Regional Policy Developments in the Member States and Norway: A Comparative Overview of Recent Policy Changes

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1. INTRODUCTION

The purpose of this paper is to provide an overview of recent developments in regional incentive policy and regional policy more generally across the Member States (and Norway), highlighting both the main common themes to emerge and interesting new policy initiatives. The period under review runs from the start of 2000 and has clearly been a very important one for policy change. Following the March 1998 revision to the European Commission's regional aid guidelines,[1] all countries have been obliged to revise their designated aid area maps (and associated award ceilings) and have also had to have their key regional incentives approved by the Commission (DG Competition). At the same time, the European Union's Structural Funds have moved into a new programming period, running from 2000 to 2006. This has involved agreement about the distribution of Structural Fund resources across the Community, the identification of new Objective 1 and 2 regions where the funding is to be focused and the development and subsequent approval of programmes for these regions and also for those areas where assistance is to be phased out. In addition to these external imperatives for review and change, many countries have taken the opportunity to re-examine their general approach to regional development, with a view to identifying appropriate policies and priorities for the 2000-06 period. In this context, it is worth noting that virtually all countries have moved over to the policy phasing demanded by Commission requirements; this, in turn, means that regional policy is now being laid down almost everywhere for a seven-year period, far longer than used to be the case. Until this current phase, the norm in most Member States was for policy to be reviewed every four or five years.

The impact of European Commission pressures on policy developments is obvious. The regional aid guidelines stipulated that the regional incentive systems then in force would all finish at the end of 1999 and would not be replaced until revised maps and incentive regimes were agreed with the EC competition policy authorities. In similar vein, those aspects of policy co-financed by the Structural Funds have had to be reviewed and renewed to take account of the adoption and subsequent implementation of the Structural Funds Regulation for the 2000-06 period.[2] The impact of the Structural Funds on national regional policy is self-evident in those Member States with considerable Objective 1 coverage (eg. Greece, Portugal, Spain); indeed, in such countries, the weight attached to the Structural Funds is such that it is often difficult to distinguish national and EU regional policy. In addition, in many other countries, co-financing obligations under the Structural Funds mean that EU award criteria have a direct impact on what can be offered through national regional policy and, indeed, on the form of national regional policy. Moreover, the institutional framework which has developed in the context of the Structural Funds – with its focus on regional-level programmes, on a partnership approach to policy development and delivery and on the monitoring and evaluation of policy – has also had a growing bearing on the administration and implementation of national regional development efforts.

Taken together, these EU-level activities – the one controlling and coercive, the other facilitating yet, through co-financing, also constraining – have done much to dictate

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[1] OJEC C74; 10 March 1998

[2] Council Regulation (EC) No. 1260/1999 of 21 June 1999, OJEC L161; 26 June 1999.

the recent policy agenda in the Member States. On the other hand, it would be wrong to conclude that all policy developments have been EU-driven. There has been a wide range of global and domestic factors that have combined with European pressures to determine future policy directions. These include the need to respond appropriately to the demands of globalisation and the increasing importance of the knowledge economy (with its implications for networking and cooperation); the pressure to concentrate limited resources on areas where they are likely to have most impact, leading to a growing focus on locations with development potential; the desirability of building development efforts around regional inputs and energies, ensuring that regional dynamics work to the benefit of the national economy; related, the wish to anchor policy decision-making more at the regional level, with a stronger role for local administrations and communities in the definition of policy directions and in policy design; the enhanced stress attached to policy coordination both at the regional level and more generally, relating narrow regional policy measures more closely to broader economic development initiatives which have regional impacts; and the requirement in a number of countries to set policy proposals in the context of their potential impact on sustainable development.

