its development potential by enhancing its competitiveness and attractiveness. Reference is also made to balanced growth and regional convergence.
Ireland	2000-06 NDP: continuing commitment to balanced regional development and planned coherence with the National Spatial Strategy (NSS) with its emphasis on regional gateways and hubs. The 2007-13 NDP is expected to have the development of the knowledge economy, innovation and the stimulation of competitiveness as key themes, whilst also referring to balanced development and NSS coherence.
Italy	2007-11 DPEF: <i>Mezzogiorno</i> goals - to develop knowledge networks; improve quality of life, security and social inclusion; strengthen productive clusters, services and competition; and help to internationalise and modernise. Also constitutional commitment to 'substantial equity'.
Luxembourg	Regional policy is largely synonymous with national industrial policy.
Netherlands	2004 Peaks in the Delta: to stimulate economic growth in all regions by exploiting region-specific opportunities of national significance.
Portugal	2005 government priorities: contract of confidence (modernise infrastructure, increase competition, create favourable business environment); technology plan (knowledge, innovation, technology); commitment (restoration of public finances). 2006 Spatial Planning Programme (PINPOT): conserve national heritage; strengthen territorial competitiveness; promote polycentric development; ensure territorial equity; expand IT networks and usage; strengthen quality of territorial management.
Spain	1978 constitution: to promote the conditions favourable to a more equitable distribution of income by overseeing the establishment of a fair and adequate level of economic equilibrium between the different parts of the country. Key recent sectoral priorities include a plan to boost competitiveness, a new R&D and innovation programme, and a strategic plan for transport infrastructure
Sweden	2001 Government Bill: to have well-functioning and sustainable local labour markets regions with an acceptable level of service in all parts of the country. This involves enhancing the potential and capabilities of every region, making them as attractive as possible to individuals and companies. Traditional problem regions have, however, retained their special status.
UK	2003 Modern Regional Policy: to help all parts of the country achieve their full potential in order to maximise national economic performance. The specific PSA target is: to make sustainable improvements in the economic performance of all regions by 2008, and over the long term reduce the persistent gap in growth rates between the regions, demonstrating progress by 2006.
Poland	The draft NSRF restates the goal of policy as "increasing the competitiveness of Polish regions and countering their social, economic and spatial marginalisation". This reflects the compromise between exploiting the endogenous potential of the largest urban centres while accelerating the development of the poorer eastern and agricultural regions.
Norway	2006 White Paper: to provide equal living conditions across the country; to maintain the features of the settlement pattern across the country; and to focus on and develop regional strengths. The ambition of the government is: to make people free to settle where they wish to settle; to use the entire country to generate wealth creation; and to create conditions where people are able to move to the (peripheral and rural) districts.

(ii) *All-region approaches but the geography of policy remains important*

As regards the *spatial orientation of policy*, the point has already been made that the all-region approach to regional policy now found in most countries does not preclude the favouring of certain areas. Most obviously, under the Regional Aid Guidelines only certain problem regions are designated for regional aid purposes in most of the EU15 and, within the areas designated, distinctions are often made between areas in terms of award ceilings and, in some cases, the types of regional aid on offer. In addition, certain areas are favoured in terms of funding flows. The country reviews contain a number of recent examples of how the spatial orientation of policy is changing.

One interesting case is *Denmark* where the issue of spatial selectivity has moved up the policy agenda. In the May 2003 White Paper, peripheral areas were explicitly identified as a policy concern and some minor initiatives were introduced in their favour. This has been taken forward in a May 2006 report which has announced the designation of peripheral areas which will benefit from targeted support under a range of programmes - regional, national and European. Indeed, the designation of peripheral areas (agreed following an extensive inter-departmental exercise) seems likely to be used by most central government bodies for spatially-targeted activities. In addition, various funding allocations benefit the peripheral areas. For instance, funding for the new regional growth fora will be determined by the share of population in the designated peripheral areas (45 percent); by national population shares (40 percent), by unemployment (10 percent) and by low levels of post-school education (5 percent). The result is that regions with large peripheral areas (like North Jutland and Bornholm) are favoured. In *Norway*, too, the 2006 White Paper has seen a significant shift in funding back towards the peripheral districts. Following a change of government, and with the leader of the Centre Party as the Minister of Local Government and Regional Development, the core regional policy challenge is now seen in terms of the need to counter depopulation and fragile settlement structures.

In contrast to these developments, there has been a move in *the Netherlands* away from spatial selectivity (in the sense of focusing policy on specific problem regions) following the *Peaks in the Delta* White Paper. However, on a transitional basis (until 2010), the north will continue to be favoured under both *Peaks in the Delta* budgetary allocations and the allocations made under the Structural Funds. This phasing out of support reflects the outcome of the parliamentary debate on the new Peaks approach which accepted the new all-region orientation of policy but agreed that transitional provisions were appropriate.

More generally, an important spatial development in recent years has been the increasing stress placed on the regional policy role of urban areas. This can be seen in the fact that a number of countries have an explicit urban dimension to their regional policy objectives. For instance, in *Finland* and *Norway* policy goals include the achievement of balanced regional structures and maintenance of settlement patterns respectively (see Table 3). In *Sweden*, the explicit urban component to policy objectives is less strong. The stress on well functioning labour market regions means that, in addition to small towns and cities, there is also a focus on rural and coastal areas; on the other hand, the reference to acceptable levels of service provision mirrors the Finnish and Norwegian concerns about sustaining a balanced territorial structure.

Elsewhere in the EU15, urban-oriented regional policy objectives tend to be less explicit. One exception is, perhaps, Ireland where the National Development Plan (NDP) 2000-06 highlights the need to “achieve more balanced regional development” and where there is a particular stress on the economic development role of key towns and cities with the necessary scale of infrastructure and services to enhance economic development. In most other countries, the urban component of regional policy objectives is more implicit, part of the broader policy goal of developing regional strengths. Thus, in France, the new approach to spatial policy introduced in 2002 highlighted the role of cities as potential growth motors. This has since been progressed through the promotion of metropolitan cooperation and subsequent complementary initiatives for medium-sized towns and cities. In similar vein, the importance of cities to regional development in *the Netherlands* is obvious from the policy priorities highlighted in *Peaks in the Delta*. In the United Kingdom, too, urban economic development has been given increased weight as a means of strengthening the spatial dimension of the productivity agenda. Policy developments in both Scotland and England acknowledge the importance of cities to regional growth.

In the EU10 Member States, and notwithstanding the problems faced by lagging regions, urban areas and innovation have increasingly emerged as policy priorities. Certainly, many of the economic development strategies which are in preparation have an explicit urban/innovation dimension. In Poland, for instance, there is an increasing focus on the competitiveness of cities and the quality of infrastructure linking these centres as nodes of development. This is reflected in emerging national strategies, such as the National Strategic Reference Framework (NSRF), a new National Regional Development Strategy (NSRR) and a Concept of National Spatial Planning (KPZK). These documents note the need for regional policy to distinguish between metropolitan, urban and rural areas. Emphasis is being placed on specific metropolitan areas (Warsaw, Kraków, Poznań, Wrocław, Trójmiasto, Katowice agglomeration, Szczecin, Łódź and Bydgoszcz) as potential growth poles, recognising their role in contributing to national competitiveness. At the same time, a strategic choice has been made to create a special programme to support the development of potential metropolitan areas in the poorer eastern regions.

All these developments confirm the continuing importance of geography for regional policy. Even though there has been a clear shift towards an all-region approach to domestic regional policy and even though the new regulations under the Structural Funds promote theme-based policymaking, the spatial orientation and implications of regional policy remain a core policy concern in most Member States. This has also been reflected in the developing NSRFs. For instance, in *Austria*, the importance of achieving territorial cohesion via polycentric development and the integration of regions within economic development is one of the main priorities highlighted in the draft NSRF.

(iii) Move from investment aid to innovation support and programming

In terms of *policy instruments*, it is interesting to record the move there has been in recent years away from grant-based business aids and towards broader business environment measures, often with a significant innovation component. A number of recent developments provide evidence of the decline in importance of regional grants: the new regional aid legislation in *Belgium* under which regional investment aid in Flanders has

become budget-limited and call-for-tender based, while support in Wallonia is now more selective; the €100 million reduction in the GA budget in *Germany* (though this was made for other than regional policy reasons and impacts on the GA generally and not just its regional aid budget); the change in the nature of the main regional incentive in *Italy* from a grant to a mixture of grants and loans (soft and commercial); the possibility of the Investment Premium being withdrawn in *the Netherlands* from the end of 2006, though this will ultimately depend on the country's competitive position with respect to firm relocations; an increase in the selectivity of incentive schemes in *Portugal*, with distinct aid schemes to promote innovation and internationalisation; the changes introduced to regional aid in *Sweden* from July 2005 in support of the government goal of less but better aid; and the reduced emphasis on regional aid across the *United Kingdom*. On the other hand, the re-establishment of the social security concession in *Norway* from the start of 2007 is a move in the opposite direction. The Norwegian authorities consider that the social security concession is one of the most effective regional policy instruments for areas of sparse population facing permanent hardship; it was for this reason that they campaigned so actively (and effectively) for its reinstatement.

The growing weight attached to innovation-oriented measures can be seen from a variety of recent initiatives: the selection and introduction of competitiveness poles in *France* (and also in Wallonia in *Belgium*); the recent extension of GA support in *Germany* to softer forms of assistance, including a new initiative for cooperation networks and cluster management; the focus of the 2004 Development Law in *Greece* on support for strategic innovative sectors; the reinforcement of existing trends in *Ireland* towards greater financial and policy resources for promoting innovation, R&D and competitiveness post 2006; the significant weighting attached to innovation in *the Netherlands* under both *Peaks in the Delta* and the specific regional Peaks programmes which are currently being developed; the greater strategic focus in *Portugal* on the three pillars of the new Technology Plan - knowledge, technology and, especially, innovation; the new programmes for competitiveness and innovation in *Spain*; the focus in *Sweden* on regional innovation under the Regional Growth Programmes; the ongoing diversification of business support measures in the *United Kingdom*, with a strong innovation component to the activities of the English RDAs as well as in Scotland; and the introduction of a new Centre of Expertise programme in *Norway*. In addition, the increasing alignment of domestic and EU regional policy goals is associated with a growing policy stress on innovation in countries like *Austria*, *Finland* and *Italy*.

A related development has seen regional programming take on a more prominent role in recent years. For instance, partnership-based regional growth fora are being established in *Denmark* (under the 2005 Business Development Act), new regional *Peaks in the Delta* programmes are being developed in *the Netherlands*; Regional Growth Programmes have been introduced in *Sweden*; and the stress placed on regional-level programming has increased in most of the larger EU10 countries. For instance, in *Poland*, the new policy period will include plans for 16 regionalised operational programmes, with regional self-governments responsible for their development and implementation.

(iv) *More regionalisation, more efforts to improve coordination*

Finally in relation to policy *delivery*, recent developments broadly confirm two longer-term trends - on the one hand, the move from a top-down, centrally-driven approach to regional policy to partnership-based, regional programmes built around the active involvement of regional and local actors; and, on the other, related efforts to improve policy coordination.

As far as the regionalisation of policy is concerned, a number of recent developments are worth mentioning. One already highlighted is the creation of five new regions with statutory economic development powers in *Denmark*. This represents an obvious strengthening of regional-level inputs, as does the establishment of partnership-based regional growth fora in the regions. In *Finland*, too, both the new Structural Funds Act and revisions to the Regional Development Act are expected to increase the regional policy role of regional councils. In *Italy*, there has been a gradual process of regionalisation which culminated in the reform of Title V of the Constitution in 2000-01. Since then, the focus has been on enhancing public sector administrative capacities in the regions, especially in the *Mezzogiorno*; the goal of improving regional administrative capacity is included in the 2007-13 NSRF draft. In *Sweden*, the 2001 regional policy Bill made clear the commitment to regionalisation; Municipal Cooperation Bodies have in recent years begun to take on regional development responsibilities from the County Administration Boards (including responsibility for Regional Growth Programmes). In the *United Kingdom*, there have been strong devolutionary processes over the past decade. Recent developments have seen the continued expansion of RDA activities and budgets in England, as well as an increase in their role in formulating national policies with regional impacts. In *Poland*, recent developments have seen the creation of a dual system of regional governance, involving Marshal's Offices on the one hand (representing regional government) and the Voivod on the other (the regional part of central government). Marshal's Offices currently have responsibility for formulating regional development strategies and Regional Operational Programmes. Plans for the next programming period may strengthen their role, but this will depend on the resources and responsibilities allocated to regional governments.

The regionalisation process has been somewhat different in *the Netherlands*. A feature of *Peaks in the Delta* is that it set out a vision of economic development in the regions which the Ministry of Economic Affairs is prepared to support through its policy choices. To implement this new policy approach, the Ministry has changed the organisation of its regional development activities from sectoral (investment aid, industrial estates etc) to geographical lines (the six Peaks regions). In addition, each region has been charged with establishing a Programme Commission (with members drawn from the private sector, knowledge industries and the public sector) to devise a sustainable and coherent programme against which responses to project calls-for-tender can be prioritised. Three-fifths of the Peaks budget will be paid out in line with the regional priority listing; the remaining 40 percent will be allocated to the top-ranked projects from a national perspective.

As regionalisation trends have developed, so more policy focus has been placed on policy coordination - regionally (mainly through application of programme-based partnerships),

nationally (encouraging national sectoral ministries to take more account of regional priorities) and between the centre and the regions.

The increasing stress placed on regional programming and partnership has already been discussed, with recent changes highlighted in respect of *Denmark* (new regional growth fora), *the Netherlands* (the new regional programmes under *Peaks in the Delta*), *Sweden* (new Regional Growth Programmes) and *Poland* (planned new regional operational programmes).

At the national level, it can be challenging to create an environment where national sectoral ministries are prepared to adopt a regional development perspective. It is for this reason that it is often at the regional level that policy coordination in practice takes place. However, there are obviously also a number of national coordination bodies including the BKA in *Austria* and the DIACT in *France*, while in both *Sweden* and *Finland* regional policy legislation underlines the importance of policy coordination across national sectoral ministries. In addition, an important new initiative in *Norway* has seen a Cabinet sub-committee established to follow through on the new government's regional development agenda, coordinating and developing relevant policy measures. Thus far, the group is perceived to have operated very effectively, having in particular had a significant impact on the contents of the 2006 White Paper which stressed the importance of policy coordination across government.

As regards central-regional coordination, an important recent development was the decision in *Germany* to continue with the GA as a joint federal-*Land* coordination body for regional policy following a review which had aimed to separate out federal and *Land*-level tasks. Also important are recent developments in the *United Kingdom* where the growing remit and role of the RDAs in England has created some tensions between regional and national policy priorities. This in turn has led to a new framework for measuring RDA performance which is seeking to provide a mechanism to ensure that RDA efforts to tackle regional priorities also serve Government targets.

3.3 Comparative points

Summarising the above discussion, a first point to make is that the scale of *strategic* change has been relatively limited, with only a few new regional policy laws or White Papers in the last eighteen months. On the other hand, there have been a considerable number of developments “on the ground”, not least with a view to implementing the new strategic directions for policy which have been brought in over the past few years. The main strategic developments have been in *Norway*, where two regional policy White Papers have been published, *Germany*, where the decision to retain a joint Federal-*Land* approach to regional policy is important, and *Denmark*, where a major new Business Development Act was introduced. At the level of policy implementation, the most notable changes have been in *France* (with the introduction of competitiveness poles) and *the Netherlands* (with a completely new approach to policy delivery under *Peaks in the Delta*), though there have also been developments in *Sweden*, *Finland* and the *United Kingdom*. Moreover, in most of the remaining EU15 countries, the production of draft National Strategic Reference Frameworks has confirmed the growing strategic focus on regional growth and

competitiveness and the increasingly close relationship between EU and domestic regional policies. This is also the case in the EU10 countries, including *Poland*, where the developing 2007-13 strategy adopts an all-region approach with much more emphasis than in the past on competitiveness and productivity.

As regards *legislative* changes, the Business Development Act in *Denmark* is of obvious significance. There has also been important regional aid legislation in *Germany* (a new Investment Allowance Law), *Greece* (a new Development Law), *Italy* (a new law amending the main regional aid legislation) and *Sweden* (legislative change following the regular regional aid review cycle). Less significant aid-related amendments have also been made in *Belgium*, *France* and *Portugal*. A final and noteworthy change has been the approval of a new social security concession in *Norway* by ESA, taking advantage of the fact that the 2007-13 Regional Aid Guidelines permit operational support in very low population density areas.

Four main themes emerge from these various developments. First, in almost every country, the main focus of regional policy is now on regional growth and competitiveness, as confirmed by the summary overview of regional policy objectives in Table 3. Nearly all the new laws and strategic documents over the past four years stress the importance of enhanced regional competitiveness, growth and productivity for regional (and national) development. At the same time, the recent changes in *Denmark* and *Norway* also favour peripheral areas. A review of Table 3 confirms the continuing priority attached to specific problem regions in a range of countries, including most of the EU10 Member States. In this context, it is of note that, in *Poland*, the policy focus on growth and competitiveness is balanced in the draft NSRF by a commitment to counter social, economic and spatial marginalisation (not least in the poor agricultural regions in the east).

Second, although an all-region approach is now found in most countries, the geography of policy remains important. This is seen in the changes in *Denmark*, where the issue of spatial selectivity has moved up the policy agenda; in *Norway*, where the peripheral areas (districts) have moved back into the spotlight following a change of government; and in *the Netherlands*, where parliamentary pressures have resulted in a four-year transitional period in favour of the north. In addition, increasing emphasis is now placed on the regional policy role of urban areas - both from the point of view of the establishment and maintenance of effective regional settlement structures (as, for instance, in the Nordic countries) and considering urban centres as key motors of economic development (stressed in countries like *France*, the *United Kingdom*, and *Ireland*). Urban areas have also emerged as a focus for policy in most of the EU10 countries. In short, despite the clear shift towards an all-region policy approach, the spatial orientation and implications of regional policy remain a core issue in most Member States.

