



# **Where does all the money go?**

## **Operationalising the allocation of funding under EU and national regional policy**

### **EoRPA Paper 07/5**

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This paper has been prepared for the 28<sup>th</sup> meeting of the EoRPA Regional Policy Research Consortium at Ross Priory, Loch Lomondside on 7-9 October 2007. It should not be quoted without permission.

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## **Preface**

This paper aims to review the geographical spread of regional policy funding to try to gauge to what extent, if at all, the changing goals of regional policy have impacted on the geography of regional policy spending. 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:

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### **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 Enterprise, Energy and Communications), Stockholm

### **United Kingdom**

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Grateful thanks are due to all these researchers and to other EPRC colleagues. The European Policies Research Centre also gratefully acknowledges the financial support provided by the members of the EoRPA Consortium.

#### **Disclaimer**

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

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## 1. INTRODUCTION

Over the past decade, the goals and objectives of regional policy have been changing. There has been a clear shift towards support for supply-side factors such as innovation, enterprise and skills - often under the heading of 'regional competitiveness' - as well as the need to maximise the contributions that regions make to national growth and productivity.<sup>1</sup> On the other hand, the equity justification for policy continues to receive considerable weight virtually everywhere, with ongoing support for structurally weaker regions. In light of these developments, the aim of this paper is to review the geographical spread of regional policy funding - both domestic and EU - to try to gauge to what extent, if at all, the changing goals of regional policy have impacted on the geography of regional policy spending. As with previous "thematic" papers, the focus is on the EoRPA partners: Austria, Finland, France, Germany, Italy, the Netherlands, Norway, Poland, Sweden and the United Kingdom (hereafter referred to as the EoRPA States).

This paper is in four further sections. The next section considers the degree to which there is explicit geographic targeting of regional policy funding flows, whether through the application of area-specific eligibility criteria or agreed allocation formulae; and whether such explicit targeting has been subject to recent change. Section 3 then discusses more implicit spatial targeting, resulting from the new thematic orientation of many regional policy initiatives and from new forms of funding allocation mechanism. Section 4 next reviews the outcomes in terms of funding flows, mainly comparing the 2000-06 and 2007-13 periods. In each section, domestic regional policy and EU Cohesion policy are considered separately. A final section draws together some conclusions and highlights a number of issues for discussion.

## 2. EXPLICIT SPATIAL TARGETING

In considering the spatial targeting of regional support, there are a number of different categories of area which are explicitly favoured. First, there are broad macro-regions which face significant structural weaknesses and at which regional policy support is channelled - most obviously, the *Mezzogiorno* in Italy and the new *Länder* in Germany. In Poland, too, the new OP for Eastern Poland is targeted at the five poorest regions in the country. Second, there are more narrowly-defined regions and areas of structural weakness, most obviously those designated for regional aid support under the regional aid guidelines. Third, a number of regional policy measures are directed at specific areas based on physical geography, as for instance in France but also to an extent in the Nordic countries. Fourth, and an increasing feature of regional policy, different elements of support are available in all regions, but with structurally-weak regions or areas tending to be favoured through higher allocations per capita or via earmarked funding. Fifth, there are various measures which are explicitly channelled towards stronger areas, usually in the form of support to develop particular regional strengths. The remainder of this section discusses these various forms of explicit spatial targeting in more detail.

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<sup>1</sup> For a more detailed discussion, see EoRPA Paper 07/1, Section 4.2.2.

## 2.1 Domestic regional policy

### 2.1.1 Targeting funds at structurally-weak regions

In Germany and Italy, there are a number of domestic policy instruments which target the entire macro-regions of the new *Länder* and the *Mezzogiorno* respectively. In *Germany*, the key instruments in this category are the Solidarity Pact (which provides major additional resources - over €8.6 billion per annum - to the new *Länder* for investment purposes); the Investment Allowance (an automatic aid scheme for new business investment in the new *Länder*, involving €580 million in 2007) and federal R&D aid instruments. In *Italy*, the main instruments are the Tax Credit (for business investment, with revenue foregone of just under €750 million in 2006) and Localisation Contracts (which provide packages of aid and support for large inward investment projects). In addition, Italy's 2007 Finance Law introduced a new instrument, Urban Free Areas (*Zone franche urbane*), which will provide tax relief (of €50 million in 2008 and again in 2009) for new small firms and regeneration projects in urban areas in the *Mezzogiorno* which are characterised by a high degree of socio-economic deprivation.

In both countries, there have been specific national government decisions to focus a significant percentage of regional policy funding on the respective macro-region. In Italy, there is a long-standing decision to allocate 85 percent of domestic regional policy resources to the eight southern regions which make up the *Mezzogiorno* and 15 percent to the Centre-North.<sup>2</sup> In addition, the Italian government aims to ensure that 30 percent of 'ordinary' State capital expenditure (i.e. outside the regional policy budget) is allocated to the *Mezzogiorno* (which holds around one-third of the national population). Similarly, German federal authorities took specific decisions after reunification to target significant public investment resources (as well as current expenditure via interpersonal and interregional equalisation mechanisms) on the new *Länder*. In the context of the Regional GA, federal and *Land* authorities have agreed that six-sevenths of funding (just over 85 percent) should be allocated to the new *Länder* and the remainder to structurally-weak areas of the old *Länder*. Within these global amounts, the division of funds between the two types of *Land* differs. In the case of the new *Länder*, the percentage of funding for each *Land* in 2007-13 is the same as in 2000-06, and is broadly based on each *Land*'s percentage of population. In the case of the old *Länder*, the allocation in 2007-13 is based on each *Land*'s share of the total population located within Article 87(3)(c) areas (excluding Berlin), with the proviso that each *Land* retains at least 50 percent of its share in 2000-06.

Going beyond these macro-region measures, most States have at least one domestic regional policy instrument which targets designated regional aid areas. Historically, many of these measures were demand-driven and had funding allocated automatically to all projects which met specified eligibility criteria. More recently, budgetary constraints have seen other approaches adopted including the application of more selective (and discretionary) award criteria and the application of call-for-proposals systems under which

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<sup>2</sup> Italian National Strategic Document June 2007, p. 236.

awards are made on merit until the available budget is exhausted. The different approaches adopted have differing implications for the regional allocation of funding.

In *Austria*, the ERP regional loan is a nationally-administered measure where aid is awarded to all projects which meet the eligibility criteria. Support is available throughout the designated aid areas, but with a particular focus on rural areas. Eligible projects must have a significant innovation-orientation. In addition, the main selection criteria include the potential for endogenous renewal and the project's contribution to sustainable growth in the region. Support is granted on a first-come-first-served basis; there is no enforceable legal right to receive assistance.

In *Finland*, there has been a move under the new Aid to Business legislation to make support more selective, with a need to show that the assistance will make a difference. Award maxima favour the worst-off regions, with the highest award rates in Aid Area I (now covering mostly northern and eastern Finland), followed by Aid Area II (the remaining designated aid areas). In 2006, over 32 percent of the overall business aid awarded at the regional level went to Aid Area I (which, at the time, only covered eastern Finland) which accounts for around 13.5 percent of the national population, while Aid Area II (covering mainly the north in 2006), with just 7.2 percent of population, received over one-fifth of the funding.

In *France*, the regional policy grant (the PAT) focuses on major strategic projects in the designated aid areas. Apart from Corsica, where the whole region is eligible, the 2007-13 aid areas were designated on the basis of regional level discussions (within a designation framework laid down by the centre) and decisions were led by the regional *préfet*. Given the relatively low population quota available, involving a cut of almost one half to 18.4 percent of the national population, the resultant map was rather fragmented, focusing on narrowly-targeted areas where award of the PAT is of relevance. There is no pre-determined allocation of PAT funding by region; rather, funding depends on appropriate projects being identified at the regional level and then negotiated with the centre. Final decisions are taken centrally. Around half of PAT resources are ring-fenced for firms in competitiveness poles.

In *Germany*, regional aid is awarded at the *Land* level within the framework of the Regional GA, with around 70 percent of the available GA resources allocated to direct aid to business. The entire territory of the new *Länder* (except for Berlin) is fully eligible under Article 87(3)(a). As already discussed, the new *Länder* receive six-sevenths of GA support (€1006 million in 2007), this being distributed on a broadly per capita basis by *Land*. In contrast, the limited GA support available in the old *Länder* (€168 million in 2007) is, by and large, allocated in line with the proportion of designated Article 87(3)(c) population (excluding Berlin) in each *Land*. In this context, it is of note that, in Germany, a weighted combination of four indicators was used to designate the GA areas (with the weighting of each indicator shown in brackets): average unemployment rate 2002-05 (50 percent); gross annual salary per employee in 2003 (40 percent); forecast of the number of employees (5 percent); infrastructure indicator (5 percent). The areas designated are thus characterised by structural weakness.

In *Italy*, the future of Law 488/1992 support, the traditional regional aid available in the designated aid areas, is currently under review. Over the years, Law 488 support has moved from being a largely automatic grant available to all firms which meet the eligibility criteria to much more selective support (in the form of both grants and loans), awarded in response to budget-limited calls-for-proposals at the regional level. No awards were made in 2005 (when the scheme was being revised); however, in 2006, the calls-for-proposals resulted in the award of €5092 million, with three-quarters of this flowing to the *Mezzogiorno*. Looking to the future, the regional aid focus on the *Mezzogiorno* will be even greater. Only a very small proportion (around 1-2 percent) of the aid area population quota of 34.1 percent for 2007-13 lies outside the *Mezzogiorno*. The difficulties associated with designating appropriate areas within such a low population meant that the final agreement reached with respect to the regional aid map focused not only on the map but also on the allocation of Structural Funds and domestic regional policy resources in 2007-13.

In the *Netherlands*, the sole regional aid available centrally, the Investment Premium, is a relatively low-key incentive. In recent years, between five and fifteen awards have been made each year, with expenditure of less than €28 million per annum over the 2004-06 period. Looking to 2007-13, consideration was given to ending the Investment Premium and channelling the available budget into programme-based support. In the event, and given concerns about competitive outbidding for potentially mobile investment, the decision was taken to retain the scheme, with a budget of €16 million per annum over the 2007-09 period. The designated areas will in future be restricted to parts of the northern provinces and South Limburg and will hold a combined 7.5 percent of the national population (compared to 15 percent in 2000-06). They focus in particular on core centres where the award of the Investment Premium is likely to have a positive impact (as demonstrated by past receipt of aid). Going on previous experience, the vast majority of awards will continue to flow to the north.

In *Norway*, the recently-reintroduced social security concession is targeted at the least-populated areas - NUTS II areas with a population density of less than 8 per square kilometre, plus adjacent and contiguous smaller areas which meet the same population density criterion. These areas cover 17.7 percent of the national population. Broadly speaking, the level of concession falls markedly from north to south while also reflecting the degree of peripherality. The full concession is available only in the far north (North Troms and Finnmark). Out of a budget of around NOK 8 billion, some NOK 1.7 billion (well over one-fifth) relates to the far north, an area holding under 2 percent of the national population. The regional aid budget is also heavily oriented towards the most peripheral areas. Not only are the highest award maxima available in these areas but the budget (some NOK 1 billion to NOK 1.2 billion annually) is distributed according to a formula which takes account of the population in each county which falls within particular categories of aid zone. Reflecting this, the three northernmost counties, holding just over 10 percent of the national population, receive around two-fifths of the regional aid budget.

In *Poland*, the most important mechanisms for allocating national regional policy resources are those developed in the context of EU Cohesion policy (as discussed in the Section 2.2). However, some domestic policy measures are worth noting briefly. The social and economic problems of the mining, iron and steel industries in the regions of Upper Silesia and

Malopolska have been targeted through specific restructuring programmes. For instance, the Silesia Economic Programme, which aimed to create jobs and promote economic recovery, received €50 million in 2004-05. Regions with environmental problems or affected by natural disasters have also received special payments. In addition, aid for economically struggling regions has been available since the mid-1990s through the creation of Special Economic Zones (SEZs) that offer tax breaks to investors. The scale of this programme is quite small but the level of exemptions granted has risen steadily. By 2004, there were 429 enterprises established in SEZs. On the other hand, SEZs have arguably operated as an instrument of industrial restructuring rather than an active component of regional development. They have a strong sectoral concentration (42 percent in the automotive industry) and around 33 percent of investment and 22 percent of jobs created have been in the Katowice SEZ in the restructuring region of Upper Silesia.

In *Sweden*, regional aids continue to play an important policy role in Aid Areas A and B. These have not changed significantly with the introduction of the new regional aid guidelines. Population coverage fell only slightly - from 15.9 percent to 15.3 percent - and the focus remains on the sparsely populated northern counties of Norrbotten, Västerbotten, Jämtland and Västernorrland, as well as parts of the county of Dalarna in central Sweden. The main change with respect to area designation is that the three larger cities in the north - Luleå, Umeå and Sundsvall - are no longer eligible for aid. The designated areas are mainly those with fewer than 12.5 inhabitants per square kilometre, but a number of other areas have been included in central and south-east Sweden. The main indicators used to designate areas in 2007-13 were long-term population development; long-term employment development; unemployment; per capita gross regional product; and a vulnerability index based on the percentage of people working in industry. Overall, support is concentrated on the most disadvantaged parts of the country. In 2005-06, the north, with a population of just under 10 percent of the national total, received 70 percent of the available regional aid support.

Finally, in the *United Kingdom*, different regional aid regimes operate in the different devolved administrations and in England. Both Selective Finance for Investment in England (SFIE) and Regional Selective Assistance (RSA) in Scotland are, as their titles suggest, discretionary aid schemes which, over the years, have become increasingly selective. SFIE supports capital investment, employment training and productivity growth in the designated aid areas, with a particular emphasis on high-quality projects and skilled jobs. Over the period 1 April 2006 to 31 March 2007, 333 offers of SFIE grant support were made, with a total value of £71 million. Unsurprisingly, given the framework provided by the designated aid area map, the spatial distribution of funding has remained broadly stable over time, favouring the north-east and north-west regions. In Scotland, RSA involved spending of £92 million in 2006/07.

Summing up, a considerable proportion of domestic regional policy support has been targeted at structurally-weak regions historically and continues to be so targeted. This is certainly the case in both *Germany* and *Italy* where the new *Länder* and the *Mezzogiorno* remain strongly favoured. In the Nordic countries (*Finland*, *Norway* and *Sweden*), major regional aid funding continues to flow towards the most peripheral and least developed areas, with the greatest funding per capita in the worst-off areas. In countries like the

*Netherlands, France* and the *United Kingdom*, regional aid maps have become much more targeted in response to significantly reduced population quotas under the regional aid guidelines. This has caused aid to be targeted at areas where it previously had an impact (and therefore can be expected to be of use in the next funding period). Notwithstanding these less extensive (and more fragmented) regional aid maps, the spatial allocation of regional aid may not change markedly, continuing to focus on core zones within the designated aid areas. Of the remaining two countries, centrally-funded regional aid in *Austria* remains very low-key, with broadly unchanged eligibility criteria and spatial targeting. Finally, in *Poland*, domestic regional policy measures like the SEZ continue to concentrate on structurally-weak areas: they play a relatively minor role when compared to EU Cohesion policy allocations (discussed further below).

### *2.1.2 Selected regions based on physical geography*

There are relatively few cases where funding is targeted at regions which are selected primarily or solely on the basis of physical geographical attributes. However, under State-region project contracts in *France*, some funding is allocated on the basis of physical geography, with the contracts crossing existing administrative regional boundaries. There are five contracts focused on mountainous areas and five for individual river valley areas.

Physical geography also plays a role in regional policy allocations in the Nordic countries, although social and economic criteria are used in selecting (or justifying selection of) eligible aid areas. In *Finland*, one of the four special programmes within the regional policy portfolio is for islands. More generally, the area designation focus on areas of sparse population is related closely to the geography and topography of the areas concerned. In addition, in *Norway*, the Action Zone of North Troms and Finnmark, an area classified as being in need of extra support, is designated because of its physical characteristics and location. Similar in size to the Netherlands, it has a population of just 90,000 (1.6 per square kilometre) and suffers from significant population decline, leading to fragile settlement structures. Harsh climatic conditions add to the challenge. The additional support targeted at the Action Zone (in the form of a zero-rated social security contribution, additional municipality funding, reduced personal taxes and various personal benefits) amounts to around NOK 3.5 billion per annum. On a per capita basis, this is around four times more than spending per head across the Norwegian designated areas as a whole.

### *2.1.3 All-region support, but structurally-weak regions favoured*

Moving beyond support targeted at specific problem regions and designated areas, most of the countries under review have regional policy instruments which are available in all regions, but where extra funding flows to structurally-weak regions.

For instance, in *Finland*, each Regional Council (except for Kainuu, which is treated differently as part of a broader regional self-government experiment) operates through a Regional Strategic Programme which coordinates all regional development policy including all national and EU resources. A key resource is the State's Regional Development Fund which is allocated on the basis of past levels of funding and regional development needs,

thus favouring weaker regions. In *France*, State-region project contracts also tend to favour weaker areas, with both Corsica and the DOM receiving per capita allocations which are clearly above the national average although, within each contract, funds tend to be allocated mainly on a thematic basis. In *Sweden*, funding for the Regional Growth Programmes is allocated for the initiatives set out in each programme and the indicative budget plans prepared by the regional development authorities in the 21 counties. In practice, funding favours the north, if to a lesser extent than for regional aid. Under the 2004-06 Regional Growth Programmes, the north, with less than 10 percent of the national population, received just under 30 percent of the available funding. In the *Netherlands*, too, the new domestic instrument, Peaks in the Delta, has an agreed funding allocation which favours the (structurally-weaker) north, recognising the need for transitional provision over the 2007-10 period. In this phase, the north, with some 10 percent of the national population, will receive around 27 percent of the Peaks budget.

In a number of countries, weighted formulae are used to determine the level of funding for each region. In the case of *Poland's* regional contracts, 80 percent of funding is allocated on a per capita basis, but an additional 10 percent is allocated to regions with per capita gross regional product below 80 percent of the national average, and a final 10 percent depends on the percentage of the population living in districts with an unemployment rate above 150 percent of the national average for the last three years. Weaker regions are therefore favoured.

State funding levels for *England's* Regional Development Agencies are strongly needs-based. They are calculated using a complex formula which covers nine components: the unemployment rate (weighting 43.8 percent); the number of people living in deprived wards (28.1 percent); level of GVA per capita (9.4 percent); the population of Rural Priority Areas (4.4 percent); R&D expenditure per capita (3.1 percent); the amount of derelict land and pre-used land with planning permission (3.1 percent); the skills of people of working age (3.1 percent); a flat rate for administrative overheads (weighting 2.5 percent); and regional population (2.5 percent).<sup>3</sup> The needs basis of the allocation is reflected in the fact that the north-east, with around 5 percent of the English population, will receive over 12 percent of the RDA budget in 2007/08.