The overview below follows the same broad structure as in past years. It is in seven further sections which consider:

- changes in the legislative basis of policy and in the main policy directions (Section 2);
- changes in the components of regional policy and in the composition of regional aid packages (Section 3);
- administrative developments (Section 4);
- changes to the regional aid area maps (Section 5);
- other changes affecting key eligibility criteria for support, including eligible sectors, project types and size groups (Section 6);
- changes in award ceilings and in the overall value of awards (Section 7); and
- regional incentive expenditure trends (Section 8).

Supporting the overview, a set of comparative tables can be found in Annex 1. In addition, a detailed country-by-country review of developments is provided in Annex 2.

2. THE LEGISLATIVE BASIS OF POLICY

Table 1 (in Annex 1) sets out those legislative changes which have recently been introduced and, related, those changes which have been made to the composition of the regional incentive packages on offer. This section focuses on legislative change and the broader policy themes arising from the policy reviews that have taken place; changes which have been made to the main components of regional policy and to the composition of regional incentive packages are discussed in Section 3.

In considering legislative change, it is worth drawing a distinction between those countries where new implementing laws have been introduced which make *detailed* changes to individual regional aid schemes; and those where a *broader* policy review has been undertaken, perhaps in the form of a White Paper or a policy memorandum or a framework law or even, in those countries with major Objective 1 areas, the

development of new Community Support Frameworks for the 2000-06 programming period. The position in the Member States and Norway is set out in Table 2.1.

The table underlines the high level of regional policy change that has taken place since the start of 2000. Nearly all countries have introduced revised regional incentive legislation or guidelines in line with the Commission's March 1998 regional aid regime; and new regional aid maps and award ceilings have come into force everywhere. In addition, there have been broader policy reviews in a wide range of countries. White papers, policy frameworks, strategy documents and policy memoranda have been published in Finland, France, the Netherlands, Sweden, the United Kingdom and Norway and soon will be published in Denmark, while policy reviews are currently underway in Belgium (Flanders) and Germany. Add to this, the significant revisions of policy which have taken place in those countries where the Structural Funds play a major role – Greece, Ireland, Italy, Portugal and Spain – and it is clear that the scale of recent policy review has been major indeed.

In order to obtain a flavour of the main changes made under the revised legislation and the key themes highlighted in the policy reviews, it is useful at the outset to provide a brief overview of developments in each country.

In ***Austria***, a change of government in October 1999 and the requirement to make budgetary savings in the context of preparation for the euro and the need to meet the Maastricht criteria led to the withdrawal of the Regional Innovation Premium (RIP) in 2000. The demise of the RIP has further emphasised the low-key nature of national regional policy in Austria, certainly when set alongside the Structural Funds. The reduced significance of national regional policy has been enhanced by the designated aid area cutbacks enforced by the European Commission's regional aid guidelines. Coupled with a shift in policy away from supporting fixed investment and towards the promotion of networking and the stimulation of technology and innovation – and related, too, to an increased focus on spatial planning issues, rural-urban links and the role of regional growth centres in promoting economic development – the trend increasingly has been to apply economic development measures across the country as a whole rather than to limit policy to the designated aid areas and thus be constrained by the regional aid guidelines.

In ***Belgium***, the main changes which have been taking place have been in direct response to the regional aid guidelines. These have strongly influenced the form of support on offer, its spatial coverage and the available award maxima. Job creation has also been an important theme in Belgium and is a key aspect of the Wallonian regional aid regime. Looking to the future, and as in Austria, budgetary constraints may become an issue – certainly in Flanders where consideration is being given to the introduction of an Italian-style regional aid system in 2002, with competitive tendering for aid under a fixed budget and with a transparent selection process based on explicitly-scored eligibility criteria. In Wallonia, a specific regional aid has been introduced to support cluster development in the Objective 1 phase-out area of Hainaut through targeting firms which provide relevant business services or involve innovative activities.