Third, there has been a very obvious shift from narrowly-focused investment aid to broader measures in support of the business environment; this reflects the increasing policy weight attached to regional programming and, associated, the growing importance of innovation-oriented measures. Across a range of countries, there is clear evidence of the declining significance of regional aid (more selectivity in award, the replacement of grants by loans, lower budgets, reduced aid ceilings), even though firm relocation remains a significant

concern in a variety of countries (including *France* and *Austria*). Only the re-establishment of the social security concession in *Norway* represents a move in the opposite direction. As investment aid has declined in significance so innovation support has become more important. The past year or so has seen the introduction of competitiveness poles and Centres of Expertise in *France*, *Wallonia* and *Norway*; important new national innovation measures with regional implications in *Spain* and *Portugal*; a continuing strong emphasis on regional innovation policies in *Austria*; and more stress on innovation within regional programmes and strategies in countries like *Sweden*, *Finland*, *Italy* and the *United Kingdom*. Within the GA in *Germany* there has also been an extension of support towards softer forms of assistance including for cooperation networks. Amongst the recent regional programming developments, the establishment of regional growth fora in *Denmark* and the regional *Peaks in the Delta* programmes in *the Netherlands* are of particular note; regional-level programming is also becoming more important in the EU10, with plans for 16 regional operational programmes in *Poland*, for instance.

Last, as far as policy delivery is concerned, recent developments confirm the longer-term trend towards partnership-based, regional-level involvement in regional policy, with an associated enhanced stress on policy coordination. The main regionalisation developments in the past year or so have been in *Denmark*, with the five new regions being given statutory economic development powers and with regional growth fora being established. In addition, countries like *Finland*, *Italy*, *Sweden* and the *United Kingdom* have continued their recent regionalisation processes. In *Poland*, too, the Marshal's Offices (representing regional government) seem likely to be given enhanced responsibilities for formulating regional development strategies and delivering regional programmes. The regionalisation process in *the Netherlands* is somewhat different in that the vision of economic development in the regions is a national one (as established in *Peaks in the Delta*). To progress its implementation, the regional policy section of the Ministry of Economic Affairs has adopted a regional organisational structure. In addition, regional Programme Commissions have been set up to develop regional programmes and set priorities; three-fifths of the Peaks budget will be allocated to projects which meet regional priorities while the remaining two-fifths will go to projects which reflect national priorities in the regions.

The increased focus on regional programming has brought more policy coordination to the regions via enhanced regional partnership. There has also been more weight attached to national policy coordination in countries like *Sweden*, *Finland* and also the *UK* where the regional policy public service agreement involves three departments. In *Norway*, national coordination has been improved by the establishment of a Cabinet sub-committee to follow through on the government's regional development agenda. The view is that political-level support is essential if regional development priorities are to be taken into account by national sectoral ministries. Finally, as regionalisation has increased, central-regional coordination has moved up the policy agenda. In this context, the decision to retain the GA coordination framework in *Germany* is of particular note, as is the development of new tasking frameworks for the RDAs in *England* which aim to ensure that RDA regional priorities also serve national government targets.

4. THE COMPONENTS OF REGIONAL POLICY

The aim in this section is to move from the general overview of policy change provided so far to a more detailed review of change with respect of the main components of policy - regional incentives, support for the business environment, regional programming and strategy development, and a final miscellaneous group of policy changes.

4.1 Regional incentives

The main regional aid changes are set out in Table 4. They are discussed in more detail in the next section, focusing on those Member States where there is change to report. A final section briefly draws together the main themes to emerge.

4.1.1 *A country-by-country review of change*

In *Belgium*, EU state aid pressures led to the withdrawal of previous (1970 and 1978) federal framework laws and their replacement by separate regional aid legislation in Flanders and Wallonia. In Flanders, the new decree was introduced in January 2003 but was then amended in 2005 following feedback from the business sector. Different from the framework legislation, the new system takes the form of a budget-limited, call-for-tender approach for investment of up to €8 million and highly selective, directly-negotiated awards for larger ‘strategic’ projects. Such awards are rare. Aid ceilings remain unchanged at 14 percent for large projects in Zone A and 21 percent in Zone B (with up to a further 10 percent for SMEs). In Wallonia, there was a similar move away from automatic, demand-driven awards, though a call-for-tender approach was not adopted. The new legislation, which came into force in 2005, was much more selective, with awards for large projects taking the form of a ministerial decision based on the recommendations of a technical committee. From the start of 2006, extra support was made available to SMEs and in certain zones defined by decree (*zone franche*); support was also made available in newly-selected competitiveness poles. The maximum aid for large firms was 22 percent in 2005 and fell to 21 percent in 2006.

In *Finland*, a new Aid to Business Act is in preparation. The current Act (1068/2000) runs until the end of 2006. It is being reviewed, on the one hand, to take account of the new Regional Aid Guidelines (influencing, amongst other things, the coverage of the designated aid areas) and, on the other, to reflect the outcome of a recent evaluation of the support available under the Act. Although no major changes of policy direction are anticipated, a number of amendments are planned. One likely development is that the volume of aid for investment will fall (since it can no longer be co-funded under the Structural Funds), while support for broader development activities will increase. In addition, the current aid maxima (30 percent in Aid Area 1, 25 percent in Aid Area 2 and 20 percent in Aid Area 3) will be cut back significantly outside Aid Area 1. Further, building on evaluation results, the main aid schemes are likely to become more focused. Finally, amongst a range of other amendments, aid to large companies is likely to become more restrictive, investment aid will be concentrated more on regions in the north and east, award conditions will be simplified and streamlined, and evaluation and monitoring will be further developed.

Table 4: Recent regional incentive changes (2005-06)

Austria	No legislative change. Since 2000, ERP loans have been the sole federal-level regional aid.
Belgium	In Flanders, a new decree concerning business aid was introduced in January 2003 and amended in January 2005 in response to business feedback. It takes the form of a budget-limited call-for-tender system for investment of up to €8 mn and a highly selective system for 'strategic' projects. In Wallonia, 2004 regional aid legislation was modified in 2005 following a change of government. In 2006, extra support was made available for SMEs and in specific zones (<i>zone franche</i>) as well as in newly-established competitiveness poles. The new approach is selective compared to the previous automatic award system. Aid ceilings are being cut by 1 % point each year to 2007.
Denmark	No regional incentives since 1991.
Finland	No legislative change. New Aid to Business Act in preparation. Likely amendments include: a reduction in funding of aid to investment (since it will not be co-funded in future); lower aid ceilings outside Aid Area 1 (in response to the Regional Aid Guidelines); a more focused approach to aid, with more restrictive large firm support and investment aid targeted at the north and east.
France	A 2005 decree made minor changes to PAT eligibility; it also brought legal definitions into line with changed EU definitions. More significantly, new PAT legislation is under development. It is likely to see the PAT continue to focus on nationally important projects with structural impacts; there is also likely to be more selectivity (reduced budgets) and more narrowly defined aid areas.
Germany	Minor GA changes have favoured innovative products and R&D projects. More significant have been ongoing (and future) budgetary cutbacks. These have seen lower aid ceilings at the <i>Land</i> level. GA ceilings are themselves expected to fall in most aid areas in 2007-13, especially for large firms. The <i>Investitionszulage</i> , a fiscal aid available only in the new <i>Länder</i> , was extended for 2007-11.
Greece	In December 2004, Development Law 3299/2004 replaced Development Law 2601/1998. The law aims to change Greece's investment profile and improve its competitiveness and attractiveness (in the context of balanced growth/regional convergence). The law: increases award rates (especially for technology-based firms), reduces minimum investment costs, removes discrimination between new and existing firms and simplifies administration. The focus is on new technologies/innovation.
Ireland	No legislative change, though less emphasis is now placed on grant funding. In 2007-13, regional aid ceilings will be much reduced, with implications for FDI policy.
Italy	Law 80/2005 has replaced grant awards under Law 488/1992 with a mix of grants and loans. This reflects a shift away from investment support and towards context measures; reduced aid budgets; and the fact that regional aid is becoming mainly a regional responsibility. Aid is more targeted and selective. Instruments are favoured which are innovative in terms of aims or implementation.
Luxembourg	No legislative change.
Netherlands	No legislative change. The budget for the centralised IPR has been cut from €23mn in 2002 to €13mn in 2004-06. Looking to the future, the IBO concluded that the IPR should not continue, but the government was more cautious, given perceived dangers of firm relocations. The Dutch parliament also has concerns; it passed a motion that €10 mn be set aside for the IPR in 2007.
Portugal	Minor changes were made to the main aid, the SIME, in 2005 to promote internationalisation and increase award rates for projects with environmental added value. In 2006, the basic aid ceiling for investment in fixed assets was lowered from 30 percent to 25 percent and award supplements were added for job creation. Also, a separate SIME-internationalisation scheme was set up.
Spain	No legislative change. The Regional Investment Grant remains basically as originally introduced.
Sweden	Changes to the regional aid regime were made from 1 July 2005. The Regional Development Grant was renamed Regional Investment Aid. There was a gradual phase out of support in Area B. NUTEK took over scheme administration in Area B where only projects of special interest are supported. ALMI loans are now available in Area B. The Employment Grant now relates only to job creation in <i>new</i> establishments, except in special circumstances in Area A. NUTEK is now wholly responsible for its administration. Rural Aid is now the Regional Grant (available to SMEs country-wide). Changes to the Transport Aid are planned. A new regional aid map is being developed.
UK	No legislative change. The SFIE replaced RSA in England from April 2004. This reflected a DTI review of business aids, a decline in RSA spending and the need to enhance the productivity perspective. A SFIE evaluation began in January 2006. In Scotland, the policy focus is moving from RSA to several more flexible measures. RSA administration has been streamlined for smaller projects; the intention in future is to focus higher awards on larger, knowledge-intensive projects.
Poland	No legislative change. For most of the post-communist period, there have been limited resources for providing business aids and the institutional infrastructure is still developing. Accordingly, the focus has been on tax exemptions (as in the system of Special Economic Zones). However, under the 2004-06 sectoral OP to increase competitiveness, investment grants are now available for investment meeting specified conditions. Regional differentiation under such support is limited.
Norway	No legislative change. ESA has announced that it will not object to the re-introduction of the social security concession in the least-populated areas from the start of 2007. The proposed regional aid map for 2007-13 has also been approved, covering areas of low population density (27.5 percent population coverage).

In *France*, the number of projects in receipt of regional aid (under the PAT scheme) has been in decline, reflecting falling budgets and the lack of major job-creating projects. On the other hand, there was an upturn in early 2006 due to the competitiveness pole initiative (at which 30 percent of the PAT budget is targeted) and the imminent change of regional aid regime (involving more restricted aid areas and lower budgets). A 2005 evaluation of the PAT noted its focus on large projects and concluded: that it provided a strong catalyst for public intervention in business projects; that it involved only limited windfall profits; and that it also had a positive impact on firm turnover. For the future, the five main recommendations concerned: scheme simplification in line with the interest of the project and the potential impact of the PAT; the adoption of a more concentrated approach to the designated aid areas; the promotion of investment in the fields of innovation and technology; the closer linking of the scheme to business logic; and qualitative improvements in scheme administration. These recommendations are broadly in line with the DIACT strategy of focusing the PAT on nationally-important projects which impact on economic structures. In addition to these PAT developments, further progress has been made in delegating responsibility for certain aid schemes to the regional level.

In *Germany*, the federal component of the GA budget has fallen by more than half since 1999, partly due to lower developmental needs in the new *Länder* and partly because of broader fiscal constraints. It will also fall in future, with the announcement of an annual €100 million cut in the federal GA budget from 2006. In recent years, regional aid change has been limited. Under the latest GA plan, the eligibility rules now allow funding to be allocated to businesses which bring innovative products to market; the aid ceiling for applied R&D projects has also increased (from €200,000 to €500,000). Looking to the next policy period, the aid ceilings which have been proposed suggest a reduction for most categories of aid area (especially for large firms). On the other hand, the legislative basis of the automatic, tax-related Investment Allowance, which is available only in the new *Länder*, has been extended to cover the 2007-11 period.

In *Greece*, Development Law 3299/2004 was adopted in December 2004 as a replacement of Development Law 2601/1998. The law followed the election of a new government in March 2004. Its main purpose was to improve the competitiveness of Greece and its attractiveness as an investment location, though it was also seen as contributing to balanced growth/regional convergence. Some of its key features included: subsidies for high value added as well as for job creation; the promotion of large-scale investment and investment with an international orientation; a flexible tax regime for high technology and new product investments; administrative simplification; special provisions for lagging regions, for investment important to national growth, and for large enterprises facing closure; support for SMEs, especially in lagging regions; and special *ad hoc* aid for sectors or regions with serious employment or development problems. Compared to the old law, the main differences are: that higher award maxima now apply to dynamic and technologically-advanced projects in better-off areas (in Athens and Thessaloniki); that minimum eligible investment costs have been reduced while eligible investment has been widened (taking in new high value added products and services); that there is now no discrimination between new and existing enterprises (previously the former were favoured); and that aid administration has been simplified and speeded up.

In *Ireland*, there has been no recent legislative change though there has been a reduced emphasis on grant funding over time. Looking to the future, the new regional aid maps for 2007-13 will involve some substantial changes. Most notably, the Dublin and Mid-East regions (which previously had aid ceilings for large projects of 17.5 percent and 18 percent respectively) will no longer be eligible for regional aid, other than for SMEs. The Border, Midland and West region, which currently has an aid ceiling of 40 percent, will have a ceiling of 30 percent up to and including 2010. The rates will then be reduced to 15 percent for large-scale investments. The remaining regions will have award ceilings of 10 percent, until either 2008 or 2013. These changes mean that the regional aid capacity in Ireland will be considerably reduced, particularly after 2008. As a consequence, future aid schemes seem likely to focus on SME and R&D support. With respect to FDI, the focus will be on developing 'soft' support measures.

In *Italy*, an important development since the 2000-01 reform of Title V of the Constitution (dealing with regionalisation) has been that regional aid has become primarily a regional responsibility. However, there are still a few important exceptions, such as Law 488/1992, the main national regional aid law, and the tax credit under Article 8 of Law 388/2000. Regional aid has been declining in importance in the current programming period, given the broad orientation of regional policy towards 'context' interventions and measures that genuinely compensate for market failures. A reform of the regional aid system under Law 488/1992 was introduced by Law 80/2005; this reduced the extent to which grants were awarded, substituting these for a mixture of grants and loans (subsidised and commercial).

In *the Netherlands*, the sole national regional aid is the Investment Premium (IPR). In recent years, there has been a considerable cutback in the budget for the centralised IPR - from over €23 million in 2002 to around €13 million per annum for 2004-06. Looking to the next policy period, the IPR was evaluated in 2004. At an operational level, the evaluation did not suggest any significant changes to the scheme. However, the interdepartmental review of regional policy (IBO) concluded that it should not continue beyond 2006 and that its budget should instead support the *Peaks in the Delta* strategy. The government was more cautious. It is keen to ensure that the Netherlands does not suffer in international competition for mobile investment through the absence of some form of investment aid. Moreover, although there is no national IPR budget post 2006, the Dutch parliament has passed a motion that €10 million be set aside for the scheme in 2007. It remains to be seen how the government will respond to this proposal.

In *Portugal*, the main incentive under the Operational Programme for the Economy (the PRIME) is the SIME. This distinguishes between two types of eligible project: core investment projects (setting up, expansion, modernisation); and investment in competitiveness (internationalisation, energy efficiency, quality assurance/environmental protection, and human resource development). The basic rate of award is 30 percent, with supplements for specific types of project (including location outside the Lisbon region). Most awards take the form of repayable grants, with a 'completion premium' under which part of the grant is not reclaimed if certain conditions are met. Minor changes were made to the SIME in 2005 to promote internationalisation and environmental added value. Further changes introduced in 2006 included: the broadening of eligible expenditure under the energy efficiency component of the scheme; a new lower aid ceiling (25 percent) for

investment in fixed assets; award supplements for job creation (5 percent if more than 250 jobs created); and a reduction in the proportion of own capital required. In addition a specific incentive was introduced to encourage internationalisation - the SIME-internationalisation. This mirrors the setting up of a SIME-innovation scheme in 2004.

In *Sweden*, changes to some of the main regional aids were introduced by new regulations from 1 July 2005. The changes reflected the government's favouring of a more restrictive state aid regime and its related policy of replacing some grants with loans. The Regional Development Grant was renamed Regional Investment Aid. Whereas it was previously available in Aid Areas A and B, it is now being phased out of Area B (in line with expected Regional Aid Guidelines developments). As part of this, projects are eligible in Area B only if they are of "special interest" (that is, of strategic importance or particular interest for regional development). To fill the gap, new ALMI loans have become available to higher risk projects in Area B. In similar vein, the Employment Grant has become more restrictive. It will be available to support job creation only in *new* establishments, except in Area A where, in special circumstances, it will also be available for other types of establishment. Finally, Rural Aid (which had been restricted to rural areas) has been renamed the Regional Grant and is now available to SMEs throughout the country. This allows SMEs to participate in Regional Growth Programmes and EU Structural Funds programmes irrespective of location. At the same time, the Rural Loan was abolished. Overall, the aid budget for the main schemes has not changed. However, with NUTEK taking over responsibility for the administration of Regional Investment Aid in Area B from the County Administration Boards (and also now being fully responsible for the Employment Grant), more funding is available for County Administration Boards to use for other business development purposes.

In the *United Kingdom*, government expenditure on regional preferential assistance to industries has declined significantly in recent years in line with reduced demand. The overhaul of DTI business support schemes in England in April 2004 aimed to boost the productivity perspective through a shift from incentives aimed at job creation to wealth creation, with the onus on high-quality projects and skilled jobs. The new "product", *Selective Finance for Investment in England* (SFIE), is largely delivered through the RDAs. The DTI is responsible for grants over £2 million but in recent years there have been relatively few of these. An evaluation to assess the effectiveness of the SFIE began in January 2006. In Scotland, the administration of Regional Selective Assistance has been streamlined to encourage applications from smaller companies. However, the intention in future is to grant higher awards to larger, more knowledge-intensive projects rather than spreading the available support widely amongst smaller projects.