Finally, in *Norway*, it has already been noted that regional aid favours the north. The regional aid budget has been devolved to the county level since 2003, with county partnerships able to decide on how spending should be allocated between regional aid provision and other forms of business support (including support for the business environment). Budgets by county vary depending on the population falling within each designated aid area category, with the following weights in 2007: Action Zone of North Troms and Finnmark: 0.60; other Zone IV: 0.45; Zone III (except for new areas): 0.30; new Zone III: 0.20; Zone II: 0.10. In addition, there is a guaranteed minimum of NOK 8 million for counties with no designated areas (up from NOK 5.64 million in 2006).

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<sup>3</sup> See Allsopp, C. *Review of Statistics for Economic Policymaking*. First Report to the Chancellor of the Exchequer, the Governor of the Bank of England and the National Statistician, p. 54.

Summing up, it can be seen that in *Finland* (Regional Development Fund), *France* (State-region project contracts), the *Netherlands* (Peaks in the Delta funding for the north), *Norway* (Regional aid budget), *Poland* (Regional contracts), *Sweden* (Regional Growth Programmes) and *England* in the United Kingdom (RDA funding), broader domestic regional policy funding, available on an all-region basis, favours structurally-weaker regions - either due to the funding formula employed or in practice. In addition, in *Germany*, as discussed earlier, structurally-weak areas receive all Regional GA funding (which includes broader business environment support as well as regional aid), with the majority of resources focused on the new *Länder*. Similarly, in *Italy* the new programme-based unitary regional policy which is being introduced for the 2007-13 period is very much oriented towards the *Mezzogiorno* regions (over 80 percent of the available budget). Finally, in *Austria*, *Land* programmes are impacted by the fiscal equalisation mechanisms which aim to ensure the provision of equal public services all over the territory. Although such mechanisms have a clear spatial dimension (by favouring the weaker *Länder*), they are, equally clearly, not a specific regional policy instrument.

#### ***2.1.4 All-region support, but targeting regional strengths***

Just as there is all-region support which favours structurally-weak regions, so there is all-region support which targets areas perceived to have specific strengths, often under headings such as 'clusters', 'centres of expertise', 'poles of excellence' or 'competitiveness poles'. Examples include the Centre of Expertise programme in *Finland*, the Competitiveness Poles and Rural Excellence Poles in *France*, the Regional Cluster programme in *Sweden* and the recently-introduced Centre of Expertise programme in *Norway*. Areas chosen under such programmes are generally selected via competitive calls for tender or other competitive processes. This approach to spatial targeting is examined further in Section 3.1.2.

The *Netherlands* is also of interest in this context because of the Peaks in the Delta programme. Outside of the north (where, as already noted, special transitional arrangements apply over the 2007-10 period) 60 percent of Peaks funding is allocated in line with the percentage of regionally-exporting jobs found within each region. Each region then selects projects which meet the priorities established in the regional Peaks programme and contribute to national economic growth. The remaining 40 percent of funding is awarded by the national authorities to those regional projects which are seen to contribute most strongly to national growth (thus effectively increasing the total percentage of funding for the regions where such projects are approved). By targeting regional strengths of national interest, the geographic focus of the Peaks programme tends to be on core areas and urban centres.

One last point to make is that, within domestic regional programmes, even those which favour structurally-weak regions, the broad focus of support is increasingly on regional strengths - in part related to the Lisbon agenda, but also reflecting domestic policy objectives.

## 2.2 EU Cohesion policy

A similar classification of instruments can be undertaken in the case of Structural Funds programmes. The European Council's budget agreement of December 2005 set out the broad approach to be used for calculating the financial allocations to each Member State.<sup>4</sup> Its provisions were complex, and included overarching rules relating to the 'absorption cap' on the level of total allocations relative to national GDP, as well as additional provisions for individual Member States and regions. Specific methods were set out for determining eligible regions and financial allocations under the Convergence, Phasing-out, Phasing-in and RCE Objectives, as well as for designating Member States for Cohesion Fund allocations.

In the case of Member States with Convergence and RCE regions (such as Germany and Italy), a number of EU-level factors impact on the relative balance between the two Objectives:

- Some regions covered by Objective 1 in 2000-06 do not have Convergence status in 2007-13, leading to a reduction in funding for a State's weaker regions;
- The method for calculating per capita allocations to Convergence and Phasing-out regions limits allocations to weaker regions in wealthier Member States (e.g. lower national prosperity coefficients than in 2000-06);
- If a Member State enjoyed a high rate of population coverage under Objective 2 in 2000-06, this could only be cut by 25 percent in 2007-13, leading to a continued significant level of funding outside the Convergence regions;
- In some States, some stronger regions (and particularly, stronger areas) were not covered by Objective 2 programmes in 2000-06 (although they were covered by Objective 3), but all non-Convergence regions and areas are eligible for RCE funding in 2007-13;
- The additional provisions listed in the December 2005 agreement provide *ad hoc* funding for specific States and regions, with diverse implications.

Although EU-wide methods were set out in the December 2005 agreement, as well as in subsequent letters from DG Regio to each Member State in January 2006, Member States have taken different approaches to the allocation of funding between regions under the different Objectives.

### 2.2.1 Targeting funds at structurally-weak regions

Some Structural Funds programmes target regions with structural weaknesses, which are designated on the basis of economic indicators. In 2007-13, this approach is primarily taken under the Convergence programmes, where eligibility is set by EU criteria relating to regional GDP per capita relative to the EU average in PPS.

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<sup>4</sup> J. Bachtler, F. Wislade and C. Mendez (2006) *New budget, new regulations, new strategies: The reform of EU Cohesion policy*, EoRPA Paper O6/3

In *Poland* (and in some other Cohesion countries), the entire Member State is covered by sectoral Structural Funds programmes. Poland also has a multi-regional Structural Funds programme for its eastern regions in 2007-13 although this funding is explicitly pre-allocated between the different NUTS II regions. In *Germany*, the entire macro-region of the new *Länder* is designated under two federal Structural Funds programmes (transport infrastructure and human resources) which fall under the Convergence Objective. Similarly, *Italy* has seven national programmes for the Convergence regions in 2007-13, as well as two interregional Convergence programmes, one for cultural and natural assets and tourism, and the other for renewable energy and energy saving.

Other Convergence programmes are located at a regional level and are discussed in Section 2.2.3 which considers cases where all regions receive Structural Funds resources but structurally weak regions have higher funding allocations.

### *2.2.2 Targeting funds on areas defined in terms of physical geography*

*France* is the only EoRPA State which allocates a proportion of its Cohesion policy resources to areas which are defined primarily on the basis of physical geography. In 2007-13, there are Structural Funds programmes for two of France's five mountainous areas designated under domestic regional policy, as well as for two of the five river valley areas designated under domestic policy, with a focus on infrastructure provision.

### *2.2.3 All regions - higher funding for structurally weak regions*

In a number of Member States, each region will receive Structural Funds resources under the Convergence or RCE Objectives in 2007-13 but funding will be higher in structurally weaker regions. This is partly due to EU-level agreements and rules, but also to Member States' approaches to the division of funding between regions under each Objective.

In the case of the **Convergence Objective**, the three Member States in this review with significant coverage (Germany, Italy, Poland) have modified the December 2005 agreement's allocation method, although to varying degrees.

In *Germany*, decisions on the final allocation of funding between the Convergence programmes were taken at a political level by federal and *Land* Ministers. An important issue was whether to use a range of factors (notably personal disposable income levels) when determining the funding allocation for the Phasing-out region of Lüneburg in the old *Land* of Niedersachsen. It was decided that the Commission's methodology, based on levels of GDP per capita (and unemployment rates), did not take account of the region's relatively good levels of disposable income due to the high levels of commuting to the nearby agglomeration of Hamburg from parts of the Lüneburg region.

In *Italy*, two indices were used for allocating funding. First, a regional dimension index was applied, made up of the weighted average of the regional population (70 percent) and surface area (30 percent). Second, a disadvantage index was used, based on GDP per capita, employment rates, female employment rates, and a combined indicator reflecting local services (85 percent for accessibility and 15 percent for the percentage of the 20-24 year old population with higher secondary education).

In *Poland*, different approaches were taken to the three (sets of) programmes where funding is divided between regions in 2007-13 (see Table 1). While funding for the Regional programmes is being allocated between all regions, resources under the Eastern Poland OP are focused only on the five structurally weakest regions. In the case of the OP Human Capital, 60 percent of funds are divided between all regions, with the remainder managed at the national level.

**Table 1: Indicators used for allocating Structural Funds resources among Polish regions, 2007-13, percentage weighting**

	Regional OPs	Eastern Poland OP	Human Capital OP
Population	80%	20%	38.8% (plus a further 3% among the 5 poorest regions)
Low population density		30%	
Per capita GDP <80% of national average	10%		
Low GDP per capita		20%	9.7%
Population in districts with an unemployment rate >150% of the national average	10%		
Number of unemployed		30%	24.3%
Number of SMEs			14.6%
Number of agricultural workers per 100 hectares relative to regional agricultural employment			9.7%

Source: NSRF.

In the case of the **RCE Objective**, most States have made some form of adjustment to the EU method, whether in terms of the indicators used or via modifications due to political compromises (see Table 2). In some States, political decisions were taken at central government or Cabinet level on the methods to be used (*France*, the *Netherlands*, the *United Kingdom*). In other countries, there were negotiations between regional (and central State) authorities at operational and/or political levels, which led to adjustments in the methods and final financial allocations (*Austria*, *Germany*, *Italy*).

Some adjustments were made in favour of structurally weaker regions. In *France*, for example, an additional €28 million was allocated to Nord-Pas de Calais for the Hainaut area (which has lost the Phasing out status it enjoyed in 2000-06, although Hainaut in Belgium is still designated as a Phasing out region). In the *Netherlands*, a number of factors, including a proposal to limit transitional provisions for the north to 2007-10 (in line with domestic regional policy), resulted in parliamentary pressures which saw a further €55 million allocated to the north - not in terms of the Structural Funds, but in the form of additional co-financing. Overall funding for the north, at €237.4 million, is just under 24 percent of the total ERDF and associated co-funding (for a region with 10 percent of the national population).

**Table 2: Basic methods for allocating RCE funds between eligible regions<sup>5</sup>**

	Austria	Finland	France	Germany	Italy	Nether-lands	Sweden	UK
Population (COM: 50%)		50%	ERDF:50%	x	x	50%	50%	ERDF:10%
Unemployment (COM: 20%)		20%	ERDF:20%	x		20%	20%	
Employment (COM: 15%)		15%	ERDF:15% ESF: ●	x	x	15%	15%	
Education (COM:10%)		10%	ERDF:10%	x	x	10%	10%	ERDF:20% ESF:50%
Population density (COM: 5%)		5%	ERDF:5%	x		5%	5%	
Capped cut (COM:<25%)		>25%	ERDF:30% ESF: 40%	33.3%		25%	25%	20%
GDP per capita					x			
GVA per job								ERDF:30%
Workless								ESF:50%
Female employment					x			
Employment forecast				x				
Average gross annual salary				x				
Business R&D spending								ERDF:20%
No. of business start-ups								ERDF:20%
Accessibility / infrastructure				x	x			
Area (sq km)					x			
Flat-rate cut	30%							
Absorption capacity			ESF: x					

Source: NSRFs and interviews with policy-makers.

In *Finland*, the safety net percentage was increased because, if the EU method had been applied unchanged, the level of funding for the north would have increased in 2007-13 despite an overall reduction in national EU funding. This was partly due to clauses in the EU December 2005 agreement, awarding an additional €35 per capita annually to the east and north, and treating the east as a Phasing-out region in financial terms even though it is a Phasing-in region. In *France*, as already mentioned, a block of ERDF funding was earmarked for interregional programmes for mountain and river valley areas. In the *United Kingdom*, the safety net principle was applied to gaining regions as well as to losing regions i.e. no

<sup>5</sup> The table shows a simplified version of the indicators, as countries differed in their interpretation of specific indicators. For example, the education indicator in Italy reflects the percentage of the population aged 20-24 years with a higher level secondary degree qualification, while in the UK it refers to the number of people with no qualifications and with low levels of qualifications. In France, the allocation of ESF funding draws on five different employment indicators (long-time unemployment, youth unemployment, total employment, gap between women and men, and number of minimum wage beneficiaries).

region would receive an increase in funding of more than 20 percent in comparison with 2000-06. This means in practice that, for the ERDF, no UK region will see an increase of more than 20 percent or a loss of more than 7 percent. The ERDF allocation mechanism concentrates on the regions with the greatest economic need while continuing funding in richer regions in order to tackle pockets of serious deprivation. A single formula for determining ERDF Competitiveness allocations has been developed; each region receives an allocation which reflects its score according to a basket of weighted indicators of economic need. The allocation methodology is quite similar to that used to allocate the single pot to the RDAs (see above). This has helped to align domestic and EU funding since the RDA single pot is the largest single element of matched funding in England.

In both Austria and Italy, negotiations over the regional distribution of Structural Funds resources were linked to discussions over the division of eligible population under the regional aid guidelines and (in Italy) also over the allocation of domestic regional policy resources. In *Austria*, for example, the region of Wien could have been designated under Article 87(3)(c) due to its relatively high unemployment rate, even though it is the Austrian region with the highest level of GDP per capita. It was therefore agreed that Wien would not be designated for regional aid but that it would be compensated in the form of additional Structural Funds resources. All other Austrian regions suffered cutbacks of over 30 percent. In *Italy*, the adjustment of funding allocations to take account of other aspects of regional policy led to a small reduction for Abruzzo, Molise, Lazio, Piemonte and Marche, and a slight increase for other RCE regions.

In *Germany*, decisions on the allocation of RCE funding were taken by a working group made up of federal and relevant *Land* authorities, based on an assessment of three scenarios for the allocation of funds. The first was the division of funding under the EU approach, which tended to favour the more heavily populated areas; the second was the Regional GA approach, which favoured structurally weak areas; and the third was the situation in 2000-06. In addition, the group agreed that no *Land* should lose more than one third of the amount of funding received in 2000-06.

Finally, in *Sweden*, an estimated SK 7.4 billion from the ERDF will be allocated to the new regional OPs primarily in accordance with EU criteria: population, unemployment, employment, educational level, population density and GDP criteria. The sum includes an additional allocation to the four northernmost counties due to their extremely low population density, as agreed at the December 2005 European Council. The additional funding represents €35 per head per year (or a total of SK 1.9 billion), shared between the programme areas of Övre Norrland and Mellersta Norrland. Within the budget arrangements, specific ERDF funding, approximately SK1.3 billion, was allocated to compensate those programme areas which otherwise would have suffered the greatest funding losses in relation to 2000-06.

#### ***2.2.4 All regions - targeting regional strengths but some earmarked funding***

Whereas Objective 2 funding in 2000-06 was focused on specific geographic areas, most RCE programmes in 2007-13 are, instead, primarily adopting a thematic approach. While 100

percent of Objective 2 funding in 2000-06 was allocated to regions which at least nominally had structural socio-economic difficulties, in 2007-13 a significant percentage of RCE funding in each Member State is likely to be allocated to stronger regions. Given this, in some of the EoRPA States, at least some programmes are endeavouring to explicitly target a proportion of EU funding at structurally weaker areas within regions. For instance, in *Austria*, the *Land* of Salzburg has a specific priority in the ERDF programme which targets the NUTS III region of Lungau. In some cases, such ring-fencing is related to the additional provisions set out in the December 2005 budget agreement. This is the case of Bayern in *Germany*, which is receiving an additional €75 per capita for its border areas, and which is earmarking this additional funding within its ERDF programme.

In other cases, specific measures or priorities are designed to target structurally weaker areas. In *Austria*, the *Land* of Lower Austria, for example, has a priority under the ERDF programme (30.7 percent funding) which aims to strengthen weaker regions via bottom-up initiatives, tourism development, environmental sustainability measures, risk prevention, and urban and village regeneration. In *Germany*, some old *Länder* (e.g. Nordrhein-Westfalen) have a specific priority or measure which focuses on regional and urban economic development, with a significant percentage of these funds being channelled through existing domestic instruments such as the Regional GA and a federal instrument for areas of urban deprivation ('*Soziale Staat*').

A final approach with respect to geographic targeting entails setting targets at programme level for the percentage of funding to be allocated to structurally-weaker regions. In *Finland*, the Southern and Western Finland programmes, for example, target funding mainly at weaker areas, due to the limited level of total resources. It has been decided that 60 percent of funds will be focused on structurally-weak areas and 8 percent on urban areas. Criteria such as unemployment rates and education levels have been used to select eligible areas. Similarly, in the Western regional ERDF programme in the *Netherlands*, there is a special urban sub-component which will receive one-third of the region's ERDF resources.

### 2.2.5 Concluding points

For the EoRPA States, this section has briefly discussed the funding allocation mechanisms under EU Cohesion policy for 2007-13. The allocations between the Convergence and RCE Objectives are determined primarily at the EU level. Within the Convergence regions, allocations within each Member State have involved some modifications to the EU allocation formulae. In *Germany*, decisions on final allocations between Convergence programmes were taken at a political level by federal and *Land* Ministers; in *Italy*, two indices were used - one relating to regional population and surface areas and a second reflecting measures of disadvantage; and in *Poland*, different approaches were taken under the three different sets of programmes (see Table 1), but with the most disadvantaged areas receiving the highest allocations. Under the RCE Objective, the Commission criteria formed the basis for most regional allocations, but with a range of country-specific adjustments. For instance, the Hainaut area in Nord-Pas de Calais received an extra allocation in *France* while the north of the *Netherlands* benefited from extra co-funding. In *Finland*, adjustments were made to ensure that no region increased its allocation compared to the

2000-06 period, while in *Austria* and *Italy* allocation decisions took account of broader contextual factors (including outcomes under the regional aid guideline negotiations). In the *United Kingdom*, allocations reflected need-based indicators and, in England, were broadly aligned with RDA funding mechanisms (important from a co-funding perspective). Overall, it is regions of disadvantage which receive most funding. However, *within* regions, there is much less of a spatial focus, with most regional programmes having a strong thematic basis. Relatively few examples of spatially-earmarked funding within regions have emerged. Examples were provided only in respect of *Austria*, *Germany*, *Finland* and the *Netherlands*. Combined with the fact that RCE regions are no longer spatially-confined but, instead, cover all of the country not designated under the Convergence Objective, this has significantly increased the scope for RCE funding to flow towards stronger areas.