Table 2.1: Recent Legislative Change and Broader Policy Reviews (2000-01)

Country	Detailed Incentive Legislation	Broader Policy Review/Change
Austria	New *Richtlinien* 2000-06 came into force on 5 June 2000	
Belgium	Flemish government approved amendments to regional aid legislation on 17 July 2000. Walloon government decrees of 8 November 2000 related to the operation of the capital grant in the Obj. 1 phase-out area and elsewhere in the aid areas.	In Flanders a complete aid scheme review is in train; new system expected to be introduced in 2002.
Denmark		White Paper on regional policy due in Autumn 2001
Finland	Aid to Business Act (150/99) came into force on 1 January 2001	Government Decision of 9.11.2000 on the Target Programme in accordance with the Regional Development Act (RDA); this is likely to form the basis of a new RDA
France	Changes to the regional policy grant were introduced via *décret* 2001-312 of 11 April 2001; administrative provisions are contained in two *arrêtés* of 1 June 2001	Progressive implementation of the Regional Framework Law (LOADDT) of June 1999 which involved a significant shift in the philosophy of regional policy
Germany	Annual *Rahmenplan* subject to EC approval. The 28th Plan (1999-02) was approved in May 2000. Subsequent plans have not yet been approved	A discussion on the future of regional policy began in the GA at the start of 2001; a new GA model will be needed by 2004
Greece		Development of SF programmes 2000-06
Ireland	Aid package awaiting EC approval	National Development Plan for 2000-06; Development of SF programmes 2000-06
Italy	Implementation decrees for Law 488 for 2000-06 (6 March, 8 May and 3 July 2000). Also *Finanziaria* Law 2001, Art.8.	Objective 1 CSF for the *Mezzogiorno*
Luxembourg	Law of 22 December 2000 amended regional aid form, coverage and ceilings	
Netherlands	Regional Investment Project Grants Decree 2000 (Statute Book 22.08.2000, 354).	Memorandum on Spatial Economic Policy for 2000-06
Portugal	New legal basis for the SIME: Portaria 687/2000 of 31 August 2000, as amended by Portaria 164/2001 of 7 March 2001.	Development of SF programmes 2000-06
Spain	Legal basis of RIG unchanged. A Royal Decree incorporating the new maximum award rates is in preparation	Development of SF programmes 2000-06
Sweden	New Regional Policy Bill to be presented to Parliament in September 2001. New Transport Aid guidelines (11 May 2000).	Parliamentary Committee presented policy review to Parliament (September 2000); new law expected 2001
United Kingdom	New RSA guidelines in preparation following period of evaluation and review	White Paper on Enterprise, Skills and Innovation 2001; Scotland: Framework for Economic Development 2000; Northern Ireland: Programme for Government 2001-04
Norway	The new map came into force from 1 January 2000.	2001: White Papers on regional policy; the future of regional governance; and the Norwegian development agency, SND.

In ***Denmark***, the regional policy White Paper which is due in Autumn 2001 is not expected to depart significantly from existing policy approaches. It seems likely that the prime objective of policy will remain to maximise the contribution of every region to national growth rather than to redistribute economic activity across the nation. Related, it seems unlikely that there will be any return of traditional mainstream regional incentives which were abolished in Denmark in 1991, given the broad political consensus that there is surrounding both the overall goals of regional policy (greater equality through competitiveness rather than equity at any cost) and the general preference for framework measures which do not entail direct grant aid to individual firms. On the other hand, though much less certain, the current 'regulated bottom-up' approach to economic development in the regions (with central government policing the activities of sub-national actors) may be replaced by a more pro-active national level role, with a view to ensuring optimal conditions for economic development across the country through partnership arrangements with regional and local actors. Following criticisms from the west of Denmark about a perceived concentration of new investments in infrastructure in the metropolitan Copenhagen/Øresund area, more stress may also be placed on incorporating regional priorities more explicitly into national investment decisions, particularly those relating to major infrastructure projects.