In *Poland*, there have been limited resources for the provision of business aids for most of the post-communist period and the institutional infrastructure to award aid is still developing. Consequently, the focus has been on tax exemptions - as, for instance, in the Special Economic Zones (SEZs). Companies established in an SEZ and reinvesting profits are (partially) exempt from certain taxes if certain conditions are met. There are currently 14 SEZs. After EU accession, grant aid became available under the Sectoral Operational Programme 'Increase of Enterprises' Competitiveness'. Investment grants may be offered where investors satisfy one of the following conditions: their investment is at least €10 million; they invest a minimum of €500,000 but retain at least 100 jobs for five years; they

create at least 20 new jobs for a minimum of five years; they introduce technological innovations; their investment improves the natural environment; or they invest within an industrial or technology park. If one of these conditions is met, an investor may obtain a 25 percent investment grant or employment grants up to €4,000 per job created. The award ceiling is lower in Warsaw and Poznan (15 percent) and in Kraków, Wrocław, Gdańsk, Gdynia and Sopot (20 percent). SMEs receive an additional 7.5 percent. In 2005, aid to the value of €90 million was awarded.

Finally in *Norway*, the social security concession (first introduced in 1975) has always been viewed as an important and effective component of regional policy. Until 2003, it was available across the whole country with differentiated rates which favoured the far north. However, the scheme was not compatible with the 2000-06 Regional Aid Guidelines and was, therefore, phased out. However, the 2007-13 guidelines opened up the possibility of operating aids in the least-populated areas (less than 8 inhabitants per square kilometre); this has allowed the scheme to be re-introduced from 2007 with almost the same coverage and rates as previously. In addition to this change, the 2007-13 aid area map has also been approved by ESA. This covers 27.5 percent of the national population and is limited to areas of low population density (less than 12.5 inhabitants per square kilometre). It has seen 24 municipalities added to the current designated areas (26 percent of the national population). Aid can be awarded up to 15 percent of the investment costs for large enterprises, 25 percent for medium-sized enterprises and 35 percent for small firms. This compares with current aid maxima for large companies of 25 percent, 20 percent and 10 percent (in Zones A, B and C respectively) and 30 percent, 25 percent and 20 percent for SMEs (plus an additional 5 percentage points where the investment has a strong regional effect).

4.1.2 Comparative points

In recent years, the regional policy weight attached to regional aid in general and grant aid for investment in particular has been falling. In a range of countries, including *Belgium*, *France* and *Germany*, this reflects more general budgetary pressures which have led to some significant cutbacks in regional aid budgets. In *Finland*, too, the expectation is that there will be much reduced funding for regional investment aid in the next policy period now that such support can no longer be co-financed under the Structural Funds (outside Convergence areas). In addition, there has been a fall in demand for regional investment aid in countries like the *United Kingdom* and *Ireland* in response to changing investment patterns as well as a shift towards support for ‘softer’ development activities and high quality projects involving skilled jobs. State aid pressures have also played a role, with various countries (including *Sweden* and the *United Kingdom*) following a ‘less but better’ regional aid philosophy. This has been reflected in a move to replace some grant-based support with loans in both *Sweden* and *Italy*, following the earlier move to repayable grants in *Portugal*. On the other hand, regional investment grants continue to play a central regional policy role in the vast majority of Member States and their operation has been positively evaluated in recent years in a range of countries (including *France* and *Finland*). Moreover, even in countries like *the Netherlands*, where there are plans to end centralised regional investment aid, defensive considerations mean that there is still a possibility that the centralised Investment Premium will continue post 2006.

A further feature highlighted by recent developments is that regional aid is becoming more selective. In part, this reflects the introduction of more focused policy targets (as in *Wallonia* and as planned for *Finland*), but it is also due to the move towards budget-limited, call-for-tender-based aid regimes (as in *Italy* and *Flanders*, for instance). There has, in addition, been an increased emphasis on supporting investment in the fields of R&D, innovation and technology (including in *Ireland*, *Germany*, *Greece* and the *United Kingdom*), as well as specific allocations for projects in competitiveness poles (in *France* and *Wallonia*). There has also been an explicit focus on internationalisation in *Portugal* and *Greece*. On the administrative front, a number of countries have stressed the importance of simplification and streamlining (including *France* and *Greece*) as well as evaluation and monitoring (*Finland*), while the regionalisation of regional aid provision is an ongoing issue in *France*, *Italy* and the *United Kingdom*.

Looking to the future, state aid pressures (in the form of the 2007-13 Regional Aid Guidelines) are expected to lead to significant reductions in aid ceilings almost everywhere, and particularly for large projects in Article 87(3)(c) areas (see, by way of example, the rate reductions which will come into play in parts of *Ireland*). The new guidelines are also expected to cut back markedly on designated aid area coverage.⁷

An important exception to the general rule that aid areas will be cut back is *Norway* where the aid map which was approved in July 2006 will increase population coverage from 26 percent to 27.5 percent of the national population. The designated areas are all areas of low population density (less than 12.5 inhabitants per square kilometre). Also in *Norway*, the social security concession is to be re-introduced in the areas of least population (less than 8 inhabitants per square kilometre). In the EU10, too, designated aid area coverage is broadly unchanged, though rate maxima are expected to decline. On the other hand, there is likely to be more funding for regional aid in the EU10, not least because it continues to be co-funded under the Structural Funds in Convergence regions. Certainly, it has been mainly due to the availability of enhanced Cohesion policy funding that aid provision in *Poland* has been shifting from tax exemptions in Special Economic Zones towards grant aid for investment.

4.2 Support for the business environment

The above evidence clearly suggests that the priority attached to regional aid policy is in decline, certainly at the national level in the EU15 countries. *Denmark* was the first country to abolish regional aids (in 1991) and *Austria* now also has only a low-key federal regional aid (ERP loans) following the withdrawal of the Regional Innovation Premium in 2000. As just noted, there is now also a significant possibility that the centralised Investment Premium in *the Netherlands* will end in 2006, though the regionally-administered component of the scheme may continue. In addition, regional aid budgets are in obvious decline, the demand for regional aid appears to be falling (as FDI patterns change) and state aid rules are pressing more insistently for less but better aids. On top of

⁷ Wishlade F, *Recent Developments in EU Competition Policy and EU Regional Aid Control*, EoRPA Paper 06/4, European Policies Research Centre, University of Strathclyde, September 2006

this, there has been a conceptual shift in most countries towards the promotion of endogenous development, focusing on the release of regional potential by addressing supply-side constraints. As a result, there has been a significant policy movement towards measures to improve the wider business environment in the regions. This section reviews such developments, drawing on the information in the country reports.

This is not straightforward since it touches on aspects where regional policy overlaps with other policy areas, including business development initiatives at the regional and local levels.⁸ To provide boundaries for the review, the focus is on initiatives which are considered to be part of regional policy, though nationwide measures to improve the business environment and policy initiatives at the regional and local levels are mentioned where appropriate. This section does not deal with regional policy efforts to influence the operation of national sectoral policies (such coordination measures are discussed in Section 5.2). Nor does it consider the regional programmes within which support for the business environment is often set; such programmes are discussed in Section 4.3.

For the purposes of the review, recent developments have been allocated to one of three summary tables. Table 5 highlights changes in general measures in support of the business environment, in particular the provision of business infrastructure. Table 6 concentrates on innovation-related developments - that is, measures to help improve the environment for business innovation. Table 7 focuses on recent changes in the regional development role of cities, considering regional policy measures to enhance the urban economic environment.

4.2.1 Infrastructure and related initiatives

Infrastructure support tends to fall into a number of relatively distinct categories. First, there is the provision of large-scale infrastructure to promote economic development in the regions, most obviously in the form of transport infrastructure (road, rail and sea links) but also communications infrastructure (broadband access and related ICT initiatives). The provision of such infrastructure is often a national rather than a regional priority, though it is a clear focus for Cohesion policy in Convergence regions - especially in the EU10 but also in the Cohesion countries within the EU15. Of the countries reviewed in Table 5, large-scale infrastructure provision is an important element of policy in the regions in *Poland*, *Greece*, *Portugal* and *Spain* and also plays a role in the *Mezzogiorno* in *Italy* and in the new *Länder* in *Germany*. Second, there is the provision of more targeted business infrastructure - industrial estates, science parks, technology centres and the like. Many countries support the provision of such infrastructure under their regional policies; moreover, such support has increased in significance in recent years as policy development and delivery have become more regionalised. Finally, growing policy attention is also being paid to 'softer' business environment measures, aimed at improving business development networks while also supporting entrepreneurship and related human resource development. The next section highlights a number of the main developments since the start of 2005 on a country-by-country basis, before the following section draws together some comparative points.

⁸ These are obviously often of particular importance in federal Member States or where economic development responsibilities are devolved.

Table 5: Recent changes in business environment support - infrastructure and related

Austria	An ERP infrastructure scheme supports technology centres and science parks. Also public authorities receive AWS support for communications infrastructure. The BMVIT manages various 'structural' programmes which promote cooperation and knowledge transfer via regional impulse centres. These programmes now focus on centre activities, not their physical establishment.
Belgium	In Flanders, there has been a recent stress on entrepreneurship and company start-ups. A <i>Club Gouvernance</i> was set up for entrepreneurs in 2005. Venture capital support has also been strengthened. In Wallonia, the August 2005 Marshall Plan included a range of business environment measures including competitiveness poles. A bill for cluster support was approved in April 2006. Two new agencies were set up in 2006 to improve business support coordination.
Denmark	Since the abolition of regional aid in 1991, support has focused on framework measures relating to advisory services, network building and "soft" infrastructure. The 2005 Business Development Act views regional policy in terms of innovation, ICT, entrepreneurship and human resources (reflecting the competitiveness agenda) as well as tourism and demographic balance.
Finland	The 2004 Government Decision underlined the broad approach to regional policy being followed. It highlighted the need: for affordable broadband in all areas; to develop key transport links; and to intensify regional innovation policy (with universities/polytechnics more accountable for their regional roles). The commitment to a balanced regional structure and safeguarded service provision also has implications for the quality of the business environment.
France	New measures aim to increase the preparedness of regions for economic change with the setting up of new observatories (national and regional). Regarding infrastructure, the geographical coverage of mobile telephones/broadband has a high profile, with an ICT centre of expertise in each region. New competitiveness poles provide a focus for RDA activities/territorial marketing.
Germany	The GA funds economic/business development infrastructure: industrial parks; transport; energy, water, sewage; construction of education/training institutions; and supports certain local authority projects. In 2005, the EC approved support for regional airports and technology centres. GA funds also support consultancy, training, human capital acquisition and applied R&D.
Greece	None highlighted. Infrastructure support is channelled through the Public Investment Programme budget which includes the Structural Funds.
Ireland	Infrastructure priorities under the NDP/NSS include investment in communications and strategic business sites plus improved education/training facilities. Focus on flagship parks in gateway locations (need for critical mass) and on soft support for business (university-industry links etc).
Italy	Infrastructure is the key focus of public action for regional development. Domestic infrastructure instruments are the <i>Accordi di Programma Quadro</i> (Framework Programme Agreements) and, for large infrastructure works, the <i>Legge Obiettivo</i> (Law 433/01) which became operational in 2004.
Luxembourg	No recent change. Policy aims to strengthen business support (industrial parks, finance, infrastructure, SME aid). Of regional relevance, infrastructure provision supports start-ups in the City of Sciences project in Belval-Ouest; and the Centre of Enterprise and Innovation in Foetz.
Netherlands	<i>Peaks in the Delta</i> draws on National Spatial Planning Strategy priorities: to create sufficient high quality industrial estates; to stress the role of Rotterdam port and Schiphol airport as economic drivers; and to improve accessibility to the main urban centres and growth points. These national priorities have since been used to develop regional strategies.
Portugal	The June 2005 Programme for Investment in Priority Infrastructure (PIIP) identifies 3 priorities: basic infrastructure (transport, energy, environment, culture), territory (cities, tourism, natural heritage) and knowledge information and training (especially ICT). Amongst 14 flagship projects are: urban regeneration, urban innovation networks, high-speed rail, broadband, Lisbon airport.
Spain	A July 2005 Strategic Plan for Transport Infrastructure (2005-20) had 'social and territorial cohesion' as one of four core objectives. Funding is channelled to railways (44%), roads (25%), urban transport (13%), ports/maritime (9%), air (6%), inter-nodal (1%), R&D/innovation (1%).
Sweden	In the context of regional programmes, policy instruments have a broader focus and are targeted more at innovation, education and creating an environment for firms to progress and achieve sustainable development. They have a strong focus on entrepreneurship, SMEs and innovation. In the NSRF, regional enlargement (via commuting) is promoted as a way of enhancing accessibility.
UK	Policy continues to shift towards business environment support in the regions. The five key drivers of economic growth are skills, investment, infrastructure, enterprise, competition. Policy focuses on measures to: improve employment rates, enhance skills, decentralise public employment, increase R&D spending, streamline business support. Also macroeconomic stability.
Poland	Considerable policy prominence is given to infrastructure, including under the Structural Funds. Also, Priority 1 of the OP to increase enterprise competitiveness includes measures to improve the institutional framework for entrepreneurs including consultancy services, R&D support and improved research-business links. Although the focus is national, regional inputs are growing.
Norway	Support for the business environment is a core element of regional policy: the 2005 White Paper continued support for incubators, business parks, entrepreneurship, SMEs and RTDI; this was carried forward in the 2006 White Paper which introduced the Centre of Expertise programme.

(i) *A country-by-country review of change*

This section covers only those countries where recent policy change is recorded in Table 5. Beginning with large-scale infrastructure provision, the main recent developments have been in Portugal and Spain, where new national strategic infrastructure programmes have been introduced, and in Germany, where the Solidarity Pact has been renewed for the 2005-19 period. Infrastructure provision also plays a significant role in many of the economic development strategies which are under development in the EU10.

In *Portugal*, a national Programme for Investment in Priority Infrastructure (PIIP) was approved by the Council of Ministers in June 2005. It involves planned investment of €25 billion over the 2005-09 period structured under three priorities: basic infrastructure - mainly transport, energy and the environment; territory - primarily cities and tourism; and knowledge, information and training - mainly ICT. The plan also identifies 14 flagship projects in the fields of urban regeneration, urban innovation networks, high-speed rail, broadband and a new airport in Lisbon. Provisions have been made for revisions to be incorporated in 2007 to take account of the priorities of the NSRF. In addition, the National Programme for Spatial Planning (PINPOT) was approved by the Council of Ministers in March 2006. Included within its six strategic objectives is the promotion of polycentric development (that is, strengthening infrastructure in support of territorial integration and cohesion) and ensuring territorial equity in the supply of infrastructure.

In *Spain*, infrastructure provision has historically been a key component in the approach to national and regional development. It is viewed as a basic instrument to help dynamise the economy and promote regional equilibrium and territorial cohesion, not least within the Structural Funds programmes. In 2005, the Strategic Plan for Transport Infrastructure (PEIT) was published, setting down the future direction of national transport policy until 2020. Although regionalised information is not included in the plan, 'social and territorial cohesion' is one of the four core underlying objectives of the strategy, alongside improving the efficiency of the system, promoting sustainable development and boosting economic development and competitiveness.

The Solidarity Pact in *Germany* was introduced in 1995, initially for a period of ten years. Its aim was to close the gap in the quantity and quality of core infrastructure between the old and the new *Länder*. A second Solidarity Pact has now started for the 2005-19 period, with total funding of some €156 billion for capital spending in the new *Länder*.

Within the *EU10*, investment in 'hard infrastructure' continues to be a key aspect of national and regional development plans. The Czech NSRF acknowledges that, although there will be more resources for R&D and innovation than at present, there is still a need to 'fund the basics' and to continue with the infrastructure investments of the current period. Similarly, the Slovak draft NSRF highlights the 'double challenge' that faces the country - the need to build capacity in innovation, the information society and the knowledge economy while, at the same time, responding to continuing gaps in terms of basic transport, environmental and local infrastructure. *Poland* is also continuing to place considerable policy stress on the provision of large-scale infrastructure. The development of basic infrastructure accounts for most resources under the current operational

programmes and will continue to play a prominent role in the upcoming policy period, bearing in mind the relative underdevelopment of the country's infrastructure base in a comparative EU context.

One final point to make with respect to hard infrastructure is that the regional importance of transport and communications infrastructure is also high in the *Nordic countries*, which are characterised by long distances and isolated areas, as well as in countries like *France* where the geographical coverage of mobile telephones and broadband access has a prominent regional profile. In such cases, it is the coordination of regional policy with national policies which is a core issue. In this context, it is of note that a Regional Funding Allocation Exercise is currently underway in the *United Kingdom*, led by the Treasury, DTI, DCLG, and the Department of Transport. As part of this, the Government has asked the regions for advice on their priorities in transport, housing and economic development to enhance the level of regional input into national policy development. Other examples of centre-region coordination - taking regional views on board in developing national policies - are discussed in Section 5.2.

A second infrastructure-related component of regional policy involves the provision of more targeted business infrastructure - industrial estates, science parks, technology centres and the like. Here, too, there have been some recent developments.

In *Germany*, the GA finances infrastructure projects, as long as these are clearly oriented towards economic development and business activity; such support generally accounts for between one-quarter and one-third of the GA budget. It funds industrial parks; improvements to transport, energy, water, waste water and waste infrastructure; and the construction or improvement of education and training institutions. In addition, the *Länder* can provide local authorities with GA-financed grants for specific infrastructure projects. Following the re-submission of the GA support package for European Commission state aid approval for the 2004-06 period, there were delays in agreeing parts of the package. The GA guidelines for regional airports were not approved until January 2005 and those for technology centres until May 2005. In the case of technology centres, it is now made clear that the benefits of the aid must be passed on to the firms using the centres and aid is granted subject to the *de minimis* aid rules (as SMEs are the ultimate beneficiaries).

In *Ireland*, support for business infrastructure has taken on a growing policy role as the reliance on investment incentives has declined. Business and technology parks and incubator units have been established as hubs for development in key regional locations (in line with the NDP strategy of developing internationally-competitive regional gateways). At the same time, there has been an increase in the provision of soft support for business, including via promoting university-business collaboration and encouraging enterprises to pursue activities further up the value chain.