### 3. IMPLICIT SPATIAL TARGETING

Where there is only limited or no use of explicit geographical targeting, a thematic approach or the use of certain allocation methods can indirectly lead to a focus on certain types of region or area. For example, if regional policy resources are focused on large-scale business support, R&D or clusters, it is likely that a large percentage of funding will flow to the main agglomerations within designated areas, as these are typically home to most businesses and to most R&D activities. Similarly, the use of competitive calls for tender in allocating funding is likely to favour more dynamic and developed areas.

However, a distinction should be drawn between the implications of indirect geographical targeting in structurally weak countries or macro-regions (e.g. Poland, eastern Germany, southern Italy, and the sparsely populated Nordic regions) and their use in countries where structural weaknesses are concentrated in small geographical areas. In the former case, indirect geographical targeting can facilitate economic development at the level of the structurally-weak macro-region and thus support catching-up towards national (and, in the case of the Cohesion countries, EU) levels of development. In contrast, in the latter case, indirect targeting is generally seen in the case of regional policy which aims mainly to contribute to national economic development, rather than primarily to develop structurally weaker areas.

#### 3.1 Domestic regional policy

##### *3.1.1 Implicit geographical targeting via a thematic focus*

Most domestic regional policy instruments focus on supporting business development, either through direct aid or via indirect forms of support such as investment in industrial parks and other business-oriented infrastructure (the Regional GA in *Germany*), packages of support for inward investing firms (Localisation Contracts in *Italy*) and various clusters, centres of expertise and competitiveness poles or zones. The main exceptions are State-region contracts covering a range of themes (*France*, *Poland*), additional resources for public investment in weaker regions (the Solidarity Pact in *Germany* and district policy in *Norway*), and programmes of support for different types of development spending (Framework Programme Agreements in *Italy*, the Regional Development Fund in *Finland* and the Regional Growth Programmes in *Sweden*).

In the case of many of these instruments, there is no further thematic focus. In a number of countries, however, some regional policy instruments with an all-region or any-region approach have a thematic basis which can have implications for geographical targeting. Generally, it can be expected that all types of funding for businesses are likely to flow disproportionately towards agglomerations because more businesses are located in such areas (in order to benefit from proximity to markets, as well as positive externalities such as labour pooling, proximity to suppliers, and knowledge spillovers). Moreover, to the extent that regional policy is influenced by EU-level or domestic debates on the need to enhance national economic growth, regional policy instruments often relate to themes such as technology, innovation and the knowledge economy (e.g. *Finland, Sweden, France, the Netherlands*). Such a focus is likely to benefit structurally stronger regions or areas unless (a proportion of) funding is explicitly targeted at structurally weaker regions or areas.

In some countries, themes are promoted nationally (e.g. *France, the Netherlands*) or cooperatively between regions and the centre (*Finland, Sweden*) and are an integral part of national regional policy, while in other cases no uniform approach is taken and the regional level has significant flexibility in deciding which themes should receive funding (e.g. *Germany, Austria*). The following paragraphs examine a number of themes which implicitly direct funding towards certain types of geographical area.

### **R&D and innovation**

Economic theory suggests that R&D excellence is likely to concentrate in a small number of locations due to positive externalities in the form of knowledge spillovers. However, the term ‘innovation’ can include a wide range of diverse activities, including the commercialisation of existing research, as well as technology transfer and diffusion, and the broader development and application of new technological ideas. Many of these activities can in principle take place in a range of different kinds of region, including rural areas (e.g. *France’s* approach to innovation in rural poles of excellence). Nevertheless, good quality human resources, adequate infrastructure and equipment, and proximity to R&D institutions facilitate participation in all innovation-oriented activities.

A number of domestic regional policy instruments in the EoRPA States are focused on supporting R&D and innovation, with the aim of stimulating regional growth and job creation. Some explicitly target structurally weak regions (e.g. *Germany’s* Regional GA and federal R&D support for the new *Länder*), but others take an all-region or any-region approach. In such cases, it is likely that funding will mainly flow to those locations with existing strengths, both in terms of physical and human resources, and in terms of knowledge of complex project development and application procedures.

Some instruments are explicitly focused on innovation, such as the Centres of Expertise in *Finland* and *Norway* and the Competitiveness Poles in *France*. Similarly, the ERP Fund in *Austria* provides business loans for investment projects which involve the introduction of new production processes or the commercialisation of new technologies. In other cases, components of regional programmes or aid instruments may favour R&D and/or innovation-oriented projects. The Peaks in the Delta approach in the *Netherlands* supports region-specific innovation policy in a selective way, focusing on areas “*with the capacity to*

*develop internationally competitive innovation 'hot spots'".<sup>6</sup> In the case of France's regional aid instrument, the PAT, approximately 50 percent of funding is earmarked for firms in areas which have already been selected as Competitiveness Poles.*

### **Cluster development**

Regional policy support for R&D and innovation is sometimes linked to cluster-type initiatives, which are generally 'soft' instruments that aim to enhance the business environment by providing support for firm networking, business advice or training, often with a focus on a particular (technology-oriented) sector or theme. As in the case of support for R&D and innovation, it can be expected that regional policy funding for cluster development is likely to be concentrated on areas with existing assets in terms of human, physical and knowledge capital.

Some clusters aim at achieving international visibility and are likely to be located in the main regional centres, such as Sweden's Regional Cluster Programmes, Norway's programme in favour of internationally-competitive clusters (Centres of Expertise) and the French Competitiveness Poles. Others take more locally-rooted approaches such as France's Local Productive Systems; these are smaller in scale and aim to provide a focus for local activities related to a particular sector or theme.

### **Urban development**

Some regional policy instruments focus specifically on urban development, where locations are selected because they are seen as 'urban' rather than because of structural economic weaknesses or strengths (e.g. in terms of GDP per capita levels or unemployment rates). In many States, however, such urban policy instruments are treated separately from regional policy and are administered by different entities.

The geographical implications of this type of approach depend on the specific goals and instruments which are adopted. Some are conceived explicitly with the aim of increasing the international visibility of a limited number of large agglomerations (e.g. metropole policy in France), and thus have the rationale of reinforcing existing concentration effects. In contrast, other instruments aim to achieve a more balanced distribution of economic activities throughout the country, by focusing on a limited number of cities or towns with a view to facilitating polycentric development (e.g. the Regional Centre programme in Finland).

### **Rural development**

Similarly, some regional policy instruments focus on areas which are seen primarily as 'rural'. Some regional policy support for rural areas focuses on locations with structural economic weaknesses. For instance, France's instrument for Rural Revitalisation Areas aims to address the specific structural socio-economic weaknesses of less developed rural areas.

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<sup>6</sup> Ministry of Economic Affairs, *Peaks in the Delta: Regional Economic Perspective*, The Hague, July 2004, Section 3.5.

In a number of other States, there is a strong focus on facilitating transport and communication links, due to problems relating to market and other forms of access to some rural areas. In *Norway*, businesses can receive transport aid if they are located in the sparsely-populated areas of the far north because they are seen to face significant additional transport costs due to their location. Similarly, there is a strong focus in *France* on extending broadband coverage to so-called ‘white zones’ in rural and mountain areas. A further issue in some States relates to broader public service provision in rural areas, including certain types of infrastructure. In *Finland*, the special rural programme focuses on rural areas which fall outside the coverage of the Regional Centre programme.

However, some initiatives for rural areas focus on existing strengths rather than on structural weaknesses. This is the case for Rural Excellence Poles in *France* which are based on the rationale that rural areas constitute reservoirs of growth and excellence and contribute to the attractiveness and development of the country. Projects are carried out via public-private partnerships with priorities relating to the promotion of indigenous resources, service provision and economic activities including the use and diffusion of new technologies (e.g. ICT).

### *3.1.2 Implicit geographical targeting via allocation mechanisms*

Allocation mechanisms can have an important influence on geographical funding outcomes. In some countries, automatic mechanisms form the basis of policy. On the other hand, a growing number of countries have moved in recent years towards the use of more competitive and quality-oriented procedures. The aim has been to ensure that funding is focused on projects which are likely to bring stronger socio-economic benefits. However, firms and other potential beneficiaries in structurally weaker regions often have more limited human resources and administrative capacities, so that a more competitive approach to funding allocation may favour regions with better development prospects.

As in the case of the thematic orientation of funding, the type of allocation mechanism plays a particularly important role when an all-region or any-region approach is taken. In such cases, regional policy resources which are allocated through competitive mechanisms are likely to favour stronger regions, thus contributing mainly to national economic development, rather than to the catching-up of weaker regions.

#### **Allocation of funding packages to regional/local authorities**

A number of domestic regional policy instruments are based on automatic funding allocations to regional or local authorities. Some are allocated to all regions, notably State-region contracts in *France* and *Poland*, and have balanced spatial effects, with a degree of funding bias in both cases towards structurally weaker regions. In other cases, instruments focus only on regions with clear economic difficulties, notably Germany’s new *Länder* (Solidarity Pact) and Norway’s sparsely populated areas (municipality funding). In *Germany*, this funding is temporary and scheduled to end in 2019, as the goal is to allow the new *Länder* to allocate additional funding to infrastructure development and business support, and thus to facilitate catching-up. In *Norway*, the difficulties of sparsely

populated areas are such that ongoing support for local authorities in the far north is seen to be needed in order to create a situation of equal living conditions across the country.

### **Automatic aid awards to businesses**

Other instruments allocate funding (more or less) automatically to businesses, as long as business or investment projects meet certain basic eligibility criteria. Although business aid generally flows disproportionately towards areas which are attractive for business location (e.g. in terms of transport connections, labour pools and proximity to suppliers and customers), automatic instruments are likely to have a relatively balanced effect in geographical terms and to benefit structurally weaker regions. In any case, EU competition rules mean that such mechanisms are restricted to designated aid areas, such as the new *Länder* in *Germany* (Investment Allowance), sparsely populated areas in *Finland*, *Sweden* and *Norway* (social security concessions), certain zoned areas in *France* (in receipt of tax relief), the *Mezzogiorno* in *Italy* (the Tax Credit) and selected areas in *Poland* (Special Economic Zones).

### **Quality-oriented selection processes**

Quality-oriented selection processes are often used in the case of regional aid instruments when there is a strong emphasis on ensuring the efficiency of funding allocation processes and on enhancing project quality. This type of mechanism aims to favour stronger project applicants and thus may be biased towards stronger regions if funding is not geographically delimited, due to the likelihood that many actors in structurally weaker regions will have economic and organisational weaknesses.

This approach is seen, for example, under the PAT in *France*, the Regional GA in *Germany*, SFIE and RSA in the *United Kingdom* and in regional aid instruments in *Norway*, *Finland*, *Sweden* and *Austria*. In the context of the *German* GA, each *Land* can decide on the specific approach to take when allocating aid, for example whether or not to allocate higher aid ceilings for projects which meet certain quality criteria. In *Land* Thüringen, it has been decided to focus regional aid resources on the highest quality business investment projects by increasing regional aid rates for any project which shows evidence of strong potential in relation to its contribution to economic growth, employment, enterprise and also its location.

Quality-oriented procedures are also used in relation to other kinds of instrument. The allocation of funding under the Centre of Expertise programme in *Finland*, for example, is based on evaluations using criteria such as participation in clusters, activities promoting internationalisation, and innovation. Another example is Finland's Regional Centres programme, where financial allocations depend on the scope and organisation of individual programmes, as well as the funding they attract, and compliance with national objectives.

### **Competitive approaches to funding allocation**

The mechanisms which are most likely to favour stronger regions or areas are competitive calls for tender, as well as any other selection process which targets funding on the 'best' projects. This is because structurally stronger areas are, on the whole, home to firms and

other applicants with better organisational and technological capacities. In contrast to other quality-oriented procedures, competitive calls tend to have narrower project specifications (e.g. in terms of thematic focus) and set a limited number of application deadlines. This allows policy-makers to benchmark projects against each other in order to select the strongest ones at a particular point in time.

Competitive calls for tender are used in a number of States, particularly where regional policy funding is allocated to all regions or to any region. Examples include Peaks in the Delta funding in the *Netherlands* (excluding earmarked resources for the north), as well as the Regional Cluster programme in *Sweden*, the Centre of Expertise programme in *Norway*, and Competitiveness Poles (where both poles and projects within poles are selected at the national level), Rural Excellence Poles and Metropoles in *France*.

In *Finland*, the Centres of Expertise and Regional Centres are both selected via competitive procedures by a group composed of staff from national ministries and regional representatives. Both types of Centre receive annual funding via the Regional Development Fund on the basis of quality-oriented criteria. Peaks in the Delta in the *Netherlands* also makes extensive use of competitive procedures, allocating funding at national (40 percent of funding) and regional levels (60 percent of funding) in all regions except the north (where funding is earmarked). Public and private actors can apply for funding from the regional Peaks in the Delta budget, and the regional authorities select 'the best' projects to receive funding. The national authorities then undertake a second round of selection, providing national funding to 'the best of the best', so that regions whose projects are selected for national funding can then re-award the regional funding to the next-best regional projects.

The usefulness and geographical implications of competitive approaches vary, depending on the theme and the goal of an initiative. It may be relatively straightforward, for example, to compare business projects with each other, but more demanding in the case of more complex projects (e.g. clusters). Competitive procedures are likely to be most appropriate either where regional policy funding explicitly aims to enhance national economic growth, or where funding is clearly earmarked for structurally weaker regions. Such procedures also seem more likely to be relevant in the case of activities which are inherently conditioned by market-based or other forms of competition, such as business investment, R&D or innovation. In contrast, where regional policy aims to facilitate broader-based projects, focused on community development or capacity building, competitive procedures are less likely to be appropriate. Similarly, such an approach is less likely to be useful in the case of funding for core infrastructure projects or active labour market policies targeted at the unemployed or socially disadvantaged.

### 3.2 EU Cohesion policy

Cohesion policy finances a wide range of themes, instruments and allocation mechanisms, which may have very different implications for structurally weak regions. This is particularly so in the case of the Convergence Objective, which accounts for 81.5 percent of total EU funding. In addition, when the entire State (Poland, or a macro-region such as eastern Germany or southern Italy) is structurally weak relative to EU average levels of

development, the role of Cohesion policy is to assist the economic development of the entire Convergence macro-region or country - not simply those regions which are structurally weak from a narrowly national perspective. In such States, a significant percentage of EU funding is often channelled into core spending categories such as major transport networks, active labour market policies and remedial environmental measures - where spending priorities are often set by sectoral, national and EU strategies (e.g. relating to the TENs, National Reform Programmes and EU environmental directives).

### *3.2.1 Implicit geographical targeting via a thematic focus*

A key feature of the preparations for the 2007-13 period has been the explicit alignment of Cohesion policy with Lisbon strategy goals and the introduction of Lisbon earmarking targets. Thus, each EU15 Member State (and other Member States on a voluntary basis) must now ensure that at least 60 percent of Convergence funding and at least 75 percent of RCE funding is allocated to relevant expenditure categories. However, the geographical implications of such an approach are far from clear.

**Table 3: Lisbon earmarking targets in the EoRPA Member States, 2007-13, percentage**

	Convergence Objective	RCE Objective
Austria	60	78
Finland	n.a.	88
France	60	75
Germany	70	81
Italy	68	80
Netherlands	n.a.	80
Poland	60	n.a.
Sweden	n.a.	75
United Kingdom	60	75

Source: NSRFs.

Table 3 shows the earmarking targets at Member State level in the EoRPA States. There is some variety between countries but all meet the regulatory targets. These figures are significantly higher than those seen in some Member States and programmes in 2000-06, although there was a great deal of variation across countries, Objectives and programmes. A 2005 report commissioned by DG Regio undertook case studies of a number of 2000-06 programmes and found that the percentage of funding relevant for Lisbon objectives ranged from 18 percent in Attiki to 85 percent in Satakunta Finland (see Table 4). DG Regio has also undertaken a separate assessment of its own, and this indicates that around 50 percent of funding at Member State level was allocated to Lisbon-relevant themes in 2000-06 (2004-06). Among the EU15 countries, the figures ranged from over 70 percent in the case of the Swedish programmes to around 45 percent in Portugal.<sup>7</sup> In the new Member States,

<sup>7</sup> J. Bachtler, M. Ferry, C. Mendez and I. McMaster (2007) *The 2007-13 operational programmes: a preliminary assessment*. IQ-Net Thematic Paper No.19(2), Antwerp, Flanders, Belgium, 15-17 January 2007.

earmarked expenditure generally accounted for less than 50 percent of total allocations (with Malta on around 15 percent), the exceptions being Slovenia, Cyprus and Estonia.

**Table 4: Lisbon-relevant expenditure in selected 2000-06 programmes**

Country/region	Programme	Approximate % of funding relevant for Lisbon objectives
Portugal	CSF/Objective 1	21
Greece	CSF/Objective 1	39
Ireland	CSF/Objective 1	42
Germany - new <i>Länder</i>	CSF/Objective 1	56
Greece - Attiki	Objective 1	18
Italy - Campania	Objective 1	26
Portugal - Norte	Objective 1	28
Spain - Extramadura	Objective 1	32
Germany - Sachsen Anhalt	Objective 1	67
Sweden - Norra Norrland	Objective 1	78
UK - Western Scotland	Objective 2	68
Denmark - Bornholm	Objective 2	80
France - Aquitaine	Objective 2	83
Finland - Satakunta	Objective 2	85

Source: *Thematic Evaluation of the Structural Funds' Contribution to the Lisbon Strategy*, Danish Technological Institute, Synthesis Report to DG REGIO, February 2005.

Although these figures suggest that some Member States will have had to make significant changes in order to meet the Lisbon earmarking targets for the 2007-13 programmes, a number of issues should be noted. First, in some cases there will have been scope to reclassify some instruments as eligible or to reorient instruments (e.g. away from generic SME support towards higher quality or innovation-related support). Second, the Lisbon earmarking targets apply at Member State level and it is therefore possible to balance earmarked allocations across programmes. Even if targets are applied at regional level, in many cases it will still be possible, for example, to allocate a high percentage of ESF regional funding to Lisbon categories, which would compensate for a lower percentage under the ERDF regional programme.

There are some concerns that the introduction of Lisbon earmarking could lead to a reduced focus on structurally weaker regions and on the goal of socio-economic cohesion. This is partly because the thematic focus associated with the Lisbon earmarking in 2007-13 is seen to replace the zoning approach of earlier programming periods under Objective 2 (and Objective 5b in 1994-99). In addition, the term 'Lisbon strategy' is often seen to be coupled with a stronger focus on R&D and innovation, and these themes are generally regarded as more appropriate forms of support for agglomerations with well-developed business sectors rather than the structurally weakest regions.