In ***Finland***, there has been a renewed emphasis on regional policy in recent years with a view to developing a competitive regional structure covering the entire country. The main features of the renewed regional policy emphasis are: the *diversification of regional policy* (ie pursuing different kinds of measure in different kinds of region depending on the strengths and resources of individual regions); the *regionalisation of sectoral policies* (including education policy and national technology policy) with a view to ensuring that, within any given region, different sectoral ministries focus on the same regional goals; the *creation and strengthening of knowledge in the region*s (promoting the more effective participation of higher and further education institutes in regional development); and the increasing importance of the concept of '*functional urban regions'* (creating a balanced and properly planned regional structure across the country as a whole) and of the *urban/rural dimension* (involving improved coordination of urban and rural policy measures). This shift in the balance of policy and funding towards *urban areas* has been notable for some time and represents a major policy development. The government has made a clear decision that increasing resources will be targeted at urban areas.

In ***France***, the internationalisation of the economy, coupled with decentralisation pressures and the reform of the Structural Funds, have radically altered the role of and the context for national government intervention to address regional economic disparities over the last two decades. At the same time, the general trend towards "less government" and the emphasis on "market solutions" has reinforced the move away from the highly *dirigiste* policies of the 1960s towards an approach based increasingly on partnership, empowerment and "bottom-up" initiatives within a nationally-defined framework, which is itself devised through a consultative process. On the other hand, recent framework legislation has marked a return to a more strategic future-oriented approach to regional policy and a relaunch of spatial planning. This contrasts with the arguably rather fallow period in strategic thinking in the 1970s and 1980s where the agenda tended to be dominated by the short-term implications of industrial restructuring. The underlying philosophy of policy in France eschews the

redistributive approach and emphasises *equity* rather than *equality* in the provision of public services. Recently-developed outline plans for service provision in the regions (the so-called *schémas de services collectifs* (SSC)) aim to provide a long term framework for service delivery that is *demand* driven and tailored to local needs rather than simply supplied in a uniform manner across the territory. A key element of the approach concerns the role of urban centres and the development of urban networks; this takes as given the role of urban centres as the motors of economic development, but favours the emergence of a number of centres and the development of links between a main centre and satellite towns. The new framework stresses complementarity rather than competition between urban and rural areas and emphasises the symbiosis between urban areas and their rural hinterlands.

In ***Germany***, recent regional policy developments have been overshadowed by increasing tensions in the relationship with the European Commission's competition policy authorities. The main disagreement has related to the application of the regional aid guidelines, with a particularly heated dispute about the population quota allocated to Germany under the guidelines. Although a new designated aid area map was agreed in March 2000, this did not signal the end of the dispute; in June 2000, court proceedings were opened by the German authorities against the Commission which remain ongoing. As a consequence, there have been few noteworthy recent regional policy developments in Germany. Significant consideration is, however, being given to future policy initiatives and, in particular, how best to support the new *Länder* This is an important issue not only because disparities between the old and new *Länder* are increasing but also because the solidarity agreement governing fiscal equalisation in Germany comes up for renewal by 2004. As part of this, the operation of the GA (*Gemeinschaftsaufgabe*), the Joint Federal-*Land* task which provides the framework for the operation of regional policy in Germany, is currently subject to review, as indeed is the whole model for supporting regional development. Part of the discussions also relate to the appropriate role of the European Commission in the operation of national regional policy, not only the competition policy authorities but also the Structural Funds.

In ***Greece***, regional policy is largely driven by the Structural Funds. The Community Support Framework (CSF), which involves an EU contribution equivalent to over 3 percent of Greek GDP, was approved by the Commission in November 2000 and the operational programmes in March and April 2001. Most support is directed towards communications infrastructure (some 27 percent of the total), the balanced development of the regions (26 percent) and increased competitiveness of industry and services, especially SMEs (18 percent). The approval of the CSF followed on from agreement with the Commission competition policy authorities about the new regional aid map and associated award ceilings in December 1999. The entire country is eligible for regional aid under Article 87(3)(a), but with a distinction drawn between areas qualifying for a 50 percent net grant equivalent aid ceiling (those regions where GDP per head is below 60 percent of the EU average) and those where the maximum award is 40 percent (the remainder).