Finally, in *the Netherlands*, *Peaks in the Delta* is closely related to the National Spatial Planning Strategy, published just a few months earlier (in April 2004). It thus focuses on six national urban networks, three "national economic areas" outside the urban networks, the two key transport hubs of Rotterdam and Schiphol and the research and development "hotspot" around Eindhoven. However, the policy emphasis is not just on these areas but

also on the three main motorway corridors which connect them - the A4, the A2 and the A12. In addition, there is an Industrial Estates Action Plan (also dating from 2004) which concentrates funding on 50 key industrial estates, with public sector funding targeting the upgrading of the 25 top industrial estates on brownfield sites with a view to ensuring that they are internationally-competitive.

Lastly, it is worth commenting briefly on the growing policy attention being paid to 'softer' business environment measures, aspects of which will be discussed in more detail in later sections. In *Denmark*, the policy focus has been on the business environment since regional aid was withdrawn in 1991. Under the 1995 Business Development Act, new statutory responsibilities for economic development have been given to the five new regions which have been established. This has significantly raised the profile of this component of public policy. The Act defines the purpose of regional policy in terms of six priority areas, four of which relate explicitly to the business environment: innovation, ICT, entrepreneurship and human resources. More basic business advisory functions have been left with the local government tier.

In *Belgium*, a number of coordination measures were introduced in Flanders in 2005 to help improve the business environment. All initiatives targeting the promotion of entrepreneurship were grouped together and business advisory activities were also collected within RDA one-stop-shops. In Wallonia, too, policy coordination has been high on the agenda. Two new agencies were created in February 2006 - the Agency for Economic Stimulation (combining existing economic support structures); and the Agency for Technological Stimulation (responsible for bringing together university bodies, research centres and technology advisers within a single support network).

In the *United Kingdom*, the balance between expenditure on direct business investment and broader measures to improve the regional business environment continues to shift in favour of the latter. Linked to this broadening agenda, business support increasingly draws in a variety of sectors and administrative levels. In England, RDAs now deliver most business support measures. At the same time, emphasis is increasingly being placed on sub-regional, urban, local or ward-level areas, with distinctions between areas where business may need particular support. The Local Enterprise Growth Initiative (LEGI), announced in the 2005 Budget, is representative of this new orientation. LEGI is a new block of potential funding for Local Authority Agreements which aim to increase local authorities' financial freedom and give them more flexibility to design services that fit local needs. It is hoped that this will help reduce bureaucracy and release the economic and productivity potential of the most deprived local areas.

Finally, in *Norway*, support for the business environment has become a core component of regional policy. One of the main promises in the 2005 White Paper was a commitment to continue government support for business incubators, business "gardens" and knowledge parks, entrepreneurship, SMEs and RTDI. Following the change of government in September 2005, this has been carried forward in the 2006 White Paper. The introduction of the Centre of Expertise programme underlines the significance attached to support for the business environment. The new government has also highlighted the important role of infrastructure provision more generally in economic development.

(ii) *Comparative points*

Apart from the introduction of major infrastructure programmes in *Spain* and *Portugal* and the second Solidarity Pact in *Germany* - which, it could be argued, are part of national rather than regional policymaking - most of the policy changes highlighted in this section are relatively low key. The most important is the new Business Development Act in *Denmark*, part of a broader re-organisation of the delivery of sub-national policies in that country. The new White Paper in *Norway* is also of significance for its continued emphasis on the business environment. On the other hand, the changes highlighted make clear that, in the face of more regionalised policymaking - whether in the *United Kingdom*, *Belgium*, *Denmark*, *the Netherlands* or indeed the *EU10* - the emphasis placed on business environment support seems clearly on the rise. This is confirmed in the next two sections.

4.2.2 *Innovation-related initiatives*

From Table 6, it can be seen that a wide range of countries have experienced recent changes with respect to the innovation components of their regional policy packages. These are first discussed on a country-by-country basis, before the main comparative points to arise are considered.

(i) *A country-by-country review of change*

In *Austria*, there has been a long-standing regional policy emphasis on innovation and technology transfer, focusing on cooperation and knowledge transfer via the so-called regional impulse centres. These centres have existed for many years and the range of support schemes associated with them has also been relatively stable. They include REGplus, which aims to strengthen regional innovation systems and enhance the role of impulse centres as initiators of regional innovation projects. A third call for tender under REGplus was launched in 2005 and resulted in 12 new projects being supported. There was also a new call-for tender under the Protec 2002+ scheme which aims to encourage the development, testing and execution of innovative technology transfer projects. At a broader level, the national research and development plan (NAFIP) was updated in 2005 (the Strategy 2010 report). Its global objective is to strengthen the competitiveness and dynamism of the Austrian economy. The plan acknowledged the importance of regions in increasing innovative and competitive capability. It recommended that regional clusters be supported, that coordination between regional and national R&D activities be improved, that the role of universities and polytechnics in research networks be strengthened and that the focus on technology transfer and network activities be increased. The Austrian NSRF (STRAT.AT) aims to implement parts of Strategy 2010 through the Structural Funds.

Table 6: Recent changes in business environment support - innovation measures

Austria	A number of federal technology and innovation-oriented aid schemes are relevant to regional development: Kplus, AplusB, Protec 2002+, REGplus. Although important, none has changed significantly in recent years, though some new calls-for-tender have been issued. In addition, the updated national R&D plan (Strategy 2010) has stressed the importance of the regional role.
Belgium	The Flemish Innovation Fund was set up in March 2006, providing equity participation for start-up companies. In Wallonia, a bill for cluster support was approved in April 2006. A call for competitiveness poles was launched in December 2005 and poles and related projects were selected in July 2006. A second call for projects will follow.
Denmark	The new Business Development Act defines the purpose of regional policy in terms of six priority areas, two of which relate to innovation and ICT. The Act follows a growth-oriented agenda which focuses on the role of the newly-defined regions in promoting economic development.
Finland	The 2004 Government Decision aimed to intensify regional innovation policy by: enhancing the regional effectiveness of universities/polytechnics; intensifying the use made of technology funding in the regions; reinforcing the Centre of Expertise Programme (which will be continued in 2007-13); and by improving innovation services to SMEs, small urban centres and rural areas.
France	Following a call-for-tender, 67 <i>pôles de compétitivité</i> were selected in July 2005, with six of international rank. These partnerships between industry, research and higher education respond to the Lisbon agenda and concerns about industrial relocations. They represent the main initiative to make France and its regions more attractive and competitive.
Germany	The 34th GA plan introduced a new measure from 2005: Cooperation networks and cluster management. This aims to support regional and supra-regional cooperation between businesses and other relevant partners. The 35th Plan changed eligibility rules from 2006 to allow support to non-profit-making, non-university, business oriented research institutions.
Greece	There is a significant (aid-based) innovation component to the 2004 Development Law. It stresses the adoption of new technologies/innovative products, as well as technological modernisation. In addition the new government has continued the practice of establishing new universities/university departments in cities or regions that did not previously have one.
Ireland	The NSS is built around determinants of sustained economic performance, including R&D and innovation. In addition, the provision of soft business support is increasingly a focus of the two main agencies, including measures to enhance university-business links and to stimulate high potential start-ups through knowledge-sharing and networking initiatives.
Italy	There are innovation-related measures under the 2000-06 O1 CSF (including an OP for scientific research, technological development and higher education) as well as in regional OPs/SPDs. The main domestic measures are primarily aid-based and national: PIA Innovation, the Fund for Technological Innovation and the Fund for Applied Research. The NSRF suggests that the role of innovation support within regional policy will increase.
Luxembourg	No change, except for new innovation-oriented business parks in Belval-Ouest and Foetz (see Table 5).
Netherlands	<i>Peaks in the Delta</i> draws on the 2003 Innovation Memorandum which had, as one of its goals, the development of a selective, region-specific innovation policy focusing on internationally-competitive "hotspots". In 2005/6, the south-east, the east and the north and south wings of the Randstad piloted the new approach. In these regions, innovation is seen as a 'peak' to develop.
Portugal	A core strand of the new government's programme is a Technology Plan, with measures to support growth and competitiveness. The plan was approved in November 2005. It identified three strategic priorities relating to knowledge, technology and innovation.
Spain	The Ingenuity 2010 programme (June 2005) has significantly increased research funding and, amongst other things, aims to improve business/researcher and private/public cooperation. It is a national programme.
Sweden	There is a strong innovation component to Regional Growth Programmes. VINNOVA is the main national body providing innovation-related business environment support via programmes such as VINN excellence centres (introduced in 2005), the VINNVÅXT programme (which aims to develop dynamic innovation systems in selected functional regions) and special support for SMEs.
UK	There is a commitment to increase R&D across the country. RDAs focus investment on start-ups/early stage businesses with growth potential/interest in R&D. RDAs also promote business-university links and have set up Science and Industry Councils to advise on regional strategic priorities. Innovation also important within the strategies of the devolved administrations.
Poland	The new strategic documents which are in preparation have seen a shift towards an all-region, growth and competitiveness strategy targeted at regional endogenous potential. The Lisbon agenda has played a prominent role in developing the new strategies, leading to an increasing stress on the development role of towns and cities in a domestic regional policy context.
Norway	The 2005 White Paper made the release of wealth-creating potential a key policy objective, enhancing the innovation environment a core strategy, and the Centre of Expertise programme an important new initiative. Although the 2006 White Paper shifted the policy focus towards the periphery, the Centre of Expertise programme was progressed and will begin in autumn 2006.

In *Belgium*, a so-called “Marshall Plan”, introduced in August 2005, set out the priority actions of the Walloon government. Many measures aimed to strengthen the business environment, including April 2006 legislation in support of clusters (networks of firms) and the selection of competitiveness poles in response to a call-for-tender in December 2005. In Wallonia, competitiveness poles are defined as “*the partnership of firms, training centres and units of public and private research designated to free synergies around a market and a technological and scientific domain which is recognised by the government*”. Five fields were identified for support (aerospace, life sciences, agro-industries, transport and logistics and mechanics) and 25 projects were selected in July 2006. Assistance takes the form of infrastructure support, aid for industrially-oriented research, investment aid, training assistance and help with both FDI and exports. The poles are felt to have created a positive dynamic regarding firm-university collaboration whilst also underlining the importance of training provision.

In *Denmark*, it has already been noted that regional policy has been defined under the 2005 Business Development Act in terms of six priority areas. Four of these relate to key drivers of economic growth (innovation, ICT, entrepreneurship and human resources) while the other two concern equity objectives (tourism and demographic balance). Although attention is paid to the needs of peripheral localities, it is the wider growth agenda which receives most stress, ensuring a strong innovation orientation to future regional policy.

In *Finland*, the Government Decision of January 2004 intensified the commitment to regional innovation policy. One of the key instruments in this field is the Centre of Expertise programme, which it has been decided will be continued into the 2007-13 policy phase. The aim of Centres of Expertise is “*to use internationally competitive knowledge and skills as a resource for business activities, the creation of new jobs and regional development*”. For each Centre chosen, the programme aims to pool the resources of the regional administration, cities and municipalities, universities and research institutes, science parks and companies in relation to particular regional strengths and knowledge specialisation. In May 2006, 30 tenders were received from which the next generation of Centres will be selected. The future focus will be on the promotion of international competitiveness in the chosen Centres. There will be fewer of them, with more focus on co-operation and networking activities within the clusters (both nationally and internationally). The stress on increased cluster-based co-operation is expected to promote further regional specialisation.

In *France*, the first *pôles de compétitivité* were selected in July 2005. They bring together industry, research and higher education in specific locations to enhance the role of industrial innovation in economic development. By concentrating efforts in a collaborative way, the aim is to achieve national and international excellence. The initiative has provided a new impulse to the cluster approach and more specifically to the “local productive systems” which operate on a smaller scale but have the potential to contribute to the general dynamism of the economy. The poles represent a significant component of regional policy and also respond to concerns about ongoing industrial relocation processes and industrial policy more generally. In July 2005, the CIADT selected 67 poles, six of which were regarded as of international rank, with nine others having the potential to join this group. The remainder are national in focus. The chosen poles have to develop projects

which comply with four main conditions: they must involve the creation of new goods and/or products with high value added and quality jobs; they must exhibit strong growth potential internationally; they must be based on sound partnership; and they must reflect an efficient strategy, with clear objectives and means. All benefit from exemptions from fiscal and social charges, the development of economic intelligence and the combining of resources. The six main poles receive priority treatment, including from the recently-established Agency for Industrial Innovation (AII), and also benefit from the targeting of new research jobs. Following the establishment of the poles, there have been two calls for projects (in December 2005 and March 2006), with a third planned for October 2006. Project selection has been relatively concentrated so far, with most linked to ICT and biotechnologies. The degree of R&D collaboration achieved has been higher than anticipated and the poles seem also to have led to new developments in the financing of R&D while increasing awareness levels more generally.

In *Germany*, the GA has introduced a number of relatively low-key changes in this area of policy. In 2005, it launched a cooperation networks and cluster management initiative. Finance was allocated for regional and supra-regional cooperation between businesses and external organisations, with a maximum of €300,000 awarded for a period of up to three years, or a maximum of €500,000 for projects with at least five partners. Participants must pay at least 30 per cent of project costs. The GA also provides funding for ‘softer’ forms of assistance in businesses, such as consultancy projects, training, human capital acquisition and applied R&D. From 2006, a change in eligibility rules for R&D was introduced in order to allow funding to be allocated to non-profit-making non-university business-oriented research institutions. Previously, funding was available for research projects in such institutions but not for the institutions themselves.

In *Italy*, there are many innovation-related measures which are implemented under the Structural Funds. In addition, there are a number of national innovation instruments including the PIA Innovation, the Fund for Technological Innovation and the Fund for Applied Research. However, as far as domestic regional policy is concerned, innovation support has not so far played a pivotal role. It is, though, expected to become an important component of future regional policy, given its orientation towards growth and competitiveness in line with the goals of the renewed Lisbon agenda.

In *the Netherlands*, *Peaks in the Delta* aimed to develop a region-specific innovation policy by stimulating those aspects of the innovation process which take place at the regional level, by promoting regional technology transfer and by exploiting the innovation strengths of particular regions. The intention was to be selective. The Eindhoven area in the south-east was chosen as the first of these areas but three other regions are also thought to have specific innovation potential - the east (including Arnhem and Twente) and the north and south wings of the Randstad. In the period up until the full launch of *Peaks in the Delta* in 2007, the approach to stimulating regional innovation is being refined. In effect, there is a bridging period which is being used to pilot new initiatives. Building on this experience, there is a significant innovation component to a number of the recently-published regional Peaks programmes.

In *Portugal*, the Technology Plan approved in November 2005 forms a central strand of the new government's economic development strategy. It identifies three strategic priorities (relating to knowledge, technology and innovation) and seven objectives. It does not, however, have a specific regional orientation.

In *Spain*, the 'Ingenuity 2010' programme was launched in June 2005, outlining the government's plans and commitments in the fields of R&D, innovation and the information society. Amongst the core objectives of the programme are much increased financial resources for public research centres of excellence, new funds for large scale and long-term research projects, widened scope and flexibility in supporting research themes, and greater cooperation amongst businesses and researchers and between the public and private sectors. The plan is being implemented through three new policy instruments: CENIT, to increase public-private cooperation on R&D and innovation; CONSOLIDER, to form and consolidate leading research groups; and AVANCA, to boost the information society (involving significant collaboration with regional and local governments).

In *Sweden*, there is a strong innovation component to the Regional Growth Programmes. The Swedish Governmental Agency for Innovation Systems (VINNOVA) is the main body which provides support to improve the innovation-related business environment. Amongst its key programmes are: VINN excellence centres - a centre of excellence programme introduced in 2005 which focuses on the fields of working life and transportation and aims to develop high quality and internationally-competitive research groups; and VINNVÄXT - a programme which aims to encourage regional growth and competitiveness through dynamic innovation systems. This involves increasing co-operation between universities, companies, and public organisations in selected functional regions (Triple Helix model).

In the *United Kingdom*, the Government is committed to increasing levels of R&D expenditure. In England, the RDA's focus their investments on start-up and early stage businesses which have growth potential and the ability to drive up overall business investment in R&D. They also take the lead in promoting business-university links and have recently set up Science and Industry Councils, which bring together business leaders, scientists, and local and regional government to provide strategic advice on regional science and technology priorities. Collectively, RDAs have increased spending on innovation from £240 million per annum in 2003-04 to a planned £418 million in 2007-08 (14 percent of RDA expenditure). In Scotland, the Intermediary Technology Institutes (ITIs) represent an important new initiative, with funding of £450 million over ten years. There are three ITIs (which operate Scotland-wide) focusing on life sciences, energy and communications technologies and digital media. They are 'hubs' for identifying, commissioning and supporting the diffusion of market-focused pre-competitive technology.

In *Norway*, the new Centre of Expertise programme, which is due to start in autumn 2006, is designed for small and medium-sized cities which have a mix of skills to be able to compete on the world stage with respect to certain products. The aim is to strengthen regional industrial and knowledge clusters which include businesses that have growth ambitions and international competitiveness potential. Up to ten regional business clusters will receive support to develop co-operation and relevant strategies. The programme is to be run by the business sector, but must involve binding co-operation agreements with a

regional R&D cluster. Innovation Norway, SIVA and the Norwegian Research Council, which are the key innovation bodies in Norway, are responsible for developing the programme. Following a call-for-tenders in November 2005 which generated 24 proposals, six were chosen in April 2006. The selected centres are Hordaland (subsea technology); Kongsberg (systems engineering); Møre (maritime); Raufoss (light materials and automated manufacturing); Trøndelag (instruments) and Horten (microsystems).

Finally, in *Poland* (and most of the remaining EU10 countries), the new strategic documents which are in preparation for the 2007-13 period trace out a shift towards an all-region growth and competitiveness strategy targeted at regional endogenous potential. In this context, the Lisbon agenda is playing an important role in shaping future policy directions, with an increasing policy profile for innovation-oriented measures, often centred on the capital city regions and main urban centres.