In practice, however, it is difficult to assess the geographical implications of any such changes. This is partly because the range of categories included under Lisbon earmarking is very broad, ranging from support for R&D and innovation, to business investment aid, information society interventions, transport and energy infrastructure, life-long learning

support and an array of active labour market policies. Moreover, each category may be translated into a diverse range of instruments, which might be less or more likely to be focused on structurally weaker regions. As noted in Section 3.1.1, for example, R&D support would generally be expected to focus on existing excellence, which is likely mainly to be located in agglomerations, but support for technology diffusion and transfer, as well as some forms of business innovation, could be taken up by actors in any region. There are also considerable differences in the comparative advantage of structurally weak regions, with some Convergence regions in Germany's new *Länder* and in the main agglomerations of the EU10 enjoying strengths in some R&D sectors and activities.

### *3.2.2 Implicit geographical targeting via allocation mechanisms*

Structural Funds programmes typically draw on a range of different allocation mechanisms, depending on the types of instrument being funded (e.g. business support versus infrastructure), and on the intermediary bodies and other organisations responsible for project generation and selection. In some Member States, EU funding is subsumed into domestic funding schemes and thus is allocated through existing mechanisms.<sup>8</sup> In other States, *ad hoc* structures may be set up to deliver some components of programmes, and in these cases new approaches to allocation mechanisms may be developed. The diversity of allocation mechanisms is usually greater in large Convergence programmes, which may have a budget of billions of Euros and may finance tens of thousands of projects.

A first type of allocation mechanism involves the channelling of EU funding to projects which are selected on the basis of existing domestic sectoral strategies or plans, whether in the form of individual major projects (e.g. in the field of transport), broad programmes (e.g. for active labour market policies) or components of policies in areas such as education, healthcare or the environment. This approach is mainly found in major Convergence programmes, but may also be seen in those RCE programmes where funding is subsumed into domestic funding streams (e.g. *Germany's* old *Länder*). In the past, *UK* programmes have generally depended on open-call or selective-call approaches but in 2007-13 a percentage of funding in many programmes will be channelled through existing domestic strategies, with the aim of better aligning EU resources with domestic priorities. Similarly, in *France*, the State-region contracts will function as a major co-financing source (up to 60 percent).

Second, some EU funding may be targeted at major projects which are pre-selected during preparations for an individual Structural Funds programme, but are not necessarily pre-set by existing domestic strategies. Such an approach may most typically be seen in the EU10, where EU resources represent a significant and relatively new source of funding, so that new projects need to be generated in order to ensure financial absorption. In *Poland's* Regional Operational Programme for Śląskie, for example, there will be funding for so-called 'pre-selected' infrastructure projects, which are seen to be of regional significance. In addition, the ROP will fund 'key projects', which are proposed by the four sub-regions

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<sup>8</sup> M. Ferry, F. Gross, J. Bachtler and I. McMaster (2007) *Turning strategies into projects: the implementation of 2007-13 Structural Funds programmes*, IQ-Net Thematic Paper No.20

and are seen to have economic significance at this geographical level. This approach may also be adopted outside the EU10, particularly where there is a strong emphasis on ensuring that EU funding brings added value in terms of new, major projects. In *Scotland's* Lowlands and Uplands programme, for example, funding will be allocated to large venture capital projects.

Third, some States and regions allocate a percentage of funding to umbrella sub-regional or sectoral programmes which are explicitly set up within the Structural Funds programmes. The *Italian* authorities use so-called 'negotiated procedures', which generally apply to large sub-regional or sectoral development initiatives and involve a range of instruments (e.g. a mix of infrastructure and business aid). The implementation of these initiatives often involves numerous actors (public administrations at different institutional levels, business associations, chambers of commerce, research centres, universities etc.). The lead partner is usually responsible for selecting individual projects via open or selective calls, and there is often a strong emphasis on appraising each project application on its own merits, rather than in a more standardised way. Funding is also allocated to sub-regional development programmes in *Poland's* Śląskie region, largely in response to demand from municipalities to be able to participate directly in the implementation of the regional OP. Each sub-region is developing partnership arrangements involving municipalities, businesses, universities and research institutions. At the beginning of the period, the different partners must agree on a list of projects, based on the ROP measures, and sign a sub-regional agreement.

An alternative approach is seen in many Structural Funds programmes, namely open calls for projects, where funding is generally awarded on a 'first-come, first-served' basis to applicants meeting defined selection criteria, and which often focus on a particular theme or type of intervention. The most common type of instrument funded through open calls relate to business support, the business environment (including clusters), R&D and innovation. However, some programmes also allocate funding through open calls for other kinds of intervention, including small-scale infrastructure and community development. In *Austria*, for example, all funding is channelled through open calls and this is also the main approach in *Finland* and *Sweden*; it is also adopted to a certain extent in *Germany*, *Italy*, *France* and the *UK*. In some cases, funding is awarded automatically to all projects which meet basic criteria, for example for small projects in some *Italian* programmes. In other cases, funding depends on whether project applicants meet quality-based criteria, which are defined in legal or administrative rules relating to each instrument.

A final approach involves selective calls or competitive calls for tender, where clear deadlines are set for applicants, and where all applications received by these dates are compared with one another, with funding allocated to those considered to be of highest quality. This approach is generally adopted where policy-makers are endeavouring to encourage applicants to generate new ideas, or to raise programme impact by concentrating funds on the 'best' projects. Again, these calls are most typically seen in the case of business support, as well as R&D and innovation, but may also be used for other kinds of intervention, for example in *Finland*, *France*, *Sweden* and *Poland*. In the *German Land* of Nordrhein-Westfalen's ERDF programme, most funding will be allocated through selective or open calls in 2007-13, with the goal of enhancing project quality.

The geographical implications of these different allocation mechanisms are not always clear-cut, as they also depend on the extent of explicit geographical targeting and the specific thematic focus associated with a particular mechanism. When funding is allocated via existing domestic strategies, much depends on domestic goals and priorities, although these often emphasise the need for development throughout the region or Member State. Funding for major projects is generally focused on the main agglomerations, but often targeted only on structurally weak Member States or regions. Similarly, *ad hoc* umbrella programmes may often aim to address the needs of all regions but this approach is most typically adopted in Convergence programmes. However, open calls and, particularly, selective calls are more likely to favour stronger regions, areas and project applicants because they aim to channel funding towards ‘the best’ projects and these are generally less likely to be proposed by actors in regions with serious structural weaknesses.

## 4. ALLOCATION OUTCOMES

This section aims to provide an indication of the pattern of regional policy funding allocations, both from domestic sources and from EU Cohesion policy. It looks in particular at the percentage of regional policy funding which is focused on structurally weak regions. It also endeavours to provide some indication of trends in regional policy allocations, in order to identify any changes which may be occurring over time. However, it should be noted that the information used is not complete, with financial data in some cases available only for selected instruments or only for a limited number of years. As with the other parts of this paper, the assessment only focuses on those States which are members of the EoRPA network. These are considered briefly in the next section on a country-by-country basis. A final section draws together some comparative conclusions.

### 4.1 A country-by-country review

In *Austria*, regional policy is a *Land* responsibility. The sole nationally-administered regional aid is the ERP regional loan. However, apart from being restricted to the designated aid areas, it has no explicit spatial orientation and is, anyway, small-scale. EU funding is more significant. Allocating EU funds to the *Länder* is a political and consensus-oriented decision. For 2007-13, there was agreement to reduce funds equally between the *Länder*. Apart from Wien, they faced with a reduction of some 30 percent of total EU funds (around one quarter in terms of ERDF funding, see Table 5). The increase for the capital relates to a compensatory deal: due to its relatively high unemployment rate, Wien could have qualified as a regional aid area under the aid map. Given, however, that it is the Austrian region with the highest level of GDP per capita, this would have been rather paradoxical. Hence it was decided to allocate additional Structural Funds in compensation for not being part of the aid map.

Comparing the two periods, the lower percentage allocation to Burgenland reflects its loss of full Objective 1 status while, as already mentioned, Wien benefited from regional aid-related compensation. The table also shows that structurally-weaker areas (in GDP per head terms) receive the most significant allocations per head. The four *Länder* with the lowest GDP per head, holding 44 percent of the national population, received 72.4 percent of the allocation (down from 74.1 percent in 2000-06, due mainly to Burgenland).

**Table 5: Austria - ERDF allocations to the *Länder*, 2000-06 and 2007-13**

	2000-06 (€mn)	2000-06 (%)	2007-13 (€ mn)	2007-13 (%)	2007-13 (€/head)	2004 pop'n (%)	GDP/head 2004 (AU=100)
Burgenland	181.5	20.5	125.0	18.5	446.7	3.4	69.7
Lower Austria	185.0	20.9	145.6	21.5	91.8	19.1	81.1
Carinthia	85.0	9.6	64.4	9.5	114.9	6.9	84.1
Styria	204.7	23.1	155.0	22.9	128.9	14.6	86.0
Upper Austria	127.2	14.3	95.5	14.1	68.0	17.1	93.3
Tyrol	46.7	5.3	34.8	5.1	49.8	8.4	102.1
Vorarlberg	23.7	2.7	17.7	2.6	48.6	4.4	104.5
Salzburg	18.5	2.1	13.8	2.0	29.1	6.4	110.0
Vienna	14.9	1.7	25.2	3.7	15.2	19.6	140.1
Austria	887.1	100.0	677.0	100.0	80.5	100.0	100.0

Note: Data do not include Community Initiatives (for 2000-06) and territorial cooperation.

Source: ERPC calculations based on ÖROK (2007), DG Regio (2006), *Länder* SPDs and Eurostat data.

In *Finland*, domestic regional policy consists of regional aid (under Aid to Business legislation) plus programme-based support (financed domestically mainly under the Regional Development Fund). The former averaged just over €137 million over the 2005-06 period, while the latter has a budget of under €30 million in 2007. It was noted earlier that award rates under the regional aid legislation strongly favour Aid Area I (eastern and northern Finland) over Aid Area II (the remaining designated areas). In recent years, the east and the north have benefited from higher per capita funding under both regional aid and the Regional Development Fund, but more so under the former. With around 13 percent of the national population, the east received over 32 percent of the regional aid budget in 2005-06 and just over 15 percent of the Regional Development Fund; the north, with 12 percent of the population, received 19 percent of the regional aid budget and just under 17 percent of the Regional Development Fund. For neither domestic funding source is it anticipated that there will be significant changes in the geographical distribution of funding in the next funding period.

**Table 6: Finland - Percentage of ERDF allocations, 2000-06 & 2007-13**

	2000-06	2007-13	Percentage of national population 2004	GDP per capita 2004 (FI=100)
East	36.7	37.4	12.8	73.6
North	18.9	31.8	12.1	88.0
West	24.4	16.3	25.4	88.3
South	19.4	14.1	49.2	115.6
Åland Islands	0.5	0.3	0.5	126.9
Total	100.0	100.0	100.0	100.0

Note: Outside the East and the Åland Islands, programme borders have changed somewhat.

Source: OPs and Programme complements.

With respect to the Structural Funds, as mentioned earlier, both the north and the east benefited from special provisions under the December 2005 budget agreement. An additional €35 per capita annually was allocated to the east and north, while the east was treated as a Phasing-out region in financial terms even though it is a Phasing-in region. It

can be seen from Table 6 that these two regions continue to receive the lion's share of the available ERDF funding. In terms of overall EU funding, the decline for Finland between the two periods was of the order of 25-30 percent. While EU support for the north is broadly unchanged in absolute terms and fell slightly in the east, in both the west and the south the decline was nearly one-half (after taking into account border changes between the two periods).

In *France*, it is difficult to comment on the regional incidence of domestic regional policy funding due to the high number of funding sources and the spread of funding over a wide range of thematic fields.<sup>9</sup> Although there has been no dramatic explicit shift in the allocation of funding by area, it may be that resources will be increasingly allocated to actors and areas which exhibit a certain development potential, not least due to the increased use of competitive bidding mechanisms. There is also increasing attention on efficient project implementation, meaning that project applicants have to prove adequate implementation capacities from the outset. Overall, efforts are being made to allocate funding to projects rather than to pre-determined operators or bodies (hence the shift in terminology from State-region *planning* contracts to State-region *project* contracts).

The allocation of Structural Funds to the regional level for 2007-13 was organised in the following way. For the ERDF, the French government applied the four criteria recommended by the Commission (i.e. population density, number of unemployed above national average, GDP per head, regional envelopes for 2000-06). At the same time, it made an effort not to reduce the individual regional ERDF envelopes by more than 30 percent. Additionally, €75 million was allocated to interregional programmes for mountainous areas and €67 million for interregional programmes focussing on river valleys. The allocation of ESF funding follows two criteria: the employment situation based on five indicators (long-time unemployment, youth unemployment, total employment, gap between women and men, number of minimum wage beneficiaries) and the absorption capacity of Objective 3 funds between 2000 and 2005. In order to minimise allocation gaps in comparison with the current programme period, the government decided on a maximum decrease in ESF funding of 40 percent. The outcome is shown in Table 7. The reduction in funding has been quite significant for some regions while others have a budget comparable to the last programming period.

One final point to make is that those parts of France with the lowest levels of GDP per head receive the highest relative allocations. Thus Corsica, with less than 0.5 percent of the national population, was allocated 1.8 percent of the allocation to metropolitan France while Nord-Pas de Calais, with 6.6 percent of the population, was allocated 11.5 percent of the funding.

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<sup>9</sup> One exception is Corsica which benefits from wide-ranging support measures (e.g. it is entirely covered by the new aid map, receives targeted tax relief and benefits from a major multi-annual infrastructure investment programme).

**Table 7: France - Regional envelopes for the 2000-06 and 2007-13 regional OPs (€million)**

Region	2000-06	2007-13	<i>Change in funding (%)</i>
Alsace	242.58	200.52	-17.3
Aquitaine	659.36	580.16	-12.0
Auvergne	387.46	302.89	-21.8
Basse Normandie	368.41	285.24	-22.5
Bourgogne	356.05	290.73	-18.3
Bretagne	618.44	484.99	-21.5
Centre	345.29	334.84	-3.0
Champagne-	300.99	268.89	-10.6
Corse	167.63	171.03	+2.0
Franche-Comté	283.57	229.55	-19.0
Haute Normandie	486.81	375.92	-22.0
Ile-de-France	757.96	686.27	-9.4
Languedoc-	461.24	430.78	-6.6
Limousin	188.25	178.27	-5.3
Lorraine	528.33	465.95	-11.8
Midi-Pyrénées	615.82	622.27	+1.0*
Nord-Pas de Calais	1,335.82	1,081.76	-19.0
PACA	591.45	586.95	-0.7
Pays-de-la-Loire	647.93	508.32	-21.5
Picardie	416.38	330.22	-20.6
Poitou-Charentes	416.56	329.37	-20.9
Rhône-Alpes	835.47	693.74	-17.06
<b>Total</b>	<b>11,011.78</b>	<b>9,438.79</b>	<b>-13.5</b>

Note: \* This increase is related to the participation of the region in two pluri-regional programmes accounting for €27 million. In absence of this additional funding the region faces a decrease in funding by 3.3 percent. Similar situations apply to Franche-Comté (decrease by 22.6 percent), Ile-de-France (decrease by 10.4 percent) and Lorraine (decrease by 13.9 percent).

Source: Programming documents and French government sources

In *Germany*, the Regional GA is heavily-oriented towards the new *Länder*. Six-sevenths of GA support flows to the new *Länder* and has done so since 2004, while remaining funds are targeted on structurally weak areas in the old *Länder*. Within the new *Länder*, support is allocated broadly on a per capita basis while, in the other *Länder*, it is the population within Article 87(3)(c) areas which is important from an allocation perspective. As a result, *Länder* such as Bayern and Schleswig-Holstein have significantly increased their allocations under the new map while Saarland, Hessen and Bremen have suffered falls. These changes reflect the changing intensity of the regional problem in the areas concerned, as reflected in the regional aid designation criteria. In addition, the new *Länder* benefit in a major way from funding targeted at them as a group - in particular, the Solidarity Pact, the Investment Allowance and some federal R&D support. Overall, domestic regional policy funding in Germany is very much oriented towards the structurally-weakest areas.

Allocations under the Structural Funds also strongly favour the new *Länder* (see Table 8). On the other hand, it is interesting that changes at the EU level (including limits on cuts in the Objective 2 / RCE population, as well as the redesignation of three NUTS II regions in

the new *Länder* as Phasing out regions) resulted in a significantly lower proportion of the overall German allocation flowing to the new *Länder*. As a group, the new *Länder* will see a reduction of around one-third in their funding under the Structural Funds while the remaining *Länder* will receive slightly more EU funding than in 2000-06.

**Table 8: Germany - ERDF and ESF allocations to programmes (%), 2000-06 & 2007-13**

	2000-06	2007-13	Population % 2004	GDP p.c. 2004 (GE = 100)
<b>New Länder (including Berlin)</b>	<b>72.6</b>	<b>64.8</b>	<b>20.5</b>	<b>74.3</b>
Berlin	4.3	4.8	4.1	87.4
Brandenburg	10.9	8.3	3.1	70.2
Mecklenburg-Vorpommern	8.7	6.6	2.1	67.6
Sachsen	17.0	15.5	5.2	74.0
Sachsen-Anhalt	11.3	10.1	3.1	69.8
Thüringen	9.7	8.3	2.9	70.1
Multi-regional Transport Infrastructure OP	5.3	6.0		
Multi-regional ESF OP	5.4	5.2		
<b>Old Länder</b>	<b>27.5</b>	<b>35.3</b>	<b>79.6</b>	<b>106.6</b>
Baden-Württemberg	1.3	1.6	13.0	112.8
Bayern	3.2	3.5	15.1	119.2
Bremen	0.7	0.9	0.8	134.6
Hamburg	0.3	0.5	2.1	168.6
Hessen	1.2	1.8	7.4	119.9
Niedersachsen	3.6	6.6	9.7	86.6
Nordrhein-Westfalen	6.0	7.7	21.9	99.3
Rheinland-Pfalz	1.0	1.3	4.9	88.3
Saarland	1.0	1.1	1.3	93.3
Schleswig-Holstein	1.3	1.9	3.4	90.0
Multi-regional ESF OP	7.9	8.5		
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	

Source: Federal Ministry for Economics and Technology and EPRC calculations using Eurostat data.