In ***Ireland***, too, the Structural Funds have had a major impact on policy developments. Of most significance, the fact that the entire country would no longer qualify as an Objective 1 region led to its division into two NUTS II regions - the less-developed Border, Midlands and West (BMW) region and the Southern and Eastern

region centred on Dublin. This regionalisation was taken forward in the National Development Plan (NDP) for 2000-06. Two of the six operational programmes have a specific regional dimension. Regionalisation has also been enhanced by the application of the regional aid guidelines in Ireland, with different aid ceilings in the BMW region (40 percent) and elsewhere in the country; for instance, in Dublin, the award maximum is just 17.5 percent. This in turn has led to an increasingly regionalised approach to economic development, with the identification of regional gateways in the NDP (that is, development poles to help address uneven development within the country) and with economic development agencies taking far more explicit account of the regional dimension in their operations.

In ***Italy***, there were major regional policy changes in the early 1990s: on the one hand, the institutions of *intervento straordinario* (special intervention, under which distinctive administrative structures and significant funding levels applied in the *Mezzogiorno*, the South) were abolished and the responsibility for regional policy fell to the general public administration; while on the other, regional policy ceased to concern only the *Mezzogiorno* but focused instead on *aree depresse* throughout the country. More recently, policy efforts have shifted back towards the *Mezzogiorno*, though not exclusively. The need for an appropriate policy response to the persistent structural weaknesses of the *Mezzogiorno* is once again widely accepted. In this context, a number of developments are of note. First, the emphasis is no longer on re-balancing the North-South divide via compensatory transfers, but rather on promoting the efficiency and competitiveness of the *Mezzogiorno.* The aim is to enable the *Mezzogiorno* to be on a par with other EU regions in terms of competitive location factors. This policy-shift has also underpinned the Objective 1 CSF for 2000-06, which involves a progressive reduction of resources for incentives and a greater emphasis on the question of competitiveness. Second, the instruments of industrial policy have been reviewed with a view to achieving simplification and rationalisation. As part of this process, an increased stress has come to be placed on automatic fiscal measures. Third, there is now a stronger emphasis on the involvement of local authorities in the programming of interventions, in order to make them more respondent to the needs emerging from below. An enhanced role has also been given to regional administrations in determining policy priorities, part of broader federalist tendencies in Italy following on from the *Bassanini* laws of 1997-98.

In ***Luxembourg***, recent developments have been driven by the regional aid guidelines. A new regional aid map has been agreed with the Commission, much-reduced award ceilings have been introduced and amendments have been made to the regional aid regime. Of perhaps most significance, a new labour-related component to the capital grant has been established, as permitted under the guidelines. In addition, the interest rate subsidy has been withdrawn, motivated by the desire to simplify administrative procedures, while the tax concession is now restricted to innovative projects.

In ***the Netherlands***, a new Memorandum on Spatial Economic Policy, covering the 2000-06 period, aimed to improve the business location climate by focusing on three main policy principles – *flexibility* (with a view to enhancing the ability to cope with an uncertain future given increasing internationalisation, rapid technological change and the growing importance of the knowledge economy); *tailor-made solutions* (allowing the strengths of particular regions to be matched with the spatial preferences of firms); and *coherence* (ensuring that the varied elements of a successful location

policy are brought together at the point of delivery, the region). In addition, it emphasised two core policy strands:

- strengthening the spatial economic network; and
- optimising the utilisation of the economic potentials of regions.

The first strand involves: ensuring that there is *sufficient space* for new economic growth; supporting initiatives which result in a *varied supply* of business locations; strengthening and enlarging the main *transport hubs*; and *improving access*, not only in a transport sense but also electronically. The second strand focuses on the regions and on how the provision of competitive business environments can be enhanced through *regional cooperation* – not only within the public domain but also between the public and private sectors. In addition, the White Paper highlighted two more specific regional challenges – the need to strengthen *urban economies*; and the need to reinforce the *economic structure in the north* with a view to reducing disparities with the rest of the country. In this, particular stress was placed on areas of development potential.