(ii) *Comparative points*

This brief review shows very clearly the importance of innovation-oriented measures within domestic regional policy. This has long been the case in *Austria*, where regional policy has been in the form of a regional innovation policy for many years now. In addition, a range of innovation-oriented policy measures have recently been introduced - important new competitiveness poles in both *France* and in Wallonia in *Belgium*, a new Centre of Expertise programme in *Norway*, the new VINN excellence centres in *Sweden* alongside the longer-running and important VINNVÄXT programme, and the decision to carry forward and update the long-standing Centre of Expertise programme in *Finland*. In addition, regional-level programmes have had a major role in increasing the focus on innovation - through the new regional growth fora in *Denmark*, a number of the new regional Peaks programmes in *the Netherlands*, the Regional Growth Programmes in *Sweden* and, in the *United Kingdom*, through the activities of the RDAs in England and Scottish Enterprise in Scotland. In federal countries, too, many of the *Länder* in *Germany* and *Austria* have long stressed the importance of innovation in their economic development programmes. Looking to the future, the growing emphasis being placed on the Lisbon agenda seems certain to ensure an enhanced priority for innovation in *Italy*, given the increasing alignment of domestic and EU regional policies, as well as in a range of other Member States where Cohesion policy funding is significant (including most of the *EU10*).

4.2.3 *Urban-related initiatives*

The aim of this section is to indicate the types of regional policy initiative which have recently been introduced in support of the regional development role of urban areas. Such measures, on the one hand, tend to reflect the growth and competitiveness agenda and the increasing weight attached to cities as motors of economic development. On the other hand, they arise out of the growing emphasis on territorial cohesion in a number of countries, with towns and cities seen as key building blocks in achieving a balanced and sustainable regional structure. An overview of recent urban-oriented changes is provided in Table 7.

Table 7: Recent changes in business environment support - urban measures

Austria	None highlighted.
Belgium	None highlighted. In Flanders, urban policy focuses on Antwerp and Ghent and on medium-sized towns within urban conurbations. Policy focuses on reducing migration to the suburbs. In Wallonia, a February 2006 framework decree has identified three types of designated urban area: areas facing structural difficulties; areas which have suffered an economic shock with severe local consequences; and areas of economic activity adjacent to a regional airport.
Denmark	The 2005 Business Development Act focus on innovation, ICT, entrepreneurship and human resources has an implicit urban orientation (which is balanced, to a degree, by the inclusion of tourism and peripheral areas amongst the six priority fields).
Finland	The 2004 Government Decision stressed the need: to develop functional urban areas (not least through the Regional Centre programme); to intensify cooperation within the Helsinki region; to strengthen the international competitiveness of 9 major urban centres. An innovation network has been established under the Regional Centre programme for 25 medium-sized/small cities. The decision has been taken to continue and update the programme in the next policy period.
France	The 2003 CIADT set out a five-prong strategy to improve the European importance of French cities and their role as economic motors: reinforcing their economic influence; strengthening their higher education/research activities; supporting culture/art via major infrastructure; relocating public sector jobs; improving transport access. Recent stress on medium-sized cities.
Germany	None highlighted under the regional GA. There are, however, various forms of urban support which sometimes target structurally-weak areas. Urban policy more generally benefits problem regions.
Greece	None highlighted.
Ireland	The NDP/NSS is built around the idea of developing a number of high-quality, well-served and effectively-networked regional gateways and hubs, designed to broaden the number of areas that can offer viable locations for internationally-competitive enterprise.
Italy	None highlighted. In the next policy phase, the indications are that there will be more focus on the economic development role of urban areas. The draft NSRF has the competitiveness and attractiveness of cities and urban systems as one of its (ten) priorities.
Luxembourg	None highlighted, apart from the "City of Sciences" plan for Belval-Ouest (see Table 5).
Netherlands	The economic development role of cities has been increasing. The government signed covenants with the 30 big cities in February 2005 (for 2005-10). The funding involved is part of the broader regional policy budget. In addition, urban areas play a central economic development role under the <i>Peaks in the Delta</i> approach, including in the emerging regional Peaks programmes.
Portugal	The PIIP devotes €1.6bn to cities over the 2005-09 period, including urban regeneration projects and urban innovation networks. Lisbon and Oporto are seen as the key economic drivers. Amongst broader urban-related measures, the government has recently adopted new guidelines to increase the efficiency of central government intervention in problematic urban areas.
Spain	None highlighted. Spatial and urban policies are not part of national economic development policy due to the distribution of power across government tiers; rather they fall within regional and local government remits. Central government policies are highly sectoralised. As noted, part of the available infrastructure funding is explicitly directed at metropolitan areas/urban centres
Sweden	Cities now included in the analysis of regional development (as basic elements of the regional fabric and drivers of growth). Urban policy aims to provide the conditions for growth and tackle urban problems. The development role of cities is seen as important for their own development <i>and</i> for surrounding areas. NUTEK is currently studying urban issues from a growth perspective.
UK	Urban issues are becoming more prominent in emerging approaches to regional development. The spatial dimension of the productivity agenda has been strengthened by focusing on urban economic policy. In England, a regional strategic framework has emerged to deliver and implement urban measures (via the RDAs and partners). City-regions also lie at the core of the Smart Successful Scotland economic development strategy.
Norway	The 2005/2006 White Papers signalled the importance of urban areas for regional development, especially small & medium-sized cities (though the 2006 White Paper also particularly stressed the importance of peripheral districts). Business locations in such cities are being developed via the 2006 Centre of Expertise programme. A previous 2003 urban policy White Paper focused on 6 large cities as drivers of regional development and the locations of significant R&D institutions.

(i) *A country-by-country review of change*

In a first group of countries, a clear set of urban-related initiatives can be identified (though often accompanied by other measures targeted specifically at rural and other categories of area).

In France, for instance, urban areas are supported through several initiatives which vary in scale and scope: the “*politique de la ville*” mainly targets urban zones in difficulty whereas other spatial policy instruments were developed to counterbalance the dominant role of the Paris region and, to a lesser extent, the regional capitals.

The December 2003 CIADT⁹ set out a five-pronged strategy to improve the European importance of French cities and to stimulate their potential as motors of regional development. This included: reinforcing their economic influence; strengthening their higher education and research activities; supporting their cultural and artistic influences through infrastructure provision; continuing the policy of transferring public sector jobs from Paris; and improving transport access. This has been followed up by the selection of 15 *métropoles* on which to concentrate support. More recently, the French government has stressed the importance of medium-sized cities in economic development. The March 2006 CIADT reinforced this approach.¹⁰ Medium-sized cities are seen to play a significant role in transferring the dynamics of the global metropolitan areas to the rest of the national territory, in particular in the suburban and rural environment.

Of course, the point has to be made that, alongside these urban-oriented policies, there are also a range of spatial policy measures targeted at rural, coastal and mountainous zones. By way of example, the so-called “zones of rural development” have recently been renewed and rural excellence poles, which aim to stimulate entrepreneurship and innovation in rural areas (the rural equivalent of competitiveness poles), were introduced at the July 2005 CIADT. They are currently in the process of being selected and established.

In the Netherlands, the economic component of urban policy has, in recent years, become more closely associated with regional policy; the improved economic performance of the major cities since the mid 1990s has meant that they have come to be viewed as one of the key drivers of Dutch regional development. Over the 2002-03 period, the Ministry of Economic Affairs undertook an exercise under which the 30 major cities were asked to prepare proposals relating to their future economic climate, space for physical development and promotional activities. Building on this, each city subsequently developed a multi-year economic development plan. The government signed covenants with the 30 cities in February 2005 in relation to programmes for the 2005-10 period. These covenants focused mainly on physical investment and social integration/security but also included specific economic components, directed in particular towards industrial estates, new firm formation, innovation and tourism.

⁹ *Comité interministériel d'aménagement et de développement du territoire* - Interministerial Committee for Regional Policy

¹⁰ From October 2005 the CIADT became the CIADT, *Comité interministériel d'aménagement et de compétitivité des territoires*, following the change of name of DATAR to DIADT

Of even more significance in a regional policy context is the new *Peaks in the Delta* approach. This builds specifically on regional strengths which, in most regions, are centred on urban areas. For instance, in the northern Randstad, the emphasis is on developing international services and related activities based around Schiphol airport; in the east, the stress is on utilising specialised knowledge-based services located in the main university towns; and, in the south-east, the goal is to create a world class technology region, based on Eindhoven and neighbouring areas.

In Finland, the main urban-oriented regional policy initiatives are the Centre of Expertise programme, which aims to strengthen the research and knowledge base in the main urban areas, and the Regional Centre programme, which helps to support small and medium-sized urban centres and create networks between them. There are, in addition, other regional policy programmes directed towards rural and island areas.

The Centre of Expertise programme has already been discussed. Although the focus is on selected centres, the influence of the programme is not limited to city-regions but, in a number of instances, extends more broadly across regions. For its part, the Regional Centre programme aims to support the development of a network of regional centres beyond the five main urban areas (Helsinki, Oulu, Tampere, Turku-Salo and Jyväskylä). The emphasis is on strengthening the competitiveness of regional centres and promoting cooperation in the regions between municipalities and the public and private sectors. The goal of the programme is to enhance regional dynamism by intensifying joint business and service policies, promoting their coherence and encouraging networking. In addition, the regional centres are encouraged to cooperate with surrounding rural areas to help safeguard services. As with the Centre of Expertise programme, the decision has recently been taken to continue with an updated Regional Centre programme in the next policy period.

In Norway, it was noted earlier that the Centre of Expertise programme put forward by the previous government was retained in the 2006 White Paper and will begin in autumn 2006. The programme is designed for small and medium-sized cities and aims to help them to compete internationally with respect to certain products by providing support for selected regional industrial and knowledge clusters.

In addition to these specific urban-related regional policy initiatives, there are indications in a second group of countries that an urban component to regional policy is developing, partly because of the increasing stress on the growth and competitiveness agenda (including at the EU level) but also, in some countries, due to the more regionally-driven approach to regional policymaking.

In Italy, there are currently no specific urban initiatives within national regional policy though a number of interventions to develop and/or regenerate cities can be found in EU regional programmes. In the next policy phase, the indications are that there will be more focus on the economic development role of urban areas. In particular, the draft NSRF has, as one of its priorities, the competitiveness and attractiveness of cities and urban systems.

In Sweden, the increased emphasis on an all-country approach to regional policy has enhanced the role of cities in regional development; increasing the economic development

significance of city-regions is viewed as beneficial "not just for the cities themselves but also for their hinterlands".¹¹ The development role of cities is seen as important for their own development *and* for surrounding areas. Related, there have been efforts to move urban policy itself away from purely social issues and towards providing urban regions with good conditions for long-term growth.

In the United Kingdom, urban policy initiatives have traditionally been regarded as a specialised form of regeneration policy targeting deprived areas in cities. However, following on from a 2000 urban policy White Paper, they are now being seen not only in social but also in economic development terms. A recent policy paper¹² underlines the contribution that cities can make as drivers of economic growth. Related to this, urban issues are becoming more prominent in emerging approaches to regional development. A regional strategic framework has been developed to deliver and implement urban measures via the English RDAs and related partners. The alignment of urban and regional policy objectives has been reflected in the Government's involvement in the *Core Cities* project which also brings together city councils, RDAs and regional Government Offices. The project has developed an action plan, which aims to benchmark urban competitiveness, strengthen productivity and support urban renaissance in England's major regional cities, as the essential foundation for progressive improvements in the performance of all regions. In Scotland, too, city-regions lie at the core of the Smart Successful Scotland economic development strategy; not only have cities become the focal point for growth, but the interrelationships between them and their regions - and the infrastructure which connects them - are now given considerable policy weight.

In Ireland, the stress placed by both the National Development Plan and the National Spatial Strategy on the economic development role of key towns and cities - the development "gateways" - has already been noted. In addition to communications infrastructure, business and technology parks have been established as a catalyst for development, including international flagship parks in gateway locations.

In countries such as Austria, Denmark and Germany, the urban component to national regional policy is less explicit (though urban areas are an obvious focus for policy at the *Land* level in both Germany and Austria). On the other hand, a number of the innovation-oriented developments highlighted in the previous section relate mainly to urban areas. In addition, there is in Germany an urban dimension to the policy instruments of the GA in that they are targeted at designated problem regions which, in the German context, are often centred on urban areas with high levels of unemployment.

Turning to the EU10 Member States, notwithstanding the problems faced by their lagging regions, urban areas have increasingly emerged as policy priorities. Certainly, many of the economic development strategies which are in preparation have an explicit urban/innovation dimension. In Poland, for instance, there is an increasing focus on the

¹¹ 2005 Swedish Budget Statement

¹² Treasury, ODPM and DTI, *Devolving decision making 3 - Meeting the regional economic challenge: The importance of cities to regional growth*, 22 March 2006

competitiveness of cities and the quality of infrastructure linking these centres as nodes of development. This is reflected in emerging national strategy documents which note the need for regional policy to distinguish between metropolitan, urban and rural areas. Emphasis is being placed on the classification of metropolitan areas (Warsaw, Kraków, Poznań, Wrocław, Trójmiasto, Katowice agglomeration, Szczecin, Łódź and Bydgoszcz) as potential growth poles for the national economy due to their recognised role in contributing to national competitiveness. At the same time, a strategic choice has been made to create a special programme to support the development of potential metropolitan areas in the poorer eastern regions.

In Slovakia, the government is committed to concentrating on a limited number of urban areas which act as centres of economic activity and partly also as focus points for the development of surrounding micro-regions (suburbs and rural centres). Further, the city of Bratislava acts as an engine of development for the rest of the country. The country's current Community Support Framework (CSF) promotes a growth pole approach, focusing particularly on Bratislava/Nitra/Trnava, Banská Bystrica/Zvolen, and Košice/Prešov. Beyond these developments, investment is also being directed towards improving linkages between growth poles and their surrounding areas.

In Czech Republic, current urban-related policies under the Structural Funds mainly concern the Prague region. Looking to the future, this focus will continue under the Regional Competitiveness and Employment programme. In addition, as part of the Convergence programmes, more focus will be placed on strengthening the role of towns as the drivers of regional growth and development. The NSRF contains a general commitment to promote balanced regional development through the development of towns and cities.

Finally, in Hungary, the current National Development Concept (NDC) is based around a growth pole strategy, with Budapest as a centre and other large towns listed as growth poles (Győr, Pecs, Szeged, Debrecen, Miskolc and the linked axes of Szekesfara and Veszprem). The strategy to develop the Budapest area is couched in terms of strengthening R&D and high-tech activities and building on its comparative advantages such as access to highly qualified labour.

(ii) *Comparative points*

The above discussion of recent urban and related innovation initiatives under regional policy has highlighted a number of clear urban-related measures - the *French* strategy to enhance the potential for cities to act as motors of regional development and the recently-introduced competitiveness poles, the *Dutch* focus on the economic development role of urban areas and the strong urban orientation of the *Peaks in the Delta* approach, the Centre of Expertise and Regional Centre programmes in *Finland*, and the new *Norwegian* Centre of Expertise programme. In addition, examples have been provided of how the growth and competitiveness agenda is increasing the focus on the economic development role of urban areas - in *Italy*, *Sweden*, the *United Kingdom* and *Ireland*, amongst others, as well as in a range of EU10 Member States including *Poland*.

Of course, these various developments need to be set in context. In particular, a number of them do not involve very significant budgets when set alongside traditional regional policy measures (e.g. regional aids). In addition, the enhanced regional policy focus on urban areas does not necessarily imply a reduced emphasis on other spatial problems (or opportunities). Many of those countries which have introduced specific urban-related measures under regional policy (e.g. *Finland, France, Norway*) also have specific spatial policy initiatives directed at rural (and other) areas. Moreover, the focus on urban areas is often accompanied by measures which aim to spread economic development benefits more widely by improving the connections between urban areas and their hinterlands. Further, under regional policy, sensitivities remain as to where budgetary flows go (in relation to the perceived severity of regional problems). While a growing number of countries are adopting an all-region growth and competitiveness approach to regional policy - and while this is also being promoted under EU Cohesion policy - the geographical spread of the benefits of policy remains a contentious issue.

On the other hand, the increasing policy emphasis on the growth and competitiveness agenda (both domestically and at the EU level), combined with a sensitivity in a number of countries to issues associated with territorial balance, has seen a growing regional policy stress on urban-oriented measures. The focus on the development potential of cities and their hinterlands - and the development of policy instruments to tap that potential - has been a significant new regional policy trend in recent years.

4.3 Regional programmes and strategy development

A third component of regional policy - in addition to regional aid schemes and measures in support of the business environment - is regional programming and strategy development. Recent changes in this aspect of policy are set out in Table 8. Those countries where there have been developments since the start of 2005 are discussed in the next section. The main comparative points arising are then considered in the section that follows.

4.3.1 A country-by-country review of change

In *Austria*, the main recent developments have related to the drafting of STRAT.AT. The general objectives of the strategy embrace the Lisbon and Gothenburg goals and aim “to ensure the quality of life, income and employment, to strengthen the competitiveness of the regional economies and to increase the attractiveness of Austria’s regions based on the principles of sustainable development”.¹³ The draft NSRF highlights four main priorities: laying the regional foundations for an innovation- and knowledge-based economy; developing attractive business locations; increasing the adaptability and qualifications of the workforce; and enhancing territorial cooperation. Following on from the draft, each *Land* has been developing its operational programme. While a greater concentration of resources seems likely, there is no indication of any radical change to broad programme objectives; on the other hand, now that micro-zoning has been abandoned at the EU level, there may be less spatial targeting within the *Land* programmes.

¹³ STRAT.AT (2005), Executive Summary, 31 October 2005.