In *Italy*, domestic regional policy was subsumed within EU Cohesion policy over the 2000-06 period. This approach ceased to be sustainable in 2007-13 because the emphasis on “Lisbon” priorities in EU Cohesion policy was seen to reduce the focus on geographical targeting, which was viewed as an essential component of domestic regional policy. To overcome this, the 2007-13 National Strategy Document has developed a new comprehensive strategy for regional development in the form of a unitary regional policy which utilises separate EU and domestic regional policy budgets to fund a range of domestic and EU programmes within a single strategic framework. Under this system, the eight *Mezzogiorno* regions, holding around one-third of the Italian population will receive 85 percent of the domestic regional policy budget and over 80 percent of the unitary regional policy budget (see Table 9). The *Mezzogiorno* also received 85 percent of domestic regional policy funding over the 2000-06 period.

**Table 9: Italy - Regional policy resources for the period 2007-13**

	Structural Funds	National co-financing	FAS (Domestic funding)	Total (Unitary regional policy)
Convergence and Transitional Support	21.6	21.8		
RCE and Transitional Support	6.3	9.6		
Territorial Cooperation	0.8	0.2		
Of which:				
Centre-North	4.9	7.5	9.7	23.0
Mezzogiorno	23.0	23.9	54.7	101.6
<b>Total NSD</b>	<b>28.7</b>	<b>31.6</b>	<b>64.4</b>	<b>124.7</b>

Source: Italian NSD, June 2007, p. 236.

Under the Structural Funds, the factors taken into account in determining the allocations by region have already been described (see Section 2). In the Convergence regions, they included statistical indicators relating to population, surface area and a weighted “disadvantage index”; in the RCE regions, political negotiations were key and took account of broader issues, including domestic regional policy funding and the area designation exercise. The outcomes are shown in Table 10. They confirm the strong (and indeed growing) funding orientation towards the Convergence regions.

**Table 10: Italy - Percentage of Structural Funds allocations, 2000-06 and 2007-13**

	2000-06	2007-13	Population % 2004	GDP p.c. 2004 (IT =100)
ROPs in the four Convergence regions	44.7	48.9	29.0	63.5
ROP in Basilicata (Phasing out)	2.8	1.5	1.0	69.8
National Convergence OPs	23.4	27.6		
<b>Total Convergence</b>	<b>70.9</b>	<b>77.4</b>	<b>30.0</b>	<b>63.7</b>
ROP in Sardegna (Phasing in)	6.9	3.5	2.8	75.6
ROPs in the two RCE regions (Abruzzo and Molise) included in the domestic definition of the <i>Mezzogiorno</i>	1.9	1.4	2.8	77.5
ROPs in other RCE regions	20.5	17.7	64.3	119.0
National C&E OPs	0.0	0.1		
<b>Total RCE</b>	<b>29.1</b>	<b>22.6</b>	<b>70.0</b>	<b>115.6</b>
<b>Total Italy</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: EPRC calculations based on programming documents and Eurostat data.

In the *Netherlands*, Peaks in the Delta introduced a clear shift in policy from a focus on designated problem regions (in the north) to an all-region approach which aimed to maximise the contribution made to national development. On the other hand, the north continued to benefit from transitional provisions over the 2007-10 period. Under Peaks in the Delta, 27 percent of the 2007-10 budget (of €296 million) was reserved for the north (which holds around 10 percent of the national population); the remainder is spread uniformly amongst the other Dutch regions (in line with their proportion of regionally-exporting jobs). In addition, the sole centrally-awarded regional aid, the Investment

Premium will now continue post 2006, albeit with a reduced budget, after it had been threatened with abolition. Its budget (of roughly €16 million per annum) will continue to flow mainly to the north, though parts of South Limburg are also eligible for support.

Under the Structural Funds, it is not straightforward to trace out changes in funding allocations by region, not least because considerable elements of the 2000-06 allocations did not have an explicit regional allocation (including ESF allocations and Community Initiatives). What is clear is that the allocations to the north are significantly less in both 2007-10 and 2011-13 (see Table 11). In this final period, there is no specific provision to reflect the regional challenges faced by the north. On the other hand, the additional co-funding provided for the north (as discussed earlier) means that, over the full period, the north still benefits financially from its perceived problem region position.

**Table 11: Netherlands - Percentage of ERDF allocation, 2000-06 and 2007-13**

	2000-06	2007-10	2011-13	2007-13 including co- finance	Population % 2004	GDP p.c. 2004 (NL = 100)
North	36	27.5	11.6	23.9	10.4	92.7
East	15	19.8	19.8	18.7	21.1	84.9
West	44	33.0	42.9	35.9	46.6	110.1
Cities	21					
Objective 1	13					
South	15	19.7	25.7	21.5	21.8	96.5

Source: EPRC calculations based on Ministry of Economic Affairs, Letters to the Dutch Parliament, 17 May 2006 and 2 June 2006.

In *Norway*, there are, of course, no Structural Funds allocations to discuss. With respect to domestic regional policy, it has already been noted that the Action Zone for North-Troms and Finnmark ensures that most broad regional policy support per head flows to the far north, as much as four times more than in the remaining designated areas. The tapered award rates under the social security concession (from north to south, but favouring also peripheral areas) similarly ensure that most support flows to the worst off regions. Indeed, North-Troms and Finnmark, with just 0.2 percent of the national population, benefit from over one-fifth of the total revenue foregone under the concession (estimated at NOK 8 million). Finally, the regional aid budget is distributed in a way that ensures that areas with the highest regional aid designation benefit most. The three northernmost counties of Finnmark, Troms and Nordland receive over two-fifths of the funding, while holding just over 10 percent of the national population. In contrast, Oslo and the surrounding counties (Akerhus, Vestfold and Ostfold) receive just 3 percent while accounting for almost one-third of the population (see Table 12). One final point to note is that regional aid funding - and funding for the districts (peripheral municipalities) more generally has been rising since the change of government in September 2005.

**Table 12: Norway - Regional aid funding - budget 551.60 excluding Interreg (NOK mn)**

	2005	%	2006	%	2007	%	% pop'n
Ostfold	5.40	0.5	7.04	0.7	9.30	0.8	5.6
Akerhus	5.40	0.5	5.64	0.5	8.00	0.7	10.7
Oslo	5.40	0.5	5.64	0.5	8.00	0.7	11.6
Hedmark	57.16	5.7	62.14	5.9	58.00	5.1	4.1
Oppland	53.26	5.3	55.02	5.2	57.10	5.0	4.0
Buskerud	17.58	1.8	20.02	1.9	22.26	2.0	5.3
Vestfold	5.40	0.5	5.64	0.5	8.00	0.7	4.8
Telemark	38.71	3.9	43.08	4.1	46.33	4.1	3.6
Aust-Agder	13.67	1.4	17.87	1.7	25.01	2.2	2.3
Vest-Agder	12.45	1.2	16.39	1.6	21.44	1.9	3.5
Rogaland	18.05	1.8	22.34	2.1	23.33	2.1	8.5
Hordaland	50.44	5.0	50.54	4.8	61.35	5.4	9.7
Sogn og Fjordane	109.82	10.9	71.42	6.8	70.41	6.2	2.3
More og Romsdal	75.88	7.6	86.52	8.2	100.19	8.8	5.3
Sor-Trondelag	56.72	5.7	64.08	6.1	65.97	5.8	5.9
Nord-Trondelag	78.99	7.9	84.33	8.0	88.97	7.8	2.8
Nordland	189.14	18.8	205.43	19.5	212.43	18.7	5.2
Troms	112.29	11.2	125.61	12.0	140.42	12.3	3.3
Finnmark	97.87	9.8	102.34	9.7	111.36	9.8	1.6
Total	1003.63	100.0	1051.09	100.0	1137.87	100.0	100.0
Change (2005=100)	100.0		104.7		113.4		

Source: Ministry of Local Government and Regional Development

In *Poland*, the most important regional policy resource allocation mechanisms relate to EU Cohesion policy. Domestic regional policy measures - whether in the form of special programmes for regions with structural problems, regional aid for economically weak regions or regional contracts - are all low-key in comparison. The first two of these measures are directly targeted at structurally-weak regions (including via the Special Economic Zones), while, as discussed earlier, the resource allocation mechanism under the regional contracts favours regions with low GDP per capita levels or high unemployment (though 80 percent of the funding is population-based).

The spread of funds among the Regional Operational Programmes (ROPs) is a compromise between the redistributive approach (assistance primarily to poor regions in order to create balanced regional development) and efficiency-related objectives (concerned with assistance to regions which drive forward the national economy). The 80/10/10 algorithm developed for the regional contracts system was used for the allocation of funding in the Integrated Regional Operational Programme (IROP) 2004-06 and has been retained for the 16 new individual ROPs for 2007-15. Preparation of the NSRF was accompanied by debate about the proposed allocation models for the sixteen ROPs.<sup>10</sup> There were suggestions from some regions that the equity-based elements be dropped and that funds should be divided up by population only, given the new multi-regional Programme for the Development of Eastern Regions. However, the previous system was retained, so that regions with a high

<sup>10</sup> 'Największe pieniądze dla najuboższych regionów' *Rzeczpospolita* 2/8/06

level of structural unemployment and relatively low GDP receive a higher ROP allocation of funds per capita (see Table 13).

**Table 13: Poland - Planned allocation of finances ROPs 2007-2013**

Region	GDP per capita, PL=100, 2004	Unemployment rate (first qtr 2007, %)	ERDF (€ million)	ERDF per capita (€)	Share (%)
Dolnośląskie	102.9	14.5	1213.2	420.1	7.60
Kujawsko-pomorskie	89.7	12.9	951.0	459.8	5.95
Lubelskie	70.3	11.0	1155.9	530.3	7.23
Lubuskie	86.1	12.1	439.1	435.2	2.75
Łódzkie.	91.3	12.1	863.8	335.2	5.40
Małopolskie.	86.7	9.8	1147.7	351.4	7.18
Mazowieckie	153.2	10.2	1831.5	355.1	11.46
Opolskie	80.4	11.7	427.2	407.8	2.67
Podkarpackie	72.2	10.8	1136.3	541.6	7.11
Podlaskie	75.4	9.6	636.2	530.3	3.98
Pomorskie	109.6	11.6	885.1	402.5	5.54
Śląskie	111.0	9.1	1570.4	335.2	9.82
Świętokrzyskie	79.1	15.9	725.8	564.8	4.54
Warmińsko-mazurskie	77.2	13.4	1036.6	725.6	6.48
Wielkopolskie	104.2	8.9	1130.3	335.2	7.07
Zachodnio-pomorskie	95.3	14.5	835.4	493.1	5.23
<b>Poland</b>	<b>100</b>	<b>11.3</b>	<b>15985.5</b>	<b>418.9</b>	<b>100</b>

Source: Polish Statistical Office (GUS), *National Development Strategy 2007-15, National Strategic Reference Framework 2007-13*.

Looking at the new programming period, there is clearly significantly more funding available for regional development. There are provisions in the algorithm for the ROPs and in the special OP for Eastern regions (Lubelskie Podkarpackie Podlaskie Świętokrzyskie Warmińsko-mazurskie) to maintain equity-based components in Poland's regional policy agenda. In the case of the weakest regions, it is estimated that Structural Funds resources will constitute 7-8 percent of regional GDP by 2010/11. However, the highest levels of funding will go to Poland's more developed regions, such as Mazowieckie and Śląskie. Table 14 combines these mechanisms for different operational programmes to present the total regional allocation of funding in OPs with regional components in the period 2007-13.

It is important to note that ROP allocations represent only 25 percent of funding for all OPs. National sectoral programmes for infrastructure, the environment and business support allocate funding throughout the country, and are likely to favour areas where population and businesses are concentrated. Because this funding aims to support the catching-up of Poland as a whole towards EU average levels of GDP per capita, there is no explicit regional or spatial dimension to this form of support. Within the eligibility framework set, the best project proposals are approved without any regional weighting. Similarly, for business support, the quality and quantity of applications for Structural Funds projects is likely to vary according to the level of economic activity in regions, their institutional capacity, and their varying experience of administering domestic and EU regional aid etc. In the 2004-06

OPs, the majority of funding for business development went to projects from the main agglomerations and better-developed regions.<sup>11</sup>

**Table 14: Poland - Total regional allocations in OPs with regional components 2007-13 (€)**

Region	ROPs	OP Human Capital	OP Development of Eastern Poland/ Compensatory funds for other regions	Total	Total share (%)
Dolnośląskie	1 213 144 879	386 422 417		1 599 567 296	6.55
Kujawsko-Pomorskie	951 003 820	318 820 490		1 269 824 310	5.20
Lubelskie	1 155 854 549	407 588 703	508 570 000	2 072 013 252	8.49
Lubuskie	439 173 096	142 376 126		581 549 222	2.38
Łódzkie	863 852 363	401 335 573	142 500 000	1 407 687 936	5.77
Małopolskie	1 147 745 855	470 199 141	142 500 000	1 760 444 996	7.21
Mazowieckie	1 831 496 698	722 159 516		2 553 656 214	10.46
Opolskie	427 144 813	138 795 744		565 940 557	2.32
Podkarpackie	1 136 307 823	344 181 419	487 480 000	1 967 969 242	8.06
Podlaskie	636 207 883	207 316 890	386 860 000	1 230 384 773	5.04
Pomorskie	885 065 762	298 952 885		1 184 018 647	4.85
Śląskie	1 570 451 756	587 600 752	142 500 000	2 300 552 508	9.42
Świętokrzyskie	725 807 266	252 767 246	375 300 000	1 353 874 512	5.55
Warmińsko-Mazurskie	1 036 542 041	249 026 866	447 370 000	1 732 938 907	7.09
Wielkopolskie	1 130 264 097	482 406 270	142 500 000	1 755 170 367	7.19
Zachodniopomorskie	835 437 299	244 029 227		1 079 466 526	4.42
<b>Poland</b>	<b>15 985 500 000</b>	<b>5 653 979 265</b>	<b>2 775 580 000</b>	<b>24 415 059 265</b>	<b>100</b>

Source: Małecka, T. (2007) Unijne fundusze 2007 - 2015 szansą na rozwój polskich regionów *Ogólnopolskie Forum Skarbników Powiatów i Miast* Warsaw, 18 June 2007.

In *Sweden*, domestic regional development policy brings together the previously separate regional aid policy (targeted at the designated aid areas) and the all-region, growth-oriented, Regional Growth Programmes. From Table 15 it can be seen that regional aid makes up less than 30 percent of the combined allocations. The north, holding just under 10 percent of the national population, accounts for some 70 percent of regional aid spending but only around 30 percent of the Regional Growth Programme funds (although the latter are difficult to compare across counties since each county has considerable freedom in deciding the coverage and content of its programme). Considering both funding flows together, the north received almost 36 percent of the total.

<sup>11</sup> Ministry of Regional Development (2006) *Report on the implementation in 2005 of the National Development Plan 2004-2006*, p116.

**Table 15: Sweden - Domestic regional policy funding allocations, 2004-06**

	Annual average		Population % 2004	GDP p.c. 2004 (SW=100)
	Current SK million	% of total		
Regional aid 2005-06				
a) North	1125	11.7		
b) Other regions	473	4.9		
Regional Growth Programmes 2004-06				
a) North	2309	24.1		
b) Other regions	5685	59.3		
Total North	3434	35.8	9.8%	91.4
Total other regions	6158	64.2	90.2%	100.9
Total	9593	100.0	100.0%	100.0

Note: The geographical division is based on the 2007-13 NUTS II Structural Fund programme areas. The North includes Övre Norrland and Mellersta Norrland

Source: NUTEK, *Uppföljning och resultatvärdering av regionala företagsstöd och stöd till projektverksamhet*, Budgetåret 2006 och 2005; NUTEK, *På väg mot ett fokuserat tillväxtarbete*, June 2007 (State allocations only).

Under the Structural Funds, there was a significant reduction in the allocation to Sweden - from €2.19 billion (SK 19 billion) over the 2000-06 period to SK 13 billion under the RCE Objective and SK 2 billion under the Territorial Cooperation Objective. This is despite the December 2005 agreement's additional provisions for Sweden's north and also for all its RCE regions. Much of the cutback in funding related to the north which lost its previous Objective 1 status. It can be seen from Table 16 that the north (Övre Norrland and Mellersta Norrland), with around 10 percent of the national population, received some 45 percent of the regional Structural Funds allocations, a significant reduction compared to the previous period, but still well in excess of the north's population share.

**Table 16: Sweden - Percentage of regional SF allocations, 2000-06 and 2007-13**

	2000-06		2007-13
Obj. 1 Norra Norrland (Norrbottnen & Västerbotten)	33.0	Övre Norrland (Norrbottnen & Västerbotten)	26.0
Obj. 1 Södra Skogslänregion (Västernorrland & Jämtland plus parts of Dalarna, Värmland & Gävleborg)	30.1	Mellersta Norrland (Jämtland & Västernorrland)	18.9
Obj. 2 Norra (parts of Dalarna, Västmanland & Gävleborg)	16.4	Norra Mellansverige (Gävleborg, Dalarna & Värmland)	20.9
Obj. 2 Öarna (all islands except those in Norrland)	2.5	Stockholm	4.0
Obj. 2 Södra (parts of Östergötland, Jönköping, Kalmar, Kronoberg & Blekinge)	7.0	Östra Mellansverige (Uppsala, Södermanland, Örebro, Västmanland & Östergötlands)	8.7
Obj. 2 Västra (parts of Örebro, Värmland & Västra Götaland)	10.9	Västsverige (Västra Götaland & Halland)	6.8
		Småland & Öarna (Kalmar, Kronoberg, Jönköping & Gotland)	7.2
		Skåne & Blekinge	7.6
Total	100.0	Total	100.0

Source: EPRC calculations based on NSRF and programming documents.

Finally in the *United Kingdom*, the discussion of domestic regional policy funding is complicated by the fact that regional policy is a devolved responsibility. In Scotland, Wales

and Northern Ireland, regional policy funding is determined by each Devolved Administration and is drawn from a Block Grant (covering a wide range of services). This Block Grant reflects the Barnett formula which automatically adjusts elements of public expenditure on services in Scotland, Wales and Northern Ireland in line with agreed national increases. Table 17 outlines the distribution of (identifiable) public spending per head in the regions and nations of the UK. The unique status of the Greater London area is clear, as are the higher allocations per head to the Devolved Administrations.