In ***Portugal***, national regional policy is closely intertwined with the Structural Funds. The Community Support Framework (CSF) for the 2000-06 planning period takes a sustainable development "perspective", based simultaneously on the promotion of economic prosperity, social equity and environmental balance. In particular, it notes the need to find a positive equilibrium between, on the one hand, reinforcing economic competitiveness – especially through improving the skills of the population and the efficiency of firms – and, on the other, improving the quality of life, protecting the environment and promoting social integration (through education, culture and health). The Objective 1 CSF was approved by the Commission in March 2000 and the various operational programmes followed in July and August 2000, paving the way for the introduction of a new business aid regime in Portugal under the Operational Programme for the Economy. This comprises two main elements: the *Sistema de incentivos a pequenas iniciativas empresariais*, SIPIE (incentive scheme for small entrepreneurial initiatives); and the *Sistema de incentivos a modernização empresarial*, SIME (incentive scheme for business modernisation). A particular feature of the SIME is that it aims to get away from the subsidy mentality that is perceived to have developed amongst parts of the business community in Portugal. To this end, three particular aspects are emphasised: the fact that the aid is repayable; the focus on *critical* investment (stressing technology, quality, information and support for intangibles); and the stress on the "economic value" of the aided project.

In ***Spain***, regional policy is essentially divided between Structural Fund intervention under multi-annual plans, on the one hand, and regional incentive policy, on the other - though the main incentive, the Regional Investment Grant (RIG), is co-financed by the ERDF in the Objective 1 regions. In recent years, there has been very little change to regional incentive policy. Such changes as have taken place have been driven mainly by the regional aid guidelines and have centred on the introduction of enhanced rate discrimination by area. Otherwise, the map of eligible areas under the RIG has not changed. This reflects the fact that, historically, the national authorities have never taken full advantage of the aid area map approved by the Commission, being of the view that the more prosperous Autonomous Communities (the Spanish regions) have the capacity to fund aid themselves if they so wish and that national resources (in the form of the RIG) should be focused on priority areas.

In ***Sweden***, regional policy was reviewed by a Parliamentary Commission in preparation for new regional policy legislation due in September 2001. The Commission prepared a White Paper which was presented to parliament in September 2000. The point of departure for the Commission was that increased economic growth in all regions is the main objective of regional policy and that growth and competitiveness are determined by regional and local milieu. This led to considerations of a different approach to regional economic development which focuses more on the potential for increased regional level growth to contribute to overall national growth than a national government re-distribution of financial resources to the regions. The White Paper proposed that the government should move away from 'narrow' regional policy (ie. grant support for designated areas principally in northern Sweden) and consider the greater encouragement of spatial aspects in all sectoral policy areas. This was seen as carrying forward the shift in policy reflected by the recently-introduced regional growth agreements which aim to stimulate economic growth and development at the regional level through programming-based initiatives set within a national framework. It remains to be seen whether the new legislation will adopt these recommendations. However, it seems likely that the traditional regional development problems of the northern, sparsely populated areas of Sweden will retain their prominence. In this context, the recent demise of the social security concession in response to EC competition policy pressures is expected to lead to enhanced IT support for the north.