Table 8: Recent changes in regional programmes and strategy development

Austria	The new Structural Fund strategies are being finalised in the developing NSRF (STRAT.AT). The strategy strongly embraces the Lisbon and Gothenburg goals and highlights four priorities: to lay the regional foundations for an innovation- and knowledge-based economy; to develop attractive business locations; to increase the adaptability and qualifications of the workforce; and to enhance territorial (cross-border) cooperation. <i>Land</i> programmes are also of obvious importance.
Belgium	In Flanders, a new "Strategic Plan for the Spatial Economy" has been developed following a (2000-04) programme of academic research. In Wallonia, a revised "Future Contract" has been agreed for 2004-09. The revised contract is articulated around four horizontal strategic plans (activity/job creation; development of know-how; social inclusion; balanced development).
Denmark	Each of the five new regions is obligated to establish one or more regional growth fora, partnership bodies for strategy development. The new regional growth fora replace the inter-regional Regional Business Development Coalitions and subsume the Regional Growth Coalitions. During 2005 and 2006 they have been involved in an intensive process of strategy development.
Finland	Strategic regional programming is an important element of regional policy. A new programming round is in train for the 2007-10 period. This will reflect partnership-based views about regional priorities and will also align regional needs with national aims and objectives (as specified in the 2004 Government Decision). EU programmes will build on the strategic regional programmes.
France	Major changes have taken place in planning and strategy development over the years resulting in a complex structure of instruments at and between various levels. New state-region project contracts (CPER) are being developed for 2007-13, with more stress on the Lisbon and Gothenburg goals and a more concentrated approach (fewer priorities, large-scale projects).
Germany	Each <i>Land</i> develops and implements its own economic development strategies, drawing partly on <i>Bund</i> funds and joint GA instruments. The GA targets some funds at regional or local strategy building through <i>Regionalmanagement</i> projects, networking projects to help prepare regional development strategies; the 34th GA plan extended support for such projects to end 2006.
Greece	None. EU Community Support Frameworks provide the programming environment for Greek national and regional economic development. There is evidence of more bottom-up inputs than previously in developing the next round of CSFs.
Ireland	None. Under the Structural Funds, two Regional Operational Programmes are in place and will be maintained in 2007-13. On the other hand, indicative financial allocations under the new NDP seem likely to be determined at the national level rather than being regionally earmarked.
Italy	None. The 2000-06 CSF continues to be the main framework instrument for the development of the <i>Mezzogiorno</i> . A new NSRF is in preparation.
Luxembourg	None. A regional plan for the south was set up in 1999 in response to the challenge of industrial restructuring. However, its implementation has been slow.
Netherlands	Until 2006, the sole regional programme funded by the national regional policy budget was in the north (the EU co-financed <i>Kompas</i> programme). <i>Peaks in the Delta</i> shifted the policy focus to regional activities of national interest. A Programme Commission was set up in each region to devise a coherent regional programme against which projects could be prioritised. Programmes were published from June 2006 onwards. The north will receive transitional support until 2010.
Portugal	None. There is no regional level of government in Portugal. The key driving factor in regional strategy building has been EU Cohesion policy. The 2000-06 programme brought in a specific regional element but it remains problematic though a strategy for the north is being developed.
Spain	None. Regional programming and strategy development is firmly institutionalised at the regional level (due to the regionalisation of economic development powers from the early 1980s, but also stimulated by the Structural Funds). Recently, EU co-funded regional innovation strategies have grown in importance. National development programmes tend to have a sectoral orientation.
Sweden	Regional programmes lie at the heart of the implementation of regional development policy and are increasing in importance. New Regional Growth Programmes (RGP) were introduced in January 2004. Within each region, the RGP is an operational programming document that implements the objectives of the strategy-based Regional Development Programme (RDP).
UK	In England RDAs must draw up Regional Economic Strategies (RES). Guidelines for the next phase stress: the importance of economic/sustainable development; the benefits of clear financial plans; linkages with other regional strategies (transport, housing); the importance of the evidence base. Distinct regional strategies are also found in Scotland, Wales and N. Ireland.
Poland	Following reforms in 2000, regional self-governments were given potentially important regional programming and strategy development powers. However, in practice, the value of these inputs was variable due to often over-ambitious goals, political pressures, a lack of fit with national objectives and, crucially, the fact that a single integrated regional programme was adopted for 2004-06. In contrast, for 2007-13, 16 regionalised ROPs are planned, with a stronger role for regional self-governments and region-specific development strategies and programmes.
Norway	In the 2006 White Paper, there is an emphasis on a partnership-based process at the regional level in which the county takes the lead. On this basis, each county is responsible for the development and implementation of a regional development programme.

In *Denmark*, a previous, somewhat informal, approach to regional strategy development - involving Regional Growth Coalitions in nine peripheral localities and large-scale Regional Business Development Coalitions - was superseded by the regional growth fora which the five newly-established regions were statutorily obliged to set up under the 2005 Business Development Act. During 2005 and 2006, the regional growth fora have been heavily involved in strategy development, building on extensive empirical analyses and regional discussions. However, the indications are that the general profile of regional development programmes will not change significantly under the new approach.

In *Finland*, four-year strategic regional programmes and related annual implementation plans are at the core of the programme-based delivery of regional policy goals. The strategic regional programmes for 2007-10 are in preparation. The development process started in May 2005 and was in two phases. By the end of 2005, each Regional Council had evaluated past programmes (EU, national and special programmes), undertaken a SWOT analysis of the region, and set preliminary strategic targets. These were then considered further in line with the developing NSRF and the programmes were discussed with the Ministry of the Interior in early 2006. During 2006, the Regional Councils have been finalising the programmes in coordination with the (broader-scale) EU programmes and the NSRF.

In *France*, the state-region planning contracts (CPER) are an important instrument of regional policy. At the March 2006 CACT, the government issued its reform proposals for the 2007-13 contracts: they should integrate the strategic orientations of the Lisbon and Gothenburg agendas (innovation, competitiveness, sustainable development); they should concentrate on a limited number of priorities and on large-scale investment projects of national importance (with significant regional leverage); and they should continue the privileged partnership between the centre and the regions, while also allowing other levels to be involved. Based on public consultations and in a collaborative approach with the Regional Councils, the regional *préfets* had to produce an analysis document and identify large projects in a strategic framework by May 2006. Contract signature is expected by the end of the year.

In *Germany*, each *Land* develops and implements its own economic development strategies, which are co-financed by federal, EU and joint federal-*Land* instruments. The GA supports strategy development through its regional management initiative which originated in 1995. This funds the construction of integrated regional development strategies, involving a range of regional actors, with the aim of strengthening the capacity of local actors to take responsibility for bottom-up development. Projects can initially receive aid of up to €200,000 per year for three years. The local authority responsible for the project must contribute at least 20 percent of the costs. Under the 34th GA plan, this funding stream was extended to 2006.

In *the Netherlands*, the sole regional programme for 2000-06 was in the north, the *Kompas voor het Noorden* (funded from both national and EU sources). Following the acceptance of the new *Peaks in the Delta* approach, the regional policy focus has shifted towards nationally-recognised regional strengths. A Programme Commission was established in each Peaks region with the task of devising a coherent regional programme, with specific goals

and objectives against which project applications could be prioritised. The new regional programmes began to be published from June 2006 onwards and will come fully into play from 2007. A transitional programme for the north will also begin in 2007 and will run until 2010.

In *Sweden*, regional programmes lie at the heart of the implementation of regional development policy. Regional Growth Programmes were introduced in January 2004, when they replaced the former Regional Growth Agreements. They reflect the belief that local and regional actors are best informed about their region and are in the best position to know what is required to achieve sustainable regional growth. Each Regional Growth Programme serves as the operational programme document that clarifies and sets out policy instruments and measures in the region to achieve regional development goals. The Regional Growth Programme follows the overall objectives set out in the Regional Development Programme and is a key to the implementation of its strategy.

In *the United Kingdom*, the RDAs in England are charged with strategic leadership duties, requiring them to influence and mobilise the efforts of regional partners across the public, private, community and voluntary sectors. The RDAs work to a ten-year Regional Economic Strategy (RES) and a three-year Corporate Plan which is produced annually on a rolling basis; every second plan is submitted to the DTI for approval. The RES is drawn up in consultation with regional stakeholders to reflect differing regional priorities and provides a shared vision of the region's development. Each RES is in the process of being updated, following guidelines which stress the need for clear linkages to other regional strategies. They are set to play an important role in establishing the framework for the future administration of the Structural Funds. Regional submissions to the new EU programmes are based on the RES and priorities are expected to be closely aligned with RES aims. In Scotland, there are distinct economic development strategies for the Scottish Enterprise area (Smart Successful Scotland) and for the Highlands and Islands (A Smart Successful Highlands and Islands). The latter strategy was updated in 2005.

In *Poland*, regional self-governments were given potentially important regional programming and strategy development powers following reforms in 2000. However, during the 2004-06 period, the value of these strategies and programmes as policy inputs proved to be variable. This was due, in part, to over-ambitious objectives given the funding available and the complexity of Structural Funds procedures; in part, to pressures to meet short-term political goals rather than focussing on what was practically achievable and strategically desirable; and in part because of a lack of clarity on how regional strategies fit with national priorities. In addition, the planned Regional Operational Programmes were integrated into one, common document under the 2004-06 NDP, thus diluting the regional value of the new approach. In contrast, for 2007-13, sixteen regionalised ROPs are planned, thus strengthening the role of regional self-governments in programming EU funds.

Finally, in *Norway*, the 2006 White Paper places particular stress on the growing role of partnership in developing regional programmes and strategies. Regional development programmes at the county level reflect a participative decision-making process in which the county takes the lead role in development activities at the regional level. Each county is responsible for the development and implementation of its regional development

programme. The county, its constituent municipalities, the business/private sector, development agencies (including Innovation Norway) and academic institutions are required to work together towards realising sustainable regional development through such programmes.

4.3.2 Comparative points

The above review makes it clear that there are quite different contexts for the operation of regional programmes. In *Poland* and most of the EU10 countries, programming and strategy development tends to be directly related to the operation of the Structural Funds. The indications are that a much more regionalised approach will be adopted in the upcoming programming period. In the EU15 Cohesion countries, the Structural Funds have also played a dominant programming role. This will continue in 2007-13, but again with a more regionalised approach in both *Greece* and *Portugal*. In *Spain*, regional programming and strategy development have long been firmly institutionalised. Elsewhere in the EU15, regional-level programmes tend to play a significant domestic policy role in federal countries like *Austria* and *Germany*, while also being important in a Structural Funds context. Countries which have adopted more devolved or decentralised approaches (such as *France* and the *United Kingdom*) have also seen more emphasis placed on regional programmes and bottom-up strategies. In the *Nordic countries*, too, a number of recent developments have enhanced the profile of regional programming as the role of the regional level in economic development has increased. In *the Netherlands* as well, new regional programmes are under development, but less from a bottom-up perspective and more with a view to identifying and supporting regional projects of national importance.

Notwithstanding the different contexts for policy, the growing importance of regional programming across virtually all countries is very apparent; indeed, it now lies at the core of regional policy in an increasing range of countries. Moreover, a number of significant recent developments have enhanced the policy importance of regional programming. An obvious example is in *Denmark* where the new regional growth fora have been given a statutory basis for their economic development activities. They are viewed in Denmark as moving towards the Regional Growth Programme model in *Sweden* - with an all-country approach (but with resource discrimination in favour of peripheral localities); strong partnership; and a heavy strategic orientation, with other bodies responsible for policy delivery. The new regional Peaks programmes in *the Netherlands* are also clearly significant in a regional policy context, helping to operationalise the new strategic directions of *Peaks in the Delta*. Also of note are the ongoing developments in a range of countries in preparation for the next phase of policy. Examples include the 2007-10 strategic regional programmes in *Finland*, the new state-region contracts in *France* and the updated regional economic strategies in *England*. In many such cases, the new programmes link EU and domestic regional policy more closely - and, indeed, this is an explicit policy goal in many countries (including *Italy* and *Austria*).

4.4 Other components of policy

Change in respect of other components of policy has been limited over the past year. Indeed, there is just one common theme to highlight in this section: the relocation of public sector jobs. This has always played a significant regional policy role in countries like *France* (where there is a specific committee for the relocation of public sector jobs (CITEP), resulting in the transfer of over 36,000 jobs away from Paris since 1991) and *Germany* (where there is a Framework Plan for the location of public authorities, involving a deliberate policy of locating public authorities in areas with structural economic problems).

More recently, public sector job relocation has been part of the regional policy debate in a number of countries. In *Finland*, the aim is to relocate between 4,000 and 8,000 central government functions outside the Helsinki region by the end of 2015, a process which is expected to be helped by population ageing (and related retirements). In *Ireland*, a 2003 decentralisation plan aimed to disperse over 10,000 public sector jobs to 58 locations (with a target of 7,000 jobs moving by 2009). In *Sweden*, defence cutbacks and associated base closures led to an agreement to relocate more than 2,200 jobs by 2007. The majority will go to Östersund. The institutions most affected include NUTEK (where the EU Structural Funds Division will move) and ITPS (the Institute of Growth Policy Studies). In the *United Kingdom*, the DTI, Treasury and DCLG are currently undertaking studies into the scope for relocating a substantial number of public sector activities from London and the South East following the publication of a report which recommended the benefits of dispersal. A target of over 20,000 relocated jobs by 2010 has been set. Public sector job relocation is also high on the policy agenda in Scotland. Finally in *Norway*, the new government has stated that it intends to locate new state activities outside of Oslo, unless there are specific and strong reasons against this. While there can be difficult practical issues to overcome with respect to public sector job relocation, it is clearly playing a more central regional policy role in a growing range of countries

5. THE ADMINISTRATION OF REGIONAL POLICY

In recent years, there have been two main administrative themes: on the one hand, a continuation of the long-term trend for policy development and delivery to be increasingly regionalised, particularly in a programming context; and, on the other, a related increase in emphasis on policy coordination, not least to ensure that regionally-delivered policies are in line with national goals and objectives. These two aspects are considered in the next two sections. Both take the form of a country-by-country review followed by a discussion of the comparative points arising.

5.1 The regionalisation of policy

One of the clearest long-term trends with respect to the administration of regional policy has been for policy implementation to become increasingly decentralised. In the late 1960s and early 1970s, when regional policy in most countries was synonymous with the award of regional aid, the administrative approach was highly centralised and top-down. If the sub-

national level had a role to play, then that role was closely governed by guidelines and criteria determined from above. Even in federal Germany, where economic development is constitutionally a *Land* responsibility, the joint Federal-*Land* GA framework was set up in 1969 to regulate the award of regional aid by introducing a rules-based coordination regime. From this starting point, policy regionalisation increased steadily over time. It began with more award decisions being taken at the regional level in respect of smaller projects, moved to enhanced budgetary responsibility in the regions for decentralised awards and then, particularly after the reform of the Structural Funds in 1988 and the introduction of regional programming, reached a stage where the regional level now plays a significant regional policy role in most Member States. Recent changes in the regionalisation of regional policy are set out in Table 9.

5.1.1 A country-by-country review of change

In *Austria*, there have been no recent changes with respect to the regionalisation of regional policy. In legal terms, regional economic development is in the hands of the nine *Länder*, coordinated by the Federal Chancellery (BKA) and supported by the non-binding recommendations of the Austrian Conference for Spatial Planning (ÖROK). This ensures a high bottom-up and consensus-based component to regional policy.

In *Belgium*, the process of federalisation has seen the establishment of the three communities (French, Dutch- and German-speaking) in line with Flemish desires and the three regions (Wallonia, Flanders, Brussels-Capital) following Walloon demands to define social and economic policies independently. After the constitutional reform of 1970, regional development competences were gradually transferred to the regions, culminating in the “Lambermont Agreement” in 2001, after which the federal level was left with just residual powers (albeit in some important areas like competition policy). The regions are now able to design and implement a very wide range of policies in line with their specific needs, including regional policy. As previously discussed, federal framework laws on regional aid, which dated from 1970 and 1978, have been replaced over the 2003-05 period by separate regional aid legislation for Flanders and Wallonia.

In *Denmark*, a major reform of local government will, from January 2007, reduce the number of local authorities from 275 to 98 and the intermediate level from 14 *Amter* to just five regions. Importantly, these regions have been given statutory responsibility for economic development, a policy area which previously had no legal basis at the sub-national level. The regions are obliged to establish one or more partnership-based regional growth fora (from April 2006) which provide the elected regional councils with strategic inputs with respect to economic development measures. This new approach much increases the regional development role of the regional level.