**Table 17: UK - Total identifiable expenditure by head 2006-07 and GVA per head 2005.**

Region	Public expenditure per head on services' 2006-07, planned (£)	GVA per head UK=100, 2005	Covered by Barnett formula?	With representative government?
South East	6,151	115	No	No
East	5,995	107	No	No
Greater London	8,200	136	No	Yes
South West	6,516	94	No	No
West Midlands	6,894	89	No	No
East Midlands	6,334	93	No	No
Yorks/Humber	7,014	87	No	No
North West	7,610	88	No	No
North East	7,980	79	No	No
England	6,949	102	No	No
Wales	7,943	78	Yes	Yes
Scotland	8,414	96	Yes	Yes
Northern Ireland	9,158	80	Yes	Yes

Source: *Public Expenditure Statistical Analyses 2007* p116, UK Office for National Statistics

Considering regional policy spending in England, it has already been noted that regional aid favours structurally-weak areas (given the nature of the designated aid area map) and that the single pot budget for RDAs (out of which broader regional policy funding comes) is also largely needs-based, with almost three-quarters of the pot allocated on the basis of unemployment and deprivation indicators. As a result, funding favours regions facing the biggest development challenges (see Table 18).

**Table 18: UK - RDA allocations by region**

	Allocation 2005-06 (£mn)	Allocation 2006-07 (£mn)	Allocation 2007-08 (£mn)	Pop'n (000s)	Per capita 2005-06 (£)	Per capita 2006-07 (£)	Per capita 2007-08 (£)	GVA per head UK=100, 2005
North East	240	251	282	2,545	94	99	111	79
Yorks/Humber	295	310	310	5,039	59	62	62	87
North West	382	400	402	6,827	56	59	59	88
London	373	391	374	7,429	50	53	50	136
West Midlands	272	284	296	5,334	51	53	55	89
South West	153	159	162	5,038	30	32	32	94
East Midlands	156	163	179	4,280	36	38	42	93
East England	129	134	139	5,491	23	24	25	107
South East	157	163	166	8,110	19	20	20	115

Source: Allocations from BERR website, accessed August 2007 (<http://www.dti.gov.uk/regional/regional-dev-agencies/funding-financial-gov/allocations/page20022.html>). GVA data from Table 17.

Under EU Cohesion policy, the methodology chosen to allocate Structural Funds resources within England ensures that the poorest northern regions continue to receive a very high proportion of funding. Within England, the funds will be focused on the six underperforming regions (the regions with GVA per head below 100 in Table 18) which will receive €121 per capita on average, or 73 percent of England's share of funds. The three richer English regions will receive lower allocations (on average €54 per capita). The formula also allocates a high proportion of funding to Scotland. Scotland will receive €122 per capita in RCE funding (not including Phasing-out Convergence funding for the Highlands and Islands). Wales will receive €114 per capita on RCE funding (not including the West Wales and the Valleys Convergence funding). Finally, Northern Ireland will receive the highest levels of funding per capita of all the regions, with a total of €248 per capita in RCE funding for 2007-13.<sup>12</sup>

## 4.2 Comparative points

A number of points arise from this country-by-country review. Considering domestic regional policy first, funding allocations strongly favour structurally-weak areas in nearly all countries. This is very clear in *Germany* and *Italy* in respect of their macro-regions - the new *Länder* and the *Mezzogiorno* respectively - and also in *Norway* with regard to the northernmost counties. It is also true of regional aid policy virtually everywhere, given the nature of regional aid maps and the higher award maxima in the worst-off regions. Thus, in both *Finland* and *Sweden* regional aid expenditure very much benefits the traditional problem regions, as is also the case in *Germany* (under the Regional GA), the *United Kingdom* (through the operation of the SFIE and RSA) and also *France* and the *Netherlands*, though with low overall regional aid spending in both of these countries. Domestic regional policy measures in *Poland* also have a limited bias in favour of structurally-weak areas. Moving beyond regional aid to all-region policy measures (including regional programmes), structurally-weak regions still benefit most from the available funding, if less so than under regional aid. This can certainly be seen in the *Nordic* countries and also in the *United Kingdom* (through both the operation of the Barnett formula and, in England, a needs-based approach to RDA allocations). In the *Netherlands*, too, Peaks in the Delta continues to favour the north, if only on a transitional basis until 2010 while, in *France*, Corsica is strongly favoured in funding terms.

Looking to trends over time, it could be argued that there are at least pressures for domestic regional policy funding flows to traditional problem regions to weaken - with lower levels of regional aid funding in many countries, more constrained aid maps, and significantly reduced award ceilings (at least for large firms). However, so far, there is not much evidence for this. On the contrary, the evidence is that structurally-weaker areas are sensitive to such changes in funding flows. This has certainly been the case in the *Netherlands*, where heavy lobbying and parliamentary pressures increased funding to the north (if only as part of transitional provisions), and in *Norway*, where a change in

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<sup>12</sup> Written ministerial statement on UK National Strategic Reference Framework, 23/10/06.

government has seen more policy emphasis (and funding) devoted to the peripheral districts.

Under EU Cohesion policy, allocation mechanisms at the EU level ensure that Convergence regions are favoured. With enlargement, this has created significant budgetary cutbacks in nearly all the EoRPA Member States (though less than originally anticipated in most). While different mechanisms operated in different countries to gain agreement on the distribution of the cutbacks, structurally weak regions continue to be favoured. Thus, in *Austria*, budget reductions were broadly uniform, except in Burgenland (which lost out due its becoming a Phasing out region) and Wien (which was compensated for its exclusion from the regional aid map). In *Finland*, the more prosperous south and west bore the brunt of the cutbacks, with the allocation to the north being capped so that it did not increase. In *France*, the application of broadly EU criteria resulted in variable changes at the regional level, with safety nets applying to limit their impact; considering just region-specific programmes, only Corsica (that part of metropolitan France with the lowest GDP per head) benefited from an increase in funding. In *Germany*, EU-level outcomes meant that funding in the new *Länder* was cut by around one-third while the remaining *Länder* received slightly more funding; domestically, new *Länder* allocations by *Land* were population-based - elsewhere, they were linked to designated aid area coverage. In *Italy*, there has been an increase in the proportion of the Structural Funds resources allocated to Convergence regions, up from 71 percent to over 77 percent; within these Convergence regions, allocations have a significant needs-based element. In the *Netherlands*, the flow of funding to the north has fallen significantly in 2007-13; however, after taking account of extra co-funding (awarded following parliamentary pressures), the region will still receive more than twice the funding per head than the other Dutch regions. In *Sweden*, there was a significant reduction in funding, especially in the north which lost its previous Objective 1 status; however, with around 10 percent of the national population, the region still gains some 45 percent of the regional Structural Funds total. In the *United Kingdom*, the Devolved Administrations continue to receive most funding in per capita terms; within England, the allocation mechanism is closely related to RDA allocations (important for co-financing) and thus has a strong needs-based orientation.

In short, structurally-weak regions have “lost out” in *Austria* (with respect to Burgenland which lost its Objective 1 status), *Germany* (due to EU rules and procedures), *Sweden* (again reflecting changed EU allocations) and the *Netherlands* (where the north would have lost out more had it not been for transitional provisions). However, elsewhere they have maintained or increased their allocations. One final country to discuss is *Poland*, where there has been a massive overall increase in EU funding. In Poland, the earlier discussion made clear that there is a significant funding focus on structurally-weak regions, certainly with respect to those funding elements which have a regional component (amounting to some 25 percent of the total). However, given Poland’s low level of GDP per capita from an EU perspective, Cohesion policy also places a strong emphasis on allocating funding for national economic development, relating not least to infrastructure and environmental investment.

## 5. SUMMARY AND CONCLUSIONS

The aim of this paper has been to review the geographical spread of regional policy funding (both domestic and EU) in the EoRPA States to try to gauge to what extent, if at all, the changing goals of regional policy have impacted on where regional policy spending takes place.

In terms of **explicit spatial targeting**, there are a number of categories of area which are targeted by *domestic regional policy*. These include, first, broad macro-regions which face significant structural weaknesses - such as the *Mezzogiorno* in Italy and the new *Länder* in Germany. Over 80 percent of regional policy spending in both countries is targeted at these areas. Second, there are more narrowly-defined regions and areas of structural weakness in the form of the designated regional aid areas. Apart from Poland, where the whole country is designated under Article 87(3)(a), such areas generally hold less than one-third of the national population, and often much less. In the Nordic countries, regional aid funding flowing to peripheral, mainly northern, designated areas continues to be significant (not least in Norway following the reintroduction of the social security concession for the least-populated areas). Regional aid in countries like the United Kingdom, France and the Netherlands is a less central component of policy; the more narrowly-defined regional aid areas in these countries has caused more policy attention to be paid to core zones within otherwise disadvantaged areas.

Third, there are a number of domestic regional policy measures which target regions with problems related to their physical geography. Thus, some State-region contracts in France focus on mountainous areas and river valleys. Some instruments in the Nordic countries also favour regions with physical disadvantages (such as Finland's island programme and Norway's Action Zone of North-Troms and Finnmark). Fourth, an increasing feature of regional policy is all-region support, often in the context of regional programmes. Interestingly, in virtually all of the countries covered, such instruments favour structurally-weaker regions in funding terms. This is certainly true of the Regional Development Fund in Finland, the Regional Growth Programmes in Sweden and the devolved regional policy budget in Norway, as well as the funding of RDAs in England, regional contracts in France and Poland and even the Peaks in the Delta budget in the Netherlands (if only for a transitional period until 2010).

Finally, there are particular domestic regional policy measures which focus on specific regional strengths - such as the Competitiveness Poles and Rural Excellence Poles in France, Centres of Expertise and similar initiatives in the Nordic countries and cluster-based measures elsewhere. In addition, the whole philosophy underpinning Peaks in the Delta in the Netherlands is to support regional strengths of national interest. More generally, regional programmes often aim to build on regional strengths, channelling support towards areas within each region where there is seen to be comparative advantage.

With respect to *EU Cohesion funding*, there is obviously a focus on areas of structural weakness, with over 80 percent of the budget being channelled towards regions which fall under the Convergence Objective. In the EoRPA States, such support is of major importance in Poland (the whole country) as well as in the new *Länder* in Germany and the *Mezzogiorno*

in Italy. Within Poland, the most important programmes - for infrastructure, the environment and business support - are national in orientation. However, the overall funding available for the regional component of EU programmes has increased significantly, with the establishment of individual regional OPs (accounting for 25 percent of the funding total), a distinct multi-regional programme for the five poorest regions in the east, and part of the Human Capital OP distributed on a regional basis. In all three instances, the allocations by region favour the structurally-weakest regions. In Germany, allocations to the new *Länder* were heavily impacted by changes due to enlargement (in that three NUTS II regions now fall within the Phasing out category) and were also affected by out-migration (which has led to lower allocations, as these are calculated on a per capita basis). Final allocation decisions were taken at the political level by federal and *Land* Ministers. Lastly, in Italy, regional allocations under the Convergence Objective take account of both the regional dimension (regional population and surface area) and the gravity of relative disadvantage.

Within the RCE regions, most States made some amendments to the EU methodology in determining regional allocations. In Finland, France, the Netherlands and Sweden, the EU indicators were used quite closely. In Germany, EU-derived allocations were compared with those generated by domestic regional policy (which favours structurally-weak regions) and the 2000-06 allocations and the final decision was taken by a specialist federal-*Land* working group, which also stipulated that no *Land* should lose more than one-third of its 2000-06 allocation. In Austria, a broadly uniform cut was applied across the *Länder* and account was also taken of the need to compensate Wien for its exclusion from the regional aid map. In Italy, too, broader compensation issues were important, not only relating to the regional aid map but also domestic regional policy allocations. Finally, in the United Kingdom, the focus was on concentrating on the regions with the greatest need while continuing to fund richer regions in order to be able to tackle pockets of deprivation.

In addition to these factors determining allocations at the regional level, a further aspect must be mentioned. Under the RCE Objective, there is now no micro-zoning, with the result that previously eligible areas may lose out to stronger areas which are now eligible for support. Without micro-zoning, factors which impact implicitly on spatial targeting become more important. Most RCE programmes now take a thematic (rather than a geographical) approach to funding, with a significant emphasis on Lisbon priorities. Very few regional RCE programmes contain explicit spatial targeting, though limited examples can be found in Austria, Germany, Finland and the Netherlands.

**Implicit spatial targeting** can arise as a result of theme-based approaches to policy, as well as from the methods used to allocate resources to projects. In this context, a distinction should perhaps be drawn between the implications of indirect geographical targeting in structurally weak countries or macro-regions (e.g. Poland, eastern Germany, southern Italy, and the sparsely populated Nordic regions) and their use in countries where structural weaknesses are concentrated in small geographical areas. In the former case, indirect targeting may facilitate economic development at the level of the structurally-weak macro-region and thus support catching-up towards national (and, in the case of the Cohesion countries, EU) levels of development. In the latter case, indirect targeting mainly

contributes to national economic development, rather than the development of structurally weaker areas.

Under *domestic regional policy*, most policy instruments support business development either through direct aid or via support for the business environment. Generally, all types of funding for businesses seem likely to flow disproportionately towards agglomerations because more businesses are located in such areas. Moreover, where regional policy is influenced by EU or domestic debates on the need to enhance national economic growth, policy instruments often relate to themes such as technology, innovation and the knowledge economy, which seem likely to benefit structurally stronger areas. In some countries, such themes are promoted nationally and are an integral part of national regional policy (e.g. Finland, France, the Netherlands), while in other cases the regional level has flexibility to decide which themes should receive funding.

Also under domestic regional policy, allocation mechanisms can influence geographic funding outcomes, particularly when instruments take an “all region” or “any region” approach. Where allocations are made in a relatively automatic way and especially where they are targeted at specific areas (such as broad, structurally-weak macro-regions or more narrowly-designated regional aid areas), they tend to favour areas of structural weakness. However, the more qualitative award processes become and, in particular, the more competitive they become, then the greater the opportunity for stronger regions and areas to win out, especially when actors from any region may apply for funding. In recent years, there has been a move towards more qualitative award mechanisms and, in some countries, towards the greater use of competitive approaches such as calls for tender.

With respect to *EU Cohesion policy*, micro-zoning has been removed under the RCE Objective and a strong thematic focus has been added (in the form of Lisbon earmarking). The geographical implications of such earmarking are not clear - in part, because of the widening of the classification of what falls under Lisbon, in part, because earmarking applies at the Member State rather than the programme level and, in part, because there are considerable differences in the relevance of the Lisbon agenda to structurally-weak regions.

Allocation mechanisms under EU Cohesion policy are varied - some utilising domestic strategies or plans, others targeting major (pre-selected) projects, some using umbrella sub-regional or sectoral programmes, and others relying on calls-for-projects (either on a first-come-first-served basis or with competitive choices). The geographical implications of these different mechanisms depend on a range of factors including the extent of explicit geographical targeting and the specific thematic focus associated with a particular mechanism. When funding is allocated via existing domestic strategies, then the spatial orientation of such strategies is obviously key. Funding for major projects is generally focused on the main agglomerations, but often targeted only on structurally weak Member States or regions. *Ad hoc* umbrella sub-programmes tend to have a wide spatial focus, but are most typically part of Convergence programmes. Last, open calls and, particularly, selective calls are more likely to favour stronger regions, areas and project applicants because they aim to channel funding towards ‘the best’ projects.

Turning finally to consider **regional allocation outcomes**, as far as *domestic regional policy* is concerned, funding allocations strongly favour structurally-weak areas in nearly all countries. While there are some pressures for funding flows to traditional problem regions to weaken (for instance, through reduced regional aid budgets, lower aid maxima and more narrowly-targeted aid areas), there is not much evidence of this having occurred so far.

Under *EU Cohesion policy*, allocation mechanisms at the EU level ensure that Convergence regions are favoured. However, enlargement has led to lower funding in a number of former Objective 1 regions with the result that, in the EoRPA States, loss of Objective 1 status caused structurally-weak regions in Austria, Germany and Sweden to lose out disproportionately. On the other hand, structurally-weak regions continue to be favoured in virtually all countries. One exception is Poland where the whole country is eligible for Convergence support and where the major programmes allocate funding throughout all regions with the aim of supporting national economic catching-up. However, as already discussed, the regional component of EU funding in Poland has increased significantly compared to 2004-06.

Overall, and despite changing objectives, instruments, and funding mechanisms, regional policy is, for the most part, continuing to focus on areas of structural weakness. On the other hand, there are a number of developments which suggest a growing stress on stronger centres - more narrowly-targeted regional aid maps, more emphasis on regional programming and regional strengths, more weight attached to the Lisbon agenda and to regional innovation and more of a competitive orientation to funding mechanisms. Potentially, such developments could lead to increasing policy tensions between growth and equity objectives. However, in most countries, such tensions either do not exist or are not very visible. On the other hand, it is interesting that the perceived 'Lisbonisation' of EU Cohesion policy led, in Italy, to the creation of a complementary domestic regional policy to ensure that geographical considerations continued to be reflected in the overall policy approach. In some other countries, too, the geographic spread of funding has become more sensitive politically. It remains to be seen whether regional policy can continue to combine growth and equity objectives effectively in the longer run.

**Questions for discussion:**

Do you recognise any major change in the explicit geographical targeting of regional policy in your country in recent years - either from a domestic or EU policy perspective? What has been the rationale for this change? Has it created any policy tensions? Or is it seen simply as helping to deliver a more effective regional policy?

How important are measures which have an implicit or indirect impact on the geographical targeting of regional support - either through the thematic orientation of policy or the use of more competitive funding mechanisms? Do you think that such measures have had - or, over time, will have - a significant impact on the geographical spread of regional policy support?

Should different approaches be taken to geographical targeting depending on the nature and extent of the regional problem?

- In structurally-weaker Member States or macro-regions, is there less of an argument for targeting the structurally-weakest areas given the broader need to support national/macro-region catch-up? Or are you simply storing up problems for the future? How do you incorporate 'weaker' areas into new development processes?
- In wealthier Member States, have the demise of EU micro-zoning, the reduced coverage of the aid area maps and the rise of Lisbon themes reduced the importance of geographical targeting? Does it really matter? And if it does matter, how is it best operationalised?

## COUNTRY FICHE: AUSTRIA

### Austria's domestic regional policy

#### *Approach to explicit geographical targeting*

ERP Fund Regional Credits: Funding is available to firms in areas designated under the regional aid map (Article 87[3][c]). Austria's national eligible population under the Regional Aid Guidelines was divided between *Länder* on a per capita basis. Each Land then took responsibility for preparing its own map and developing a methodology (including selecting eligibility criteria and deciding on appropriate weightings). In consequence, the national map is the result of individual maps based on the *Länder* proposals.

#### *Extent of implicit geographical targeting*

ERP Fund Regional Credits: ERP credits are largely allocated to technology intensive projects, with this instrument aiming to add a regional dimension to technology and innovation policy. Project selection is based on a first-come-first-served approach and is conditional on the formal selection criteria set out in the aid scheme.