Table 9: Recent changes in the regionalisation of regional policy

Austria	None. Regional policy remains the responsibility of the nine <i>Länder</i> , coordinated by the BKA and supported by the non-binding recommendations of ÖROK.
Belgium	Following constitutional reform in 1970, regional economic development competencies have been transferred from the federal level, though federal powers still cover some important areas including competition law. In 2003-05, legislation relating to regional aid was regionalised.
Denmark	A major reform of local government reduced the intermediate level from 14 <i>Amter</i> to 5 regions from January 2007 and the local level from 275 to 98 municipalities. The regions have been given statutory responsibility for economic development, with strategies developed bottom-up by regional growth fora (replacing previous non-statutory cross-region and sub-region coalitions).
Finland	The 2002 Regional Development Act and 2004 Government Decision significantly increased the importance of regional councils as regional development authorities via their role in the strategic regional programmes and in coordinating the special programmes. The revised Regional Development Act will see this trend continue. Also sub-national governance is under review.
France	Decentralisation began in 1982. Local authorities gained new freedoms and regions/departments executive powers. Inter-commune groupings (EPCI) became more important over time. In July 2002, decentralisation was a key issue; the transfer of territorial development competencies was however limited. An August 2004 decentralisation law introduced scope for experimentation.
Germany	Under the Constitution, economic development is a <i>Land</i> responsibility. In 1969 a joint Federal-Land task (GA) was set up to introduce rules-based coordination. The division of tasks between <i>Bund</i> and <i>Länder</i> has been under review, in particular, the efficacy of various GAs. The regional policy GA was retained in a June 2006 agreement on constitutional reform.
Greece	Under Structural Funds pressures, a regional government level was introduced by Law 2503/97. The 2000-06 CSF introduced regional operational programmes for the 13 NUTS II regions (<i>periferia</i>). In preparing the 2007-13 CSF, decentralised administrative units have been more involved than in the past; Interreg programme administration has been moved to Thessaloniki.
Ireland	The overall institutional framework supporting regional policy has been unchanged following the introduction of a two-region structure for 2000-06 for Structural Funds reasons. Although enterprise agencies have a regional office structure, it remains to be seen to what extent there will be a significant regional component to strategy development and policy delivery post 2006.
Italy	1997-98 Bassanini laws and 1999-2001 constitutional reforms reshaped centre-region relations and transferred many economic development competencies to the regions, leading to a stress on capacity-building in the regions, an increased use of bottom-up regional programming and more regionalisation of spending. Further regionalisation was rejected in the June 2006 referendum.
Luxembourg	None. Regional policy is administered centrally with no significant involvement of local actors. More generally, there has been a recent debate about the three-tier structure of the country, with a view to reducing the number of municipalities.
Netherlands	The Ministry of Economic Affairs has developed a regional vision which determines national policy priorities and uses these to influence policy goals and implementation at the regional level. To enhance its regional presence and integrate policy delivery in the regions, the Ministry has adopted a regional way of working. Regional Programme Commissions have also been set up.
Portugal	There is no regional level of government, following a negative referendum result in 1998. The key factor driving regional strategy building has been EU Cohesion policy requirements.
Spain	Economic development powers have lain at the regional level since the early 1980s. The new (2004) government has a major territorial governance agenda, including: constitutional reform; reform of region's statutes of autonomy; reduced centre-region conflict; a new Conference of Regional Presidents; regional participation in EU policymaking; and local government reform.
Sweden	Regions have become more responsible for regional development due to the Regional Growth Programmes and the role of County Administration Boards (CABs) in such programmes. Moreover, there have been recent incentives to transfer CAB responsibilities to Municipal Cooperation Bodies. Broader administrative reform is under consideration (report due in February 2007).
UK	Regional policy rests on devolved strategy-making/policy delivery. Beginning with devolution in 1999, it was taken forward by creating RDAs in England and markedly increasing their funding/budgetary autonomy. Rejection of a regional assembly for the north-east in 2004 halted the process, prompting debate about how to proceed and at what level?
Poland	The implementation of regional policy and programmes has been highly centralised until recently. Regions were only established in 1999. The new Ministry of Regional Development is responsible for regional planning, the coordination of EU and domestic policy, and cooperation with regional self-governments. The regional role is growing, with Marshal's Offices responsible for regional development strategies and programmes and with a possibly enhanced future inputs.
Norway	Although regional policy is developed nationally, it is delivered in the regions through Innovation Norway and other relevant national authorities. Regional programming is county-led and budgets have also been regionalised. There may be further decentralisation as a result of ongoing public service/territorial reforms.

In *Finland*, there have been moves in recent years to increase the regionalisation of regional policy through the programming process. The 2002 Regional Development Act and 2004 Government Decision significantly increased the role of the Regional Councils as regional development authorities. They exercise this power mainly through the strategic regional development programmes and annual implementation plans as well as coordinating the Centre of Expertise and Regional Centre programmes. The 2007 revisions to the Regional Development Act will continue this trend by giving the Regional Councils more decision-making responsibility in regional funding allocations and a stronger coordination role with the centre. In addition, a draft law in 2007 is expected to restructure municipalities and their services to ensure basic service provision throughout the country. A number of municipal tasks seem likely to transfer to the state level and some municipalities may merge. Looking to the future, the number of Regional Councils may also decline.

In *France*, the decentralisation process launched in March 1982 gave the regional level significant competencies while confirming the primacy of the municipality (*commune*). A second phase of decentralisation began in 2002 when the new government placed it at the centre of its agenda. The aim was to renew local democracy and increase coherence between public policies via a new relationship between the central state and the regions. However, compared to fields like education, training and social services, competence transfers relating to territorial development were limited; moreover, despite attempts to upgrade the status of the region, its role in economic matters remains a coordinating one. There has, however, been some experimentation with regionalisation in the context of Structural Funds management (where a trial in Alsace was not extended to other regions) and with respect to regional aid. At the same time, the role of inter-municipality associations (EPCIs) has been growing and was reinforced by the decentralisation law of August 2004. Nearly all EPCIs now exercise economic development competences. Recently questions have arisen as to their scale, objectives, activities and democratic accountability; these issues are currently under review.

In *Germany*, economic development is a *Land* responsibility under the Constitution. In 1969 a joint Federal-*Land* task (GA) was set up to introduce rules-based coordination into a policy field where competition between the *Länder* had become an issue. Over the past few years, the division of tasks between the federal and *Land* levels has been under review, in particular, the efficacy of various GAs. The regional policy GA was retained in a June 2006 agreement on constitutional reform. Its key attributes are seen to be: its transparent indicator-based system for assessing regional problems; its consensus-based coordination framework which allows equal problems to be treated equally; its systematic rules-based approach to the award of aid; its facility for coordinating EU and national regional policy interests; and its ability to provide a coordinating framework for other policy fields with spatial effects. However, each *Land* remains responsible for implementing regional policy, including project selection, setting aid rates and establishing priorities.

In *Greece*, regions were established for NUTS purposes in 1986. However, it was not until 1997 that, in response to pressures created by the institutional demands of EU programmes, the 13 NUTS regions (*periferia*) were given substantive responsibilities for economic development and planning by Law 2503/97. Under the 2000-06 CSF, the 13 regional operational programmes account for just over one-quarter of the CSF budget. Looking to

the future, there are some signs that decentralised administrative units are being involved more in the preparations for the 2007-13 CSF. On the other hand, the role of the regional level should not be overstressed. Despite significant steps towards decentralisation at the regional level and self-government at the prefecture and municipal levels, Greece remains highly-centralised.

In *Ireland*, there has traditionally been a highly-centralised approach to the Structural Funds (and regional policy), not least because the whole country was designated as a NUTS II region up until 1999. At that point, the country was divided into two administrative regions to ensure the continuation of Structural Funds support and this was then carried through to the regional dimension of the National Development Plan (NDP) and the 2002 National Spatial Strategy. Although a two-region approach will be carried forward into the 2007-13 period for Structural Funds purposes, it is less clear what its role will be domestically. The indications are that, under the next NDP, financial allocations will be at the national level rather than, as at present, in terms of the two regions.

In *Italy*, the Bassanini laws of 1997-98 resulted in the transfer of a wide range of economic development competences to the regions. Major constitutional reforms over the 1999-2001 period then reshaped centre-sub-national relations by placing all tiers of government on the same level (in contrast to the previous vertical hierarchy). The principle of subsidiarity applies, with sub-national levels exercising responsibility in an increasing number of policy areas, including economic development. This has required significant improvements to the capacities of public actors at the regional and sub-regional levels, especially in the *Mezzogiorno*, and the introduction of efficient coordination mechanisms. The reforms have been accompanied by a growing regionalisation of expenditure, particularly for the improvement of underdeveloped areas, and the increasing use of locally-grounded, partnership-based strategies, contracts and agreements. The rejection of further constitutional reform in the referendum of June 2006 reconfirms the regional policy role of the state.

In *the Netherlands*, a feature of *Peaks in the Delta* is that the Ministry of Economic Affairs has formulated a clear vision of economic development in the regions. By making explicit policy choices, it aims to bring this vision to fruition. The role of the Ministry is: to use its funding as a catalyst for selected developments; to coordinate activities between different levels of government and the private sector in line with its vision; to develop or apply relevant policy implementation expertise; and to ensure that EU inputs dovetail appropriately with national policy. To enhance and integrate its regional presence, the Spatial Economic Policy Directorate in the Ministry has regionalised its operations. Programme teams in each region bring together central and regional civil servants; each team works with economic development actors in the region to progress region-specific initiatives. The programme teams help to develop and implement regional programmes whilst promoting regional partnership. Separate from the *Peaks* process, there is a view that the provincial level may be too small for certain policy purposes and that larger units may be beneficial. The Ministry of the Interior plans to produce a policy memorandum on this issue by end 2006.

In *Portugal*, there is no regional level of government following a negative referendum result in 1998. Given this institutional void, the key driving force in regional strategy building has been EU Cohesion policy requirements. While these resulted in only limited regionalisation of programming in 2000-06, there are indications that a more decentralised and strategic approach will be introduced for the 2007-13 CSF.

In *Spain*, recent developments have seen territorial governance issues move towards the top of the policy agenda. To this end, the new (2004) government has: proposed reforms to the Constitution; stated its willingness to accept changes to regional governments' statutes of autonomy as long as they respect the Constitution and reflect a wide political and social consensus; expressed its commitment to reducing conflict between the central government and the regions; created a Conference of Regional Presidents to provide a forum for high-level debate and interaction; institutionalised regional participation in EU policymaking; and made proposals for the reform of local government. These various developments seem likely to increase the role of the regions with respect to future regional policy.

In *Sweden*, there has traditionally been strong central involvement in regional development. This has gradually changed as the importance of responding to varying regional needs and potentials has increasingly been recognised. Together with EU developments, this has led to a decentralisation of regional policy. Initially, it was the County Administration Boards (CABs) - the regional representatives of national ministries - which took over responsibility for almost all regional development activities at the county level (via a block grant). The 2001 Government Bill increased the commitment to regionalisation, resulting in the creation of the first Municipal Co-operation Bodies in 2003. These can be formed when all the municipalities within a county agree to join together for regional development purposes. Currently it is either the Municipal Co-operation Bodies or the CABs that are responsible for the Regional Growth Programmes and Regional Development Programmes (although final approval remains at the central level). Added to these developments, the system of public sector administration is under review, with a report due in February 2007. This may lead to further adaptations in the current decentralised approach to regional policy.

In the *United Kingdom*, the principles of devolved strategy-making and policy delivery began in 1999 with Scottish and Welsh devolution and the creation of RDAs in England. They have continued to apply, with distinctive economic development strategies in the devolved administrations and increasing funds and budgetary autonomy for the English RDAs. However, the rejection of an elected regional assembly for the north east in late 2004 dealt a blow to the Government's vision of a network of regional assemblies operating through directly-accountable RDAs. Nevertheless, the RDAs continue to have the autonomy to address regional needs and drive through successful development and regeneration. All RDAs have significantly increased their central funding in recent years while the scope of RDA interests has also expanded markedly (including a likely core Structural Funds role in future). It remains to be seen how the absence of the regional assembly level will be addressed. Some suggest that policy should target the local level more (a review of local government functions and finance is due to report in 2007), others stress the role of city-regions; while some continue to advocate the current regional focus, perhaps using parliamentary committees to scrutinise the work of the RDAs and other agencies.

In *Norway*, policy making is traditionally the function of central government (with a strong role for sectoral ministries) and policies are then implemented by national agencies together with municipality or county authorities. This approach has been softened in recent years, with the regional dimension gaining more weight. The most significant example of this was the transfer in 2003 of 80 percent of the regional budget (relating to regional aid) from the Ministry of Local Government and Regional Development to the county level. In partnership with the municipalities, and the regional offices of Innovation Norway (amongst others), the counties became responsible for deciding how these financial resources should be allocated. In this context, regional programming has become more central to regional policy implementation. On the other hand, the counties are still perceived to lack legitimacy and competency. A current review of the regional/county system of government will result in an autumn 2006 White Paper on the allocation of tasks to the regional level and a subsequent decision on the appropriate number of regions (possibly involving a significant decline from the current 19 counties).

In *Poland*, the implementation of regional development programmes has been heavily centralised until recently. As a pragmatic response to weak regional administrative capacity, national ministries and agencies have been the dominant actors in the formulation and delivery of regional policy. Although this approach has short-term benefits in terms of the absorption of EU funding, it obviously constrains the input of the regional level and makes significant demands on central administrative capacities. The traditional lack of co-ordination and communication between sectoral ministries has added to the administrative challenges. Against this background, the establishment of the Ministry of Regional Development in October 2005 is a significant development. The Ministry has overall responsibility for regional planning and the co-ordination of EU-funded and domestic regional development initiatives. It is also responsible for cooperation with regional self-governments. This level was established in 1999 and involves a dual system - with the Voivod (the regional governor, part of the central government structure) on the one hand, and the Marshal's Office (related to regional government), on the other. The Marshal's Office has responsibility for formulating regional development strategies and operational programmes and for assessing prospective regional development projects. Plans for the next programming period may further strengthen regional inputs into the delivery of regional policy.

5.1.2 Comparative points

A number of points arise from this review. One is that there has clearly been a strong trend towards policy regionalisation over the past decade. In part, this reflects broader decentralisation processes (as in countries like *Belgium, France, Italy, Spain* and the *United Kingdom*); in part, it responds to Structural Funds pressures for a more regionalised approach to be adopted (as in many of the EU10 countries, including *Poland*, as well as in Member States like *Greece, Portugal* and, in the 2000-06 period, *Ireland*); and in part, it is due to an increased recognition of the growing specificity of regional problems and the importance of regional programming in developing an appropriate regional response (as in *Denmark, Finland, Sweden* and *Norway*, but also, though in a different way, *the Netherlands*).

Second, there is clear evidence that this trend is continuing. Recent examples of a more regionalised approach to regional development include: the establishment of completely distinct regional aid regimes in Flanders and Wallonia in *Belgium*; the granting of statutory economic development powers to the regional level in *Denmark* and the associated establishment of regional growth fora; the growing regional development role of Regional Councils in *Finland*; the regionalisation of the regional policy operations of the Ministry of Economic Affairs in *the Netherlands* and the related setting up of Programme Commissions in each of the *Peaks in the Delta* regions; the new Regional Growth Programmes in *Sweden* and the continuing transfer of regional policy responsibilities to Municipality Cooperation Bodies; and the growing regional development role of RDAs in *England*, in terms of both enhanced funding and broader policy responsibilities. In addition, the indications are that the next Structural Funds phase will see increased regional inputs in countries with a significant number of Convergence regions - as in *Poland* (and other EU10 countries such as the *Czech Republic*) but probably also in *Greece* and *Portugal*.

Third, the extent to which sub-national governance is under active review is also interesting, with potential future implications for the delivery of regional policy. There seems to be a fairly widespread view that the current intermediate level may be too small for certain policy purposes. This has already been seen in *Denmark* where the intermediate level of government was reduced from 14 *Amtet* to five regions following a review. Reviews of the sub-national system of government are currently underway in *Finland*, *Luxembourg*, *the Netherlands*, *Sweden*, the *United Kingdom* and *Norway*, together with a review of the role of inter-municipality associations (EPCIs) in *France*. While it remains to be seen what the outcome of these reviews will be, at least a number of them seem likely to impact on the future delivery of regional policy.

Finally, the point has to be made that not all policy changes have been in the direction of more policy regionalisation. In *Ireland*, for instance, there may be some pulling back from the regionalised approach to policy delivery introduced for the 2000-06 period, though it will continue to be used for Structural Funds purposes. In *Germany*, too, it is noted that the joint federal-*Land* approach to regional policy (the GA) has been retained following a lengthy and detailed review. While each *Land* remains responsible for implementing regional policy, the retention of the GA confirms the importance attached to effective policy coordination in this area of policy. The issue of policy coordination is discussed further in the next section.

5.2 The coordination of policy

The growing breadth (across policy areas) and depth (between policy levels) of regional policy means that a much greater range of actors is now involved, implying the need for enhanced coordination across and between different administrative tiers. Increasing emphasis on the complex issues of productivity and competitiveness also points to the importance of coordination mechanisms. There is a perception that traditionally exclusive departmental structures and hierarchical centre/regional relations are incapable of dealing with economic development issues that reach across sectoral boundaries and administrative levels. There is also a growing wish to find 'holistic' solutions to difficult policy problems,

prompting a search for new vertical and horizontal policy instruments. Recent developments with respect to policy coordination are set out in Table 10.

5.2.1 A country-by-country review of change

In *Austria*, regional policy is, as already noted, the legal responsibility of the nine *Länder*. At the national level, the federal chancellery (BKA) supported by the Austrian Conference on Spatial Planning (ÖROK) serves as a co-ordination body. The absence of a national legal framework means that policymaking is very much consensus-based. Prior to EU accession, the approach to regional policy was rather fragmented, but the adoption of the Structural Funds legal framework brought about a more integrated and uniform approach. Looking to the future, one section of the STRAT.AT draft NSRF is devoted to governance as an implementation strategy. In this context, it is planned to link local intermediary bodies - such as regional managements, cluster and technology centres - more closely. More generally, the process of developing STRAT.AT is felt to have improved programme quality; the informal procedures adopted are felt to have been useful for policy learning and exchange of experience.

In *Belgium*, there is relatively little direct coordination of regional policy, with the Flemish and Walloon regions now able to design and implement a very wide range of policies independently, including regional policy. Related, and as noted earlier, long-standing federal framework legislation has recently been replaced by regional aid laws. In this new environment, the only significant coordination between regional policy in Flanders and Wallonia takes place within the framework provided by the EU state aid rules.

In *Denmark*, the new regional growth fora are partnership-based bodies, thus facilitating policy coordination. They consist of persons proposed by local government (ie. the new local authorities and the elected regional councils), private sector organisations and knowledge institutions. Moreover, central government (in the form of the National Agency for Enterprise and Construction) has played a significant supporting role in the development of the fora. In addition, implementing any activities proposed by the fora requires both local and central government support; the new fora are statutorily prohibited from implementing programmes themselves. Consequently, the focus is on developing place-sensitive, joined-up policies within a partnership-based multi-level governance framework.

In *Finland*, policy coordination is now well embedded in the regional development process, though it is the national level which continues to set the overall policy goals and priorities. At the regional level, strategic regional programming encourages the key regional development actors (the Regional Council, the representatives of state bodies in the region and the social partners) to formulate plans and decide on priorities jointly (taking national goals into account). The revised Regional Development Act will further increase cooperation between the central and regional levels by ensuring that sectoral ministries negotiate with Regional Councils on regional funding allocations. At a practical level, there have been some difficulties in the past in ensuring that central ministries adopt such an approach. A new co-operative regional development working group is expected to be created at the central level to increase cooperation between the different ministries in the regional development field.