## EU Cohesion policy in Austria

### *Approach to explicit geographical targeting 2007-13*

Land RCE OPs: Funds are generally available throughout each individual *Land*. Only *Land* Salzburg has explicitly earmarked a percentage of resources for a structurally weak area, with 17 percent of ERDF funds being ring-fenced for the old industrialised region of Lungau. In other programmes, the specific design of priorities or measures is intended to ensure that a percentage of funds will mainly be taken up by actors in areas with socio-economic problems.

### *Extent of implicit geographical targeting 2007-13*

Land RCE OPs: Each *Land* places emphasis on increasing R&D and innovation. Assuming that all selection criteria have been met, funding is being allocated on a first come first served basis. Many *Länder* also support endogenous regional development measures such as regional managements. The view is that such initiatives fulfil an important role for channelling sectoral funds to areas in need.

**Table A1: Austria, ERDF allocations to the *Länder*, 2000-06 and 2007-13**

	Percentage of total allocation in 2000-2006	Percentage of total allocation in 2007-2013	Percentage of national population 2004	GDP per capita 2004 (Austria = 100)
Burgenland	20.5	18.5	3.4	69.7
Carinthia	9.6	9.5	6.9	84.1
Lower Austria	20.9	21.5	19.1	81.1
Upper Austria	14.3	14.1	17.1	93.3
Salzburg	2.1	2.0	6.4	110.0
Styria	23.1	22.9	14.6	86.0
Tyrol	5.3	5.1	8.4	102.1
Vorarlberg	2.7	2.6	4.4	104.5
Vienna	1.7	3.7	19.6	140.1
Austria	100.0	100.0	100.0	100.0

Note: Data do not include Community Initiatives (for 2000-06) and territorial cooperation.

Source: ERPC calculations based on ÖROK (2007), DG Regio (2006), *Länder* SPDs and Eurostat data.

## COUNTRY FICHE: FINLAND

### Finland's domestic regional policy

#### *Approach to explicit geographical targeting*

**Regional aid:** There are three aid areas in 2007-13: Aid Area I (mainly northern and eastern areas); Aid Area II (some western and eastern areas plus islands) and Aid Area III (all other areas). Aid area selection took into account weak economic development in the East; sparse population in the North; and the problems/prospects of areas in the West and South.

**Regional Development Fund:** Each Regional Council (except Kainuu) has a Regional Strategic Programme, which coordinates all regional development policy including all national and EU resources. A key resource is the State's Regional Development Fund (allocated on the basis of past levels of funding and regional development needs). The State reserves a percentage of funding for each region's Centre of Expertise and Regional Centre programmes, and the Regional Strategic Programmes set priorities for the remaining resources.

**Kainuu's Development Fund:** Due to the self-governing experiment (2005-12), Kainuu (in eastern Finland) receives a block grant including resources from the Regional Development Fund, as well as funds for the reduction of unemployment and maintenance of roads.

**Table A2: Finland, domestic regional policy funding allocations, 2005-07**

	2005-06 Annual average		2007	
	Current million euro	% of total	Current million euro	% of total
Regional aid total	137.1	100.0	No data available but future funding is expected to remain at current levels	
a) East	44.4	32.4		
b) North	25.9	18.9		
c) South	30.3	22.1		
d) West	36.5	26.6		
Regional Development Fund	No data available at regional level but no major changes in comparison to the future funding levels		28.6	100.0
a) East (ex. Kainuu)			4.4	15.3
b) North			4.8	16.7
c) South			11.4	28.2
d) West			8.0	39.8
Kainuu's Development Fund	€44.4 million		€44.3 million	

Notes: a) The geographical division is based on the 2007-13 NUTS II Structural Fund programme areas.

b) Regional Aid average based on statistics from 2005 and 2006. c) No data are provided on Åland.

Source: EPRC calculations based on data from the Ministry of Trade and Industry; and Kainuu's Implementation Plan 2006-2007.

#### *Extent of implicit geographical targeting*

**Regional aid:** Regional aid (under the Aid to Business Law [1336/2006] and Act [44/2007]) aims to improve the long-term competitiveness of SMEs by developing their knowledge, level of technology, conditions for internationalisation and operating environment.

Regional Development Fund: The Strategic Regional Programmes have a range of priorities relating to economic development, including international cooperation.

Kainuu's Development Fund: The priorities of Kainuu's Strategic Regional Programme include: knowledge and innovation environment; industry and production structures, and entrepreneurship; welfare; environment and infrastructure; and cooperation. Over one third of funding is allocated to reinforcing regional infrastructure.

## EU Cohesion policy in Finland

### *Approach to explicit geographical targeting 2007-13*

Multi-regional ESF OP: All continental Finland designated, with funding for East earmarked. In addition, there is a separate ESF OP for Åland.

RCE OPs: South and West OPs earmark funding for weaker areas (60 percent at challenging areas and 8 percent at urban policies).

### *Extent of implicit geographical targeting 2007-13*

Multi-regional ESF OP: OP focuses on employment, entrepreneurship and prevention of exclusion, as well as on related innovation and knowledge services.

RCE OPs: All OPs focus on promoting businesses, innovation, knowledge structures, employment, regional accessibility etc.

**Table A3: Finland, percentage of Structural Funds allocations, 2000-06 & 2007-13**

	2000-06 (ERDF, ESF, EAGGF, FIGG)	2007-13 (ERDF, ESF)	Percentage of national population 2004	GDP per capita 2004 (Finland = 100)
East	33.8	34.2	12.8	73.6
North	17.3	19.5	12.1	88.0
West	14.7	10.0	25.4	88.3
South	11.3	8.7	49.2	115.6
Åland Islands	0.4	0.4	0.5	126.9
National ESF OP	22.4	27.3		
Total	100.0	100.0	100.0	100.0

Notes: a) In 2000-06 the Multi-regional ESF OP covers West and South, whereas in 2007-13 it covers West, South and North (whereas this OP's funding for East in 2007-13 is added to the region's total.)

Source: OPs and Programme complements.

## COUNTRY FICHE: FRANCE

### France's domestic regional policy

#### *Approach to explicit geographical targeting*

PAT regional aid: For the 2007-13 regional aid map, a number of criteria (unemployment, employment, wealth, taxable income, qualification, industrial employment) were applied at the level of 350 employment zones (below NUTS III). This has led to a very fragmented map for mainland France while Corsica and the DOM remain fully covered.

PAT R&D and Innovation: The whole of continental France is eligible in 2007-13, whereas the Paris and Lyon agglomerations had previously been excluded.

State-region project contracts: There is no explicit geographical targeting, but Corsica and the DOM receive per capita allocations which are clearly above the national average. There is continued but restricted funding for 'project territories' (e.g. nature parks).

ZRR (Rural regeneration zones): Firms receive tax relief and social security concessions in zones based on demographic, socio-economic and institutional criteria.

#### *Extent of implicit geographical targeting*

PAT regional aid: Grants will be focused on major strategic projects in zones undergoing economic change. Around half of PAT resources are ring-fenced for firms in 'Competitiveness poles'.

State-region project contracts: Project eligibility is partly thematic: urban development, ICT, renewable energies, water management, risk prevention, service delivery, agriculture, and economic change.

Competitiveness poles: Both poles (i.e. areas) and individual projects are selected on a competitive basis. Firms located in R&D zones receive additional support.

**Table A4: France, allocations to State-region project contracts, 2000-06 & 2007-13**

	Annual average 2000-06		Annual average 2000-06 (2007-13 definition)		Annual average 2007-13	
	Current million €	Percentage	Current million €	Percentage	Current million €	Percentage
a) DOM	100.7	4.6	68.6	N/A	100.5	5.9
b) Corse	28.2	1.3	N/A	N/A	18.9	1.1
c) Other regions	2,061.0	94.1	1,205.0	N/A	1,585.0	93.0
Total	2190.5	100.0	N/A	N/A	1704.4	100.0

Note: The definition of CPER spending categories narrowed between 2000-06 and 2007-13. Thus two sets of figures are provided for 2000-06 - first, the actual figures, and second, the figures comparable with data for 2007-13.

Source: EPRC calculations based on French governmental sources.

## EU Cohesion policy in France

### *Approach to explicit geographical targeting 2007-13*

Regional Convergence ERDF and ESF OPs (DOM): Guadeloupe, Guyana, Martinique, Réunion.

Regional RCE OPs: 22 ERDF OPs for the mainland regions. As Corse and Hainaut were phasing-out regions in 2000-06, additional funding is earmarked for them (€30 million for Corse and €70 million for Hainaut). Individual ROPs can increase funding for 'naturally handicapped' areas as long as the overall ERDF rate for the OP does not exceed 50 percent.

National ESF OP: This covers the whole of mainland France (not the DOM) and is partly implemented through regional sub-sections

Interregional OPs: Two mountain ERDF OPs (OP Massif Central and OP Alps) and two river ERDF OPs (OP Loire and OP Rhone) will be allocated €127 million. In addition, each of the ERDF ROPs of those regions which coordinate domestic programmes for mountain areas (Jura, Vosges and Pyrenees) and river areas (Seine and Garonne) will receive €56 million for interventions linked to domestic programmes. Areas are selected due to location (e.g. lack of major transport networks), as well as developmental/environmental factors.

### *Extent of implicit geographical targeting 2007-13*

Regional Convergence OPs (DOM): Wide range of themes, some focus on urban areas.

Regional RCE OPs: Wide range of themes and allocation mechanisms. Focus on urban areas: There is an option to target major amounts of funding via project calls.

**Table A5: France, ERDF and ESF allocations, percentage of total, 2000-06 & 2007-13**

	2000-06	2007-13	Percentage of national population 2004	GDP per capita 2004 (France = 100)
DOM	20.7	24.9	2.9	57.5
Corse	1.2	1.3	0.4	77.7
Nord-Pas de Calais	9.6	8.5	6.5	79.0
Other regions	68.5	65.3	90.2	103.0
Total	100.0	100.0	100.0	100.0

Source: EPRC calculations based on NSRF and programming documents.

## COUNTRY FICHE: GERMANY

### Germany's domestic regional policy

#### *Approach to explicit geographical targeting*

Regional GA: Funds are allocated to structurally weak areas, which are designated via a weighted formula; six sevenths of funding is awarded to the new *Länder* (which are designated in their entirety) and the remainder to weak areas in the old *Länder*.

Investment Allowance: All new *Länder* and Berlin are designated.

Federal R&D Credits to new *Länder*: All new *Länder* and Berlin are designated.

Solidarity Pact: Each new *Land* is designated.

#### *Extent of implicit geographical targeting*

Regional GA: Emphasis on regionally-exporting businesses, as well as on infrastructure which supports regionally-exporting businesses. Formal selection processes. Some *Länder* may give higher aid rates to e.g. projects using new technologies or involving R&D.

Investment Allowance: Automatic allocation to manufacturing and service firms meeting basic criteria.

Federal R&D support to new *Länder*: Focus on R&D and innovation. Formal selection processes.

Solidarity Pact: Automatic federal allocation to each new *Land* government.

**Table A6: Germany, domestic regional policy funding allocations, current million euro, 2000-06 & 2007-13**

	Annual average 2000-06	Annual average 2007-13
Solidarity Pact for new <i>Länder</i>	9514	8657
Investment Allowance for new <i>Länder</i>	580	580
Federal and <i>Land</i> GA funding		
a) for new <i>Länder</i>	1372	1006
b) for structurally weak areas in old <i>Länder</i>	232	168
Total new <i>Länder</i>	11466	10246
Total old <i>Länder</i>	232	168
Total	11698	10414

Note: a) Data for the Investment Allowance are the annual figure for 2007. b) For the GA in 2007-13, the figures are the amount of federal and Land funding allocated in 2007.

Source: EPRC calculations based on German governmental sources.

## EU Cohesion policy in Germany

### *Approach to explicit geographical targeting 2007-13*

Multi-regional Convergence OPs: All new *Länder* plus Lüneburg (Niedersachsen).

Multi-regional Employment OP: All new *Länder* are designated (excluding Lüneburg).

Land Convergence OPs: Generally do not target funds on geographical sub-*Land* areas.

Land RCE OPs: Some earmark funding for structurally weak sub-*Land* areas or set targets. All allow applications from any area within the *Land* for at least 50 percent of funding.

### *Extent of implicit geographical targeting 2007-13*

Multi-regional OPs: Fund transport infrastructure & active labour market policy.

Land Convergence OPs: Wide range of themes and allocation mechanisms.

Land RCE OPs: Often a strong focus on RTDI & urban themes; *Land* Nordrhein-Westfalen will allocate most funds through competitive tenders and competitive selection processes.

**Table A7: Germany, % of ERDF and ESF allocations to programmes, 2000-06 & 2007-13**

	2000-06	2007-13	Population % 2004	GDP p.c. 2004 (DE = 100)
<b>New Länder (including Berlin)</b>	<b>72.6</b>	<b>64.8</b>	<b>20.5</b>	<b>74.3</b>
Berlin	4.3	4.8	4.1	87.4
Brandenburg	10.9	8.3	3.1	70.2
Mecklenburg-Vorpommern	8.7	6.6	2.1	67.6
Sachsen	17.0	15.5	5.2	74.0
Sachsen-Anhalt	11.3	10.1	3.1	69.8
Thüringen	9.7	8.3	2.9	70.1
Multi-regional Transport Infrastructure OP	5.3	6.0		
Multi-regional ESF OP	5.4	5.2		
<b>Old Länder</b>	<b>27.5</b>	<b>35.3</b>	<b>79.6</b>	<b>106.6</b>
Baden-Württemberg	1.3	1.6	13.0	112.8
Bayern	3.2	3.5	15.1	119.2
Bremen	0.7	0.9	0.8	134.6
Hamburg	0.3	0.5	2.1	168.6
Hessen	1.2	1.8	7.4	119.9
Niedersachsen	3.6	6.6	9.7	86.6
Nordrhein-Westfalen	6.0	7.7	21.9	99.3
Rheinland-Pfalz	1.0	1.3	4.9	88.3
Saarland	1.0	1.1	1.3	93.3
Schleswig-Holstein	1.3	1.9	3.4	90.0
Multi-regional ESF OP	7.9	8.5		
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.1</b>	

Source: Federal Ministry for Economics and Technology and EPRC calculations using Eurostat data.

## COUNTRY FICHE: ITALY

### Italy's domestic regional policy

The domestic approach to regional policy is currently under review. A programming approach will be introduced for domestic regional policy in 2007-13. It appears that existing instruments will be replaced by, on the one hand, fiscal concessions and, on the other, targeted schemes. This fiche focuses mainly on the current/past situation.

Note that the domestic definition of the *Mezzogiorno* covers eight regions, but only four of these are covered by the EU Convergence Objective in 2007-13 (while one is in phasing-out, one in phasing-in, and two are covered by the RCE Objective).

### *Approach to explicit geographical targeting*

Framework Programme Agreements: This is the main domestic regional policy instrument and it operates in both *Mezzogiorno* and structurally weak ('underutilised') areas of the Centre-North. Agreements are made between national Ministries or between national and regional administrations to undertake investment in a range of fields (mainly infrastructure) drawing on a combination of resources from national Ministries and regional authorities.

Law 488/92: The State Ministry allocates annual funding to each region for areas designated under Article 87(3)(a) and 87(3)(c).

Tax credit: Funding used to be available to structurally weaker (underutilised) areas of both *Mezzogiorno* and Centre-North. From 2007, it will focus only on the *Mezzogiorno*.

Localisation contracts provide packages of support (direct aid, infrastructure, support for training and R&D) to inward investing firms in the *Mezzogiorno*.

Urban free zones: A new scheme targeted on deprived urban areas in the *Mezzogiorno*, with fiscal concessions for the start-up and consolidation of new small firms, and for urban renewal projects.

### *Extent of implicit geographical targeting*

Tax credit: favours areas where there are businesses.

**Table A8: Italy, domestic regional policy funding allocations, 2000-06 & 2007-13**

	2000-06 annual average		2007-13 annual average	
	Current billion euro	Percentage of total	Current billion euro	Percentage of total
<i>Mezzogiorno</i>	4.89	84.5	7.16	84.8
Centre-North	0.90	15.5	1.29	15.3
Total	5.79	100.0	8.44	100.1

Source: EPRC calculations from data from Rapporto Annuale 2006 del Dipartimento per le Politiche di Sviluppo e Coesione sugli interventi nelle Aree Sottoutilizzate, April 2007, p. 220.

## EU COHESION POLICY IN ITALY

### *Approach to explicit geographical targeting 2007-13*

National Convergence OPs: These OPs finance specific themes in eligible regions: security, learning environments, networks & mobility, research & competitiveness, competences for development, governance and TA, governance and systemic actions.

Interregional Convergence OPs: These OPs finance interregional projects in eligible regions: Renewable energies and energy saving; and Natural and cultural attractions and tourism.

Regional Convergence OPs: One ERDF and one ESF OP in each Convergence region.

National RCE OP: ESF OP covering all non Convergence regions.

Regional RCE OPs: 16 ERDF and 16 ESF OPs. Some ERDF OPs earmark a percentage of funding for disadvantaged areas within the region (e.g. Lombardia) but most funds are allocated thematically.

### *Extent of implicit geographical targeting 2007-13*

Convergence regions: The OPs finance a wide range of themes and use a variety of funding allocation mechanisms.

RCE regions: These OPs often have a strong focus on RTD and innovation.

**Table A9: Italy, percentage of Structural Funds allocations, 2000-06 and 2007-13**

	2000-06	2007-13	Population % 2004	GDP p.c. 2004 (IT = 100)
ROPs in the four Convergence regions	44.7	48.9	29.0	63.5
ROP in Basilicata (Phasing out)	2.8	1.5	1.0	69.8
National Convergence OPs	23.4	27.6		
<b>Total Convergence</b>	<b>70.9</b>	<b>77.4</b>	<b>30.0</b>	<b>63.7</b>
ROP in Sardegna (Phasing in)	6.9	3.5	2.8	75.6
ROPs in the two RCE regions (Abruzzo and Molise) included in the domestic definition of the <i>Mezzogiorno</i>	1.9	1.4	2.8	77.5
ROPs in other RCE regions	20.5	17.7	64.3	119.0
National C&E OPs	0.0	0.1		
<b>Total RCE</b>	<b>29.1</b>	<b>22.6</b>	<b>70.0</b>	<b>115.6</b>
<b>Total Italy</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: EPRC calculations based on programming documents and Eurostat data.

## COUNTRY FICHE: NETHERLANDS

### Netherlands' domestic regional policy

#### *Approach to explicit geographical targeting*

Regional aid: The areas designated are in the north, south Limburg and (until 2008) Flevoland. Following the transitional period, they will hold 7.5 percent of the population compared to 15 percent for 2000-06. Designation reflected three aspects: areas had to meet the RAG criteria; vulnerable border areas were a key concern; and areas had to have benefited from regional aid in the past. The focus was thus on strong centres within weaker regions.

Peaks in the Delta funding: The underlying philosophy is that funding should be uniform across regions based on the percentage of regionally-exporting jobs in each region. However, transitional provisions were made for the north (also following parliamentary pressures) and resulted in 27 percent of the Peaks budget being allocated to the north. The rest of the budget is split 40:60. Sixty percent is distributed across the five Peaks regions (excluding the North) on the basis of regionally-exporting jobs; the remaining 40 percent will be allocated on a discretionary basis in line with the perceived national economic benefit of the projects chosen for support.

#### *Extent of implicit geographical targeting*

Regional aid: The Investment Premium is viewed as defensive regional aid. It aims to prevent the loss of projects attracted elsewhere just because of the regional aid available in those localities. It is likely to be utilised particularly in vulnerable border regions.

Peaks in the Delta funding: Within the various Peaks programmes, regional strengths are identified. Projects which align with those strengths will be favoured. Many regional strengths are associated with urban areas (e.g. innovation/R&D).

**Table A10: Netherlands' domestic regional policy allocations, current million euro, 2004-06 and 2007-13**

	Annual average 2004-06		Annual average 2007-10	
	Million euro	Percentage of total	Million euro	Percentage of total
Regional aid				
a) North (IPR)	13.0	c.95.0%	Still to be finalised, but similar magnitudes	
b) Other regions				
Kompas programme				
a) North	61.1	100.0%		
b) Other regions	0.0	0.0%		
Peaks in the Delta				
a) North			20.0	27.0%
b) Other regions			54.0	73.0%

Note: a) The new coalition has pledged to increase the regional policy budget: the implications of this will become clearer in the next Dutch budget. b) A very limited amount of funding was available outside the North under the IPR in 2004-06.

Source: Peaks in the Delta

## EU Cohesion policy in the Netherlands

### *Approach to explicit geographical targeting 2007-13*

Regional RCE OPs: EU criteria for the allocation of Competitiveness funding were followed: population (weighting 50 percent), unemployment (20 percent), participation in the labour force (15 percent), educational level (10 percent) and population density (5 percent). Additionally, shares were adjusted plus or minus 5 percent according to above or below average GDP per head averages. The safety net provision resulted in the north receiving transitional support (25 percent of its 36.7 percent 2000-06 funding) for 2006-10.

Multi-regional ESF OP: This national programme received 50 percent of the combined ERDF/ESF funding.

### *Extent of implicit geographical targeting 2007-13*

Regional RCE OPs: The programmes' focus on the Lisbon categories would be expected to benefit core areas within each region.

Multi-regional ESF OP: No information

**Table A11: Netherlands, percentage of ERDF allocation, 2000-06 and 2007-13**

	2000-06	2007-10	2011-13	2007-13 including co- finance	Population % 2004	GDP p.c. 2004 (NL = 100)
North	36	27.5	11.6	23.9	10.4	92.7
East	15	19.8	19.8	18.7	21.1	84.9
West		33.0	42.9	35.9	46.6	110.1
Cities	21					
Objective 1	13					
South	15	19.7	25.7	21.5	21.8	96.5

Source: EPRC calculations based on Ministry of Economic Affairs, Letters to the Dutch Parliament, 17 May 2006 and 2 June 2006.

## COUNTRY FICHE: NORWAY

### Norway's domestic regional policy

#### *Approach to explicit geographical targeting*

Regional aid areas: The aid map covers 27.5 percent of the national population. This falls within the quota of 29.1 percent set on the basis of sparse population - NUTS II areas with less than 8 inhabitants per km<sup>2</sup> or NUTS III areas with less than 12.5 inhabitants per km<sup>2</sup>. Under the quota, there was flexibility to enable parts of adjacent NUTS III areas to be included (with other areas 'swapped out'). This provision was used extensively. Only the three counties in the north (Nordland, Troms and Finnmark) and Sogn og Fjordane were included in their entirety. Areas swapped were in the most peripheral areas - especially, certain remote mountainous areas as well as island communities and coastal areas facing accessibility challenges. Rate maxima favour the north and the most peripheral areas.

Social security concession areas: These are NUTS II areas with less than 8 inhabitants per km<sup>2</sup> plus adjacent and contiguous areas which meet the same criterion. The designated areas hold 17.7 percent of the national population, with the highest rates in the far north (North-Troms and Finnmark) and with peripheral areas also being favoured.

District policy: This focuses on the regional aid and social security concession areas. Extra support (and other forms of support) is available in North-Troms and Finnmark.

Regional policy: Broader regional policy measures are available in all regions. The Centre of Expertise programme favours internationally-competitive clusters chosen by tender.

#### *Extent of implicit geographical targeting*

Regional aid/Social security concession/Other district policy: Targeting is explicit.

Regional policy: The Centre of Expertise programme favours urban areas.

**Table A12: Norway's domestic regional policy funding, current million NOK, 2005-07**

	Annual average 2005-06		2007		Population % 2004	GDP p.c. 2004 (NY = 100)
	Million NOK	% of total	Million NOK	% of total		
Regional aid						
a) North	416.3	40.5%	464.2	40.8%	10.1	62.6
b) Other regions	611.0	59.5%	673.7	59.2%	89.9	104.2
Social security concession						
a) N.Troms/Finnmark	1.700	c.20%	1.700	c.20%	0.2	N/A
b) Other regions	c.6,000	c.80%	c.6,000	c.80%	99.8	
Broad district policy						
a) N.Troms/Finnmark	3,500	25-35%	N/A	N/A	0.2	N/A
b) Other regions	10-15,000	65-75%	N/A	N/A	99.8	N/A

Source: EPRC calculations based on Ministry of Local Government and Regional Development and Eurostat data.

## COUNTRY FICHE: POLAND

### Poland's domestic regional policy

#### *Approach to explicit geographical targeting*

Regional contracts: All regions, based on a weighted formula that slightly favours weaker areas: number of inhabitants (80 percent); per capita allocation among regions whose average GDP per capita in the last three years has been less than 80 percent of national GDP per capita (10 percent); per capita allocation among districts where the average unemployment rate in the last three years has exceeded 150 percent of the national average (10 percent).

Special Economic Zones: Area designation has been based on *ad hoc* government decisions rather than explicit targeting mechanisms. SEZ have generally been set up in areas with high levels of structural unemployment, and often undergoing industrial restructuring.

Special programmes for regions with structural problems: These are 'stand alone' responses to regional economic crises rather than components of strategic regional policy e.g. support for restructuring mining, iron and steel industries in the regions of Upper Silesia and Malopolska, as well as for regions affected by environmental problems or natural disasters.

#### *Extent of implicit geographical targeting*

Regional contracts: Resources are allocated to Polish regions according to the priorities of the National Strategy for Regional Development, with clear emphasis on infrastructure that is seen to enhance regional competitiveness.

Special Economic Zones: By focusing on areas with high levels of structural unemployment, the selection of these zones implicitly favours areas undergoing industrial restructuring. These are not the poorest regions in Poland, which are instead rural, agricultural regions.

Special programmes for regions with structural problems: The thematic focus on restructuring heavy industry implies a focus on particular regions (e.g. Upper Silesia).

### EU Cohesion policy in Poland

#### *Approach to explicit geographical targeting 2007-13*

Regional OPs: All regions, based on a weighted formula that slightly favours weaker areas: number of inhabitants (80 percent); per capita allocation among regions whose average GDP per capita in the last three years has been less than 80 percent of national GDP per capita (10 percent); per capita allocation among districts where the average unemployment rate in the last three years has exceeded 150 percent of the national average (10 percent).

OP Eastern Poland: Funding will be divided among the five regions with lowest GDP per capita (Lubelskie, Podkarpackie, Podlaskie, Świętokrzyskie and Warmińsko-mazurskie). Under current plans, the following criteria will be used to allocate funding: number of

inhabitants (20 percent); low GDP per inhabitant (20 percent); low population density (30 percent); and level of unemployment (30 percent).

**OP Human Capital:** Sixty percent of funds (around €7.1 billion) are allocated between all regions, with 97 percent of this allocation between divided between regions on the basis of the following criteria: number of inhabitants in a region (40 percent); number of SMEs, including micro-enterprises (15 percent); number of registered unemployed (25 percent); number of people working in agriculture per 100 hectares, divided by the total number of people working in agriculture in the region (10 percent); and regional GDP per capita (10 percent). The remaining 3 percent of the total allocation to the regions is divided proportionally among the five poorest regions on a per capita basis.

**Other Sectoral OPs:** Funding is allocated within the national territory on the basis of national priorities. However, within the OP Environment and Infrastructure, a sum of €142.5 million will be reserved for those regions which are seen to have been most disadvantaged by the formula used for allocated Regional OP funding (i.e. Łódzkie, Małopolskie, Wielkopolskie and Śląskie) and thus for structurally stronger regions. This funding will be allocated on a project by project basis.

### *Extent of implicit geographical targeting 2007-13*

There is a strong emphasis in Poland's Sectoral and Regional OPs on addressing fundamental structural weaknesses in terms of infrastructure and human resources, as well as providing broad-based business support. As in other States, it is likely that much of the funding for business and R&D/innovation will flow towards agglomerations. Given the low level of GDP per capita of Poland as a whole, Cohesion policy not only aims to develop its poorest regions but also to support the economic development of the entire State.

**Table A13: Poland, regional allocation of Structural Funds, 2004-06 & 2007-13**

	Annual average 2004-06		Annual average 2007-13		Population % 2004	GDP p.c. 2004 (PL = 100)
	Current million euro	% of total	Current million euro	% of total		
Lubelskie	204	7	2072	9	5.7	69.3
Podkarpackie	195	7	1968	8	5.5	69.9
Podlaskie	112	4	1230	5	3.2	74.6
Świętokrzyskie	135	5	1354	6	3.4	77.3
Warmińsko- mazurskie	185	7	1733	7	3.7	77.6
Sum of 5 eastern regions	719	26	7127	30	21.5	72.9
Other regions	2087	74	17288	70	78.5	107.4
Poland	2806	100	24415	100	100	100

Note: 2004-2006 data refer to regional share in the Integrated Regional Operational Programme (IROP), 2007-13 data include regional allocations under the Regional OPs, the Human Capital OP, and the OP for the Development of Eastern Regions.

Source: Małecką, T. (2007) Unijne fundusze 2007 - 2015 szansą na rozwój polskich regionów *Ogólnopolskie Forum Skarbników Powiatów i Miast* Warsaw, 18 June 2007.

## COUNTRY FICHE: SWEDEN

### Sweden's domestic regional policy

#### *Approach to explicit geographical targeting*

**Regional aid:** Regional aid incentives in 2007-13 are available in the Aid Areas A (north and parts of centre) and B (parts of coast and centre). There has been little change in area designation between 2000-06 and 2007-13, with particular focus on population density.

**Regional Growth Programmes:** Each of the 21 counties has a Regional Growth Programme. State funding is allocated for the initiatives set out in the programmes, and the indicative budget plans are prepared by the regional development authorities (i.e. County Administrative Board, Municipal Co-operation Body, or the regional autonomous body). National funding and Structural Funds are closely linked; if a region receives significant Structural Funds resources, it is also likely to benefit from the national funds.

#### *Extent of implicit geographical targeting*

**Regional aid:** Aid to the assisted areas aims to improve the conditions for business location e.g. by part-financing business investment projects, providing support to hire skilled labour or awarding grants to compensate for long transport distances. The aim of the incentives is to contribute growth and balanced regional development.

**Regional Growth Programmes:** All counties have the following five priorities: workforce and competence development; entrepreneurship, business development, business environment; clusters and innovation system; infrastructure; and attractive regions.

**Table A14: Sweden, domestic regional policy funding allocations, 2004-06**

	Annual average		Population 2004	% GDP p.c. 2004 (SW = 100)
	Current million	SK % of total		
Regional aid 2005-06				
a) North	1125	11.7		
b) Other regions	473	4.9		
Regional Growth Programmes 2004-06				
a) North	2309	24.1		
b) Other regions	5685	59.3		
Total North	3434	35.8	9.8%	91.4
Total other regions	6158	64.2	90.2%	100.9
Total	9593	100.0	100.0%	100.0

Note: The geographical division is based on the 2007-13 NUTS II Structural Fund programme areas. The North includes Övre Norrland and Mellersta Norrland

Source: NUTEK, *Uppföljning och resultatvärdering av regionala företagsstöd och stöd till projektverksamhet*, Budgetåret 2006 och 2005; NUTEK, *'På väg mot ett fokuserat tillväxtarbete'*, June 2007 (State allocations only).

## EU Cohesion policy in Sweden

### *Approach to explicit geographical targeting 2007-13*

Multi-regional ESF OP: All Sweden is designated.

Regional RCE OPs: No particular geographical targeting.

### *Extent of implicit geographical targeting 2007-13*

Multi-regional ESF OP: Focus on development and renewal within working life through competence development; increasing job opportunities.

Regional RCE OPs: Priorities in all OPs include innovation and renewal; skills supply and improved workforce supply; accessibility; and strategic cross-border cooperation.

**Table A15: Sweden, % of regional Structural Funds allocations, 2000-06 and 2007-13**

	2000-06		2007-13
<b>Obj. 1 Norra Norrland</b> (Norrbottn & Västerbotten)	33.0	<b>Övre Norrland</b> (Norrbottn & Västerbotten)	26.0
<b>Obj. 1 Södra Skogslänregion</b> (Västernorrland & Jämtland plus parts of Dalarna, Värmland & Gävleborg)	30.1	<b>Mellersta Norrland</b> (Jämtland & Västernorrland)	18.9
<b>Obj. 2 Norra</b> (parts of Dalarna, Västmanland & Gävleborg)	16.4	<b>Norra Mellansverige</b> (Gävleborg, Dalarna & Värmland)	20.9
<b>Obj. 2 Öarna</b> (all islands except those in Norrland)	2.5	<b>Stockholm</b>	4.0
<b>Obj. 2 Södra</b> (parts of Östergötland, Jönköping, Kalmar, Kronoberg & Blekinge)	7.0	<b>Östra Mellansverige</b> (Uppsala, Södermanland, Örebro, Västmanland & Östergötlands)	8.7
<b>Obj. 2 Västra</b> (parts of Örebro, Värmland & Västra Götaland)	10.9	<b>Västsverige</b> (Västra Götaland & Halland)	6.8
		<b>Småland &amp; Öarna</b> (Kalmar, Kronoberg, Jönköping & Gotland)	7.2
		<b>Skåne &amp; Blekinge</b>	7.6
<b>Total</b>	<b>100.0</b>	<b>Total</b>	<b>100.0</b>

Source: EPRC calculations based on NSRF and programming documents.

## COUNTRY FICHE: UNITED KINGDOM

### United Kingdom's domestic regional policy

#### *Approach to explicit geographical targeting*

Regional aid: England's regional aid scheme, Selective Finance for Investment in England, provides support to structurally weak areas (Assisted Areas).

Regional Development Agencies: Funding is provided to all English regions, based on a formula including the following indicators: a flat rate for RDA administrative overheads; population in a region; GDP per head; research and development expenditure per head; the population of Rural Priority Areas; the number of people living in deprived wards; the unemployment rate; the amount of derelict land and pre-used land with planning permission; and the skills of people of working age.<sup>13</sup>

#### *Extent of implicit geographical targeting*

Regional aid: The geographical focus is explicit.

Regional Development Agencies: The geographical focus is explicit.

**Table A16: UK, domestic regional policy funding allocations to England's Regional Development Agencies, 2005/6-2007/8**

	Annual average 2005/06- 2006/07		2007/08		Percentage of UK population 2004	GDP p.c. 2004 (UK = 100)
	Current million Sterling	% of English total	Current million Sterling	% of English total		
North-East England	245.5	11.1	282	12.2	4.3	78.9
Other English regions	1961.0	88.9	2028	87.8	79.4	103.7
N.Ireland/Scotland/Wales	N/A	N/A	N/A	N/A	16.3	87.5

Source: EPRC calculations based on information from the UK Department for Business, Enterprise and Regulatory Reform.

<sup>13</sup> See Allsopp, C. *Review of Statistics for Economic Policymaking*. First Report to the Chancellor of the Exchequer, the Governor of the Bank of England and the National Statistician, p. 54.

## EU Cohesion policy in the United Kingdom

### *Approach to explicit geographical targeting 2007-13*

Full Convergence Regional OPs: Cornwall ERDF Programme; West Wales and the Valleys ERDF and ESF Programmes.

Phasing-out Convergence Regional OPs: Highlands and Islands ERDF and ESF programmes.

Phasing-in Competitiveness Regional OPs: South Yorkshire ERDF; Merseyside ERDF.

Competitiveness Regional OPs: All UK regions which are not covered by Convergence, Phasing-out or Phasing-in Programmes i.e. 9 English ERDF Programmes; Lowland and Upland Scotland ERDF and ESF Programmes; East Wales ERDF and ESF Programmes; Northern Ireland; Gibraltar.

Multiregional OP: England ESF Programme (all English regions including those eligible under Convergence, Phasing-out or Phasing-in Objectives)

### *Extent of implicit geographical targeting 2007-13*

Full Convergence OPs: In West Wales and the Valleys, programme documents state that funding decisions will be informed by Wales's Spatial Plan, with the aim of 'ensuring that resources are targeted on areas of need and opportunity'.

Phasing-out Convergence OPs: In the Highlands and Islands, Priority 3 of the ERDF Programme targets fragile and peripheral communities.

Competitiveness OPs: E.g. Scotland's Lowlands & Uplands ERDF OP includes one urban priority (focused on selected areas with local regeneration plans) and one rural priority.

**Table A17: UK, percentage of regional Structural Funds allocations, 2000-06 & 2007-13**

	2000-06 (ERDF, ESF, EAGGF, FIFG)	2007-13 (ERDF, ESF)
England		
Objective 1/Convergence	27.5	6.6
Objective 2/RCE	35.9	57.8
Northern Ireland		
Objective 1/Convergence	8.2	
Objective 2/RCE		4.8
Scotland		
Objective 1/Convergence	2.8	1.8
Objective 2/RCE	7.4	6.5
Wales		
Objective 1/Convergence	17.0	21.1
Objective 2/RCE	1.1	1.4
Total	99.9	100.0

Note: Gibraltar accounts for an additional 0.1 percent of funding in both periods.

Source: UK's NSRF, October 2006.