Table 10: Recent changes in the coordination of regional policy

Austria	The institutional structure is somewhat fragmented. In legal terms, spatial planning is a <i>Land</i> function, coordinated by the BKA and supported by non-binding ÖROK recommendations. Despite the lack of formal coordination tools, there is efficient informal coordination. STRAT.AT has governance as an implementation strategy, with closer coordination among local intermediaries.
Belgium	Regional policy coordination has moved to the regional level with the replacement of the federal Economic Expansion Laws. In Flanders, a May 2004 decree brought together spatial-economic and employment issues through the creation of partnership bodies (RESOC). In Wallonia, the economic development competencies of different ministries are increasingly coordinated.
Denmark	The regional growth fora set up in April 2006 are partnership-based in the Structural Funds mould, thus supporting regional coordination. Local authorities nominate a sizeable number of growth fora members, as does the private sector; funding comes from local and central government; and NAEC, the central government agency, plays a supporting administrative role.
Finland	Policy coordination is central to current approaches to regional development, with partnership-based regional strategic programmes and a strong coordination role for the special programmes. The revised Regional Development Act is expected to further increase levels of cooperation between the central and regional levels as well as between central government ministries.
France	DATAR has acted as a territorial development coordination institution since 1963. Its role changed in 1982 when state-region planning contracts (CPER) were introduced to coordinate central and regional policies. DATAR became the DIACT in 2006. The regions are the privileged partners of the centre (the DIACT) regarding the CPER, though other levels can also be involved.
Germany	The decision to retain a regional policy GA ensured that rules-based coordination remains part of the German approach to regional policy. The regional GA provides a framework for coordinating interventions that means that regions with the same levels of problem are treated equally. It also helps German-EU coordination and coordination with other policy fields.
Greece	Despite some moves to involve the regional level more in policy administration, there is a natural tendency towards administrative centralisation in Greece. Regional policy falls within the responsibility of the Ministry of National Economy. However, coordination with other ministries with a spatial role (e.g. Ministry of Planning, Ministry of Development) is limited.
Ireland	The institutional framework supporting regional policy has not changed in recent years. Recent reports have highlighted the need for improved synergies and cooperation between agencies, with a more integrated approach to indigenous industry and a greater stress on partnership.
Italy	Following recent regionalisation processes, the national level is playing a stronger coordination and facilitation role. The Department of Development and Cohesion Policies coordinates policy implementation in the <i>Mezzogiorno</i> . There has been a move towards a uniform economic development strategy, aligning national and EU goals, instruments and implementation.
Luxembourg	No change. Coordination is not an issue given the size of the country and its related centralised approach to policy delivery. Aid decisions are made by an inter-ministerial committee involving the Ministries of Economy, Finance, Regional Planning, Home Affairs and Employment.
Netherlands	Policy coordination is an important part of the <i>Peaks in the Delta</i> approach. It brings together a wide range of national strategy documents (spatial planning, transport, urban, industrial estates, innovation, tourism) and applies these in a coordinated way in a regional context. The national <i>Peaks</i> framework allows coordinated policy implementation in the regions.
Portugal	Policy coordination takes place in the context of the CSF. In addition, a March 2006 programme for restructuring the central public administration will lead to the merging and reorganisation of agencies as part of a broader attempt to coordinate policy delivery.
Spain	The government's heavy emphasis on issues of territorial governance has increased the policy weight attached to the horizontal and vertical coordination of policy.
Sweden	Improved policy coordination lies at the core of Swedish regional development policy. Under the 2001 Bill, eight policy areas must take the regional dimension into account in their strategies. Regarding regional coordination, partnership-based Regional Growth Programmes should create a more holistic and coordinated approach. Coordination has also been promoted in the NSRF.
UK	The increasing budgetary autonomy granted to English RDAs has been accompanied by stronger national-regional coordination mechanisms, including a regional funding allocation exercise (to feed regional priorities into national decision-making), developing closer working relationships between RDAs and central government and procedures to make RDAs more accountable.
Poland	National-level coordination remains challenging given the limited traditions of joint working across and between policy sectors and administrative tiers. Regional-level coordination is varied (being more difficult where powerful cities are involved) but has progressed in the context of EU programming. Centre-region coordination will grow as an issue in the next period as the role of the regions increases. Implementing central government limits, rules and guidelines could become a test for centre-region relations.
Norway	Coordination across national policy sectors was encouraged in the 2005 White Paper, and has been taken forward by the establishment of a Cabinet sub-committee. Regional coordination is promoted by the partnership-based regional programmes but remains challenging.

In *France*, the DATAR has acted as a coordinating institution since 1963, encouraging ministries to integrate the notion of space into their policies. Following the change of government in June 2005, the DATAR was first merged with the inter-ministerial mission on economic change (MIME) and then renamed the DIACT. While the DIACT plays the key national-level coordination role, policy coordination at the regional level comes mainly through the operation of state-region planning contracts (CPER), where the DIACT functions as the main partner of the regions in developing and implementing the planning documents. While the regions have a privileged partnership with the centre regarding the CPER, authorities at other levels can also be involved (including *pays* and *agglomérations*). It is also hoped to improve coordination with the future generation of Structural Funds programmes as both exercises have been based on the same territorial analysis.

In *Germany*, the recent decision to retain a regional policy GA has ensured that rules-based and consensus-oriented coordination remains at the core of the German approach to regional policy. Within the GA, decisions are taken by a planning committee where equal voting power is allocated to federal and *Länder* interests. The regional GA provides a framework for coordinating interventions which ensures that regions with the same levels of problem are treated equally. It also helps German-EU coordination (particularly in a regional aid context) as well as coordination with other policy fields. One final development of note is that tasks relating to Structural Funds coordination have been moved from the Federal Finance Ministry to the Federal Ministry for the Economy and Technology. All federal staff in the field of regional policy are now located in the same ministry.

In *Greece*, there is a natural tendency towards administrative centralisation, involving top-down coordination. Regional policy falls within the responsibility of the Ministry of National Economy. Coordination with other ministries with a spatial role (e.g. Ministry of Planning, Ministry of Development) is limited.

In *Ireland*, the overall institutional framework for the implementation and development of regional policy has not changed significantly in recent years. The main regional dimension to enterprise policy takes the form of the activities of IDA-Ireland and Enterprise Ireland. A key policy theme in recent years has been to improve synergies and cooperation between these agencies and other development bodies (including the two regions). The National Spatial Strategy is also important from a coordination perspective. An inter-departmental committee has been established to oversee and coordinate its implementation. Finally the Department of Finance has the main coordination role for the NDP and the Structural Funds.

In *Italy*, the national level has been playing a stronger coordination and facilitation role in response to recent regionalisation processes, not least through the activities of the Department of Development and Cohesion Policies which is in charge of coordinating policy implementation in the *Mezzogiorno*. Following the 2006 change of government, the indications are that there will be a stronger central steer for economic development policy combined with increased coordination efforts. In line with this, the Department for Development and Cohesion Policies has been transferred from the Ministry of Economy and

Finances to the Ministry of Economic Development. This is seen to be indicative of the desire to conduct a single cohesive development policy for the whole country.

In *the Netherlands*, policy coordination is a significant component of the *Peaks in the Delta* approach. *Peaks in the Delta* brings together a wide range of national strategy documents (in the spatial planning, transport, industrial estates, innovation, urban and tourism fields) and applies them in a coordinated (programme-based) way in a regional context. Coordination has also been considerably enhanced by the new regional organisation and orientation of the Spatial Economic Policy Directorate of the Ministry of Economic Affairs.

In *Portugal*, policy coordination takes place in the context of the CSF. In addition, a major (March 2006) programme for restructuring the central public administration will see 246 agencies closed and 60 new bodies created. The aim is to modernise and rationalise central administrative bodies, whilst redefining and unifying the functions of the state administration in the regions. The coordination of policy delivery should also be improved.

In *Spain*, the current government is giving considerable political weight to issues of territorial governance. Amongst other things, these highlight the importance of the horizontal and vertical coordination of policy.

In *Sweden*, improved coordination lies at the core of the Swedish approach to regional policy. At the national level, eight policy areas were highlighted in the 2001 Bill as needing to take the regional dimension into account in their strategies. At the regional level, the Regional Growth Programme structure, along with the partnership network, is expected to promote an environment of policy co-ordination, involving a more holistic and effective approach to regional development. Policy co-ordination has also been promoted in the June 2006 NSRF, which states that national, regional and local level actors are all responsible for regional development. It is expected that there will be closer links between regional and local strategies and national priorities and a growing political dialogue about development issues. The Government is aiming to set up a national forum to promote such dialogue between regional and national representatives.

In the *United Kingdom*, national-level coordination is enhanced by the fact that the public service agreement (PSA) for regional economic performance is a joint one between the Treasury, the DTI and the Department for Communities and Local Government. At the regional level, partnership-based strategy development and delivery in the devolved administrations as well as via the RDAs in England ensures a high degree of regional-level coordination. The main challenge concerns national-regional coordination. One recent development has been a regional funding allocation exercise where the government has asked the regions to feed through their priorities in certain policy fields, providing central government with budget plans in the areas of transport, housing and economic development. However, tensions remain between RDA needs to respond flexibly and promptly to regional issues and central government concerns about meeting national targets. This is reflected in changing arrangements for overseeing RDA activities. An April 2005 framework requires each RDA to show how it is addressing the priorities identified in its regional economic strategy, whilst contributing to the delivery of various PSA targets. In addition, the national Audit Office is conducting an independent assessment of the RDAs.

In *Norway*, considerable weight was attached to policy coordination in the 2005 White Paper though no specific coordination mechanism was proposed. Following the change of government in September 2005, there was a renewed commitment to regional policy coordination. A Cabinet sub-committee was established: to progress the core regional promises in the coalition agreement; to determine the policy framework for forthcoming White Papers; and to ensure coordination of government initiatives in areas bearing on regional policy. The core members of the sub-committee are the Ministers for Local Government and Regional Development (chair), Fisheries and Coast, Modernisation and Administration, Cultural and Church Affairs, Agriculture and Food, Trade and Industry, and Transport. The sub-committee played an important role in the development of the 2006 White Paper which identified a range of joint policy actions to regional development ends. Despite this new committee and the increasing emphasis on regional partnership, regional-level cooperation remains challenging, especially with respect to certain policy areas (e.g. labour market policy). A number of sectoral ministries continue to find it difficult to bring funding to the table at the regional level, or to regionalise their support schemes.

In *Poland* (and in many of the other EU10 countries), the coordination of regional policy delivery is challenging given the limited traditions of joint working across and between policy sectors and administrative tiers. The picture varies regionally. In some regions there is close coordination between Marshal and Voivod Offices, cities and municipalities, but elsewhere there are tensions, particularly where powerful cities are involved. On the other hand, administering EU support has boosted coordination. Regional-level strategies and programmes are prepared in Marshals' Offices in consultation with national and regional partners from government, business, societal and academic circles, while Monitoring and Steering Committees have brought together previously disconnected institutions. In terms of centre-regional coordination, regions are expected to be more active in the next period, albeit within central limits, rules and guidelines. Such coordination may be a test for future centre-region relations.

5.2.2 Comparative points

Three broad areas of regional policy coordination emerge from the above review: national-level coordination, regional-level coordination, and national-regional coordination.

With respect to national-level coordination, this has demonstrably moved up the policy agenda in recent years as regional policy has broadened its coverage to incorporate a wider range of national policy areas. In *France*, policy cooperation across national government departments to regional development ends is long-standing, dating back to the establishment of the DATAR in 1963 and now involving both the DIACT (*Délégation interministérielle à l'aménagement et à la compétitivité des territoires*) and the CIACT (*Comité interministériel d'aménagement et de compétitivité des territoires*) which meets at least once a year to agree the broad lines of policy. In *Austria*, too, there has long been significant, though informal, national coordination through the activities of the Federal Chancellery (BKA), supported by the Austrian Conference on Spatial Planning (ÖROK). More recently, the 2001 regional policy Bill in *Sweden* and the 2002 Regional Development Act in *Finland* explicitly identified a list of central government ministries which are now required to take regional development concerns into account when formulating national policies.

Notwithstanding such developments, it is not always easy to get certain national ministries to “buy in” to regional development priorities. This has been tackled in the *United Kingdom* by formally establishing a joint public service agreement for regional economic development across the three most-involved government departments, leading to the development of a joint delivery plan to meet the targets set. In addition, a new cooperative regional development working group is expected to be set up in *Finland* to increase regional development cooperation between different ministries; while in *Norway*, the establishment of a sub-committee at Cabinet level, involving the six most-relevant Ministers, has been successful in identifying and progressing joint policy actions to regional development ends. Finally, in *the Netherlands*, national-level policy coordination has been achieved by incorporating a wide range of national strategy documents within the *Peaks in the Delta* approach, before applying the resulting priorities in a coordinated way via regional programming.

Moving to consider regional-level coordination, this has become easier over time as regional programmes have increased in significance. The recent establishment of partnership-based regional growth fora in *Denmark* and the stress on the role of regional partnership under the 2006 White Paper in *Norway* are just the latest of a long series of developments in this direction. In addition, the ability of the RDAs in *England* to coordinate regional economic strategies has been boosted by the ongoing expansion of their competences and their increased spending powers. The influence of the Structural Funds in promoting regional partnerships has been important over time and is evident in a number of recent initiatives. For instance, in *Poland* (and elsewhere in the EU10) experiences in administering EU support have bolstered partnership and cooperation in the regions. In *Sweden*, policy coordination lies at the heart of the 2004 Regional Growth Programmes; it has also been promoted in the June 2006 NSRF which makes clear that national, regional and local-level actors are all responsible for regional development. In *Austria*, the STRAT.AT draft includes the plan to link local intermediary bodies more closely, including regional management bodies and cluster and technology centres.

As regionalisation has grown in importance so national-regional coordination has become more essential (and more demanding). Recent developments have seen varied approaches adopted to ensure that regional priorities also take national policy targets into account. In *Austria*, this is achieved through consensus-based policymaking, centred around the activities of the BKA and ÖROK. The board of ÖROK is made up of all the federal ministries, all the *Länder*, the two associations of local authorities, and the socio-economic partners. In *Denmark*, the new regional growth fora do not have any statutory implementation responsibilities; this ensures that they have to cooperate with national and local bodies if strategies are to be funded. In *Finland*, there is a two-way process involved: on the one hand, the regional level must take account of national targets in developing their strategies; on the other hand, national ministries must negotiate with the regions before finalising their regional funding allocations. In *France*, national-regional coordination is achieved via the DIACT (which functions as the main partner of the regions in developing and implementing state-region planning contracts) and the regional *préfets*; the co-financing of interventions is also an important coordination mechanism.

In *Germany*, the GA planning framework ensures rules-based and consensus-oriented coordination. In *Italy*, there is strong coordination from the centre through the activities of the Department of Development and Cohesion Policies, while the NSRF is also expected to play an important coordination role in future (as the single reference point for both EU and domestic regional policies). Top-down coordination is also found in *the Netherlands* where the *Peaks in the Delta* approach ensures that national funding flows towards national priorities in the regions. In *Sweden*, in addition to the coordination role of the NSRF, the government has proposed setting up a national forum to promote dialogue between regional and national representatives about development issues and thus create closer links between regional and local strategies and national priorities. In the *United Kingdom*, there have been a number of developments to try to ensure the optimum fit between national and regional policies: one involves feeding regional priorities and views into national budget plans; another requires the RDAs to contribute to the delivery of national PSA targets. Finally, in *Poland*, the establishment of the Ministry of Regional Development in October 2005 has added to national-regional coordination, given its responsibilities for coordinating EU and domestic regional policy initiatives and for enhancing cooperation with the regional self-governments.

In short, the key means of ensuring national-regional coordination include: informal mechanisms to encourage ongoing dialogue between the centre and the regions (as, for instance, in *Austria* and *Sweden*); more formal rules-based and consensus-oriented coordination (as in *Germany*); co-funding of programmes and projects (as in a range of countries including *Denmark* and *France*); the feeding in of national priorities into regional programmes and regional priorities into national budgets (as in *Finland* and the *United Kingdom*); and top-down steering to enhance coordination (as, for example, in *Italy*, *the Netherlands* and *Poland*). In addition, in a range of countries, the NSRF is seen as playing a useful coordination role (as in *Austria*, *Italy* and *Sweden*, for instance). Irrespective of approach, national-regional coordination continues to present challenges and seems bound to remain at the centre of policy concerns in the years to come.

6. CONCLUDING POINTS AND ISSUES FOR DISCUSSION

In considering recent regional policy developments, four broad themes were first identified in Section 3 before being developed further in Sections 4 and 5. First, with respect to *policy objectives*, it is clear that the changing policy agenda has ensured that the goal of improving regional competitiveness, productivity and growth now lies at the heart of regional policy in most countries; at the same time, the continuing development of traditional problem regions remains part of the policy remit in many. Second, as regards the *spatial orientation of policy*, the changing policy agenda has seen the adoption of an all-region approach to regional policy in nearly all countries; at the same time, this has not precluded the favouring of certain areas in some (on the one hand, traditional designated problem regions, on the other, urban centres). Third, in terms of *policy instruments*, the changing policy agenda has almost everywhere resulted in a move towards business environment measures, often with a significant innovation component and usually delivered via regional programming; at the same time, traditional regional aid is still a core component of policy in many countries, certainly in expenditure terms. Finally, in relation

to *policy delivery*, the changing policy agenda has resulted in the further decentralisation of policy administration in a wide range of countries, with an associated increase in emphasis on policy coordination - nationally, regionally and between the centre and the regions; at the same time, national government ministries continue to play a central role in both developing and ensuring the effective delivery of national regional policy.

In the context of these themes, there are four main issues for discussion:

- First, to what extent does this review of policy developments provide a complete account - and explanation - of the regional policy changes in each country? To what extent are there exceptional developments that do not fit within the general patterns or trends?
- Second, given the trends towards prioritising growth objectives and regionalising policy responsibility, is there not a danger of regional policy losing influence on the continued need (at least in some countries) to narrow the gap between disadvantaged and more prosperous parts of individual countries?
- Third, to what extent are the changes to EU frameworks (Cohesion policy and Competition policy) driving regional policy change in the Member States? In which areas of policy are these frameworks shaping current and future developments?
- Lastly, looking to the medium term, what are the key future challenges for regional policy and how well is regional policy equipped to meet those challenges?