In the ***United Kingdom***, a 2001 White Paper on Enterprise, Skills and Innovation has set out the regional policy agenda for the next few years. The need for an effective regional policy is acknowledged, one that not only assists strong regions to maximise their potential but also addresses the weaker regions in the economy. In this context, the White Paper notes that, while regional disparities have widened since 1990, pockets of prosperity and deprivation can be found at the sub-regional level *throughout* the country. As a result, a new approach to regional development is felt to be necessary, one that recognises this sub-regional diversity but presents a *regional* solution to the problem. According to the White Paper, "the new approach will be based on putting greater emphasis on growth within all regions and strengthening the building blocks for economic success by boosting regional capacity for innovation, enterprise and skills development". Its key features are: that regional growth must be a *bottom-up process* with a greater reliance on Regional Development Agencies to identify local development priorities and devise programmes in response; that incentive-based support is not a sufficient tool for regional policy any longer but must be supplemented by *more integrated, business-environment-focused initiatives*; and that *knowledge-based development* is essential, requiring more support for regional clusters centred on business-university partnerships.

Finally, in ***Norway***, regional policy has been the subject of considerable recent change, in part reflecting the need to align Norwegian regional incentives with the revised regional aid guidelines applied by the EFTA Surveillance Authority (ESA). Mirroring developments in the Member States, the main changes arising from the revised guidelines have been in respect of designated problem regions and award maxima, though the types of incentive on offer have also been subject to review (with competition policy pressures forcing the conversion of the social security concession into a transport aid). In addition, Norwegian regional policy has been dominated over the past year by the consultation for and drafting of three White Papers – on regional

policy, on the future of regional governance within Norway and on the SND, the key development agency in Norway. The White Papers suggested that the regional level of governance (the 19 *fylke*) should lose their healthcare responsibilities but should gain greater control over regional spending (perhaps through the pooling of central government resources at the regional level). This is seen as part of a longer-term transfer of policy responsibilities from the central to the regional level. In addition, they should become responsible for the development of regional strategies utilising a programme-based approach (similar to the regional growth agreements in Sweden).

A number of points arise from this review. First, the significant influence of European interventions on developments is very evident. The Structural Funds are clearly an important factor in a wide range of countries, but especially in Greece, Ireland, Italy, Portugal and Spain. Perhaps even more significant are the EC regional aid guidelines. In nearly every country, they have impacted in a major way on the forms of aid on offer (discussed further in Section 3) and/or on the coverage of the designated aid areas (Section 5) and/or on the value of regional aid packages (Section 7). Moreover, the constraints they impose have been such that some Member States have begun actively to favour policy directions which lie outside the scope of the guidelines - either by utilising non-aid forms of support (in particular, emphasising framework measures and programme-based initiatives) or by adopting non-regional measures. This has, for instance, been a factor in Austria, where regional policy has historically been low-key and where the traditional focus is on regional problems rather than problem regions. More generally, questions have been raised in a number of countries about the extent to which regional policy should anyway be "Europeanised". The combined limitations imposed by EC State aid controls and the co-financing requirements of the Structural Funds have, for instance, caused German policymakers to question the degree to which it is possible to operate an independent *national* regional policy. Accordingly, they have set themselves the future goal of achieving the more active application of the subsidiarity principle in the regional policy arena.

Second, in the policy reviews which have taken place, the degree to which countries are increasingly emphasising the efficiency goals of regional policy rather than equality objectives is noteworthy. It was mentioned earlier that White Papers, policy frameworks, strategy documents and policy memoranda have recently been published in Finland, France, the Netherlands, Sweden, the United Kingdom and Norway. In all of these countries, apart perhaps from Norway, the policy documents stress the important contribution which *all* regions can make to national growth and competitiveness. Thus, in Finland, policy actions have been retargeted so as to develop a competitive regional structure covering the whole country. In France, the philosophy underlying regional policy has moved away from equality and a redistributive approach to an emphasis on equity, relating service provision to demand and local need rather than to ensuring uniform supply across the territory. In the Netherlands, the stress in the 2000-06 Policy Memorandum is to facilitate the provision of competitive business environments across the entire country. In Sweden, the White Paper published by a Parliamentary Commission in September 2000 identifies increased economic growth in all regions as the main objective of regional policy; this in turn suggests that policy should focus on measures which help release regional growth potential rather than the redistribution of financial resources to the regions. In the United Kingdom, the 2001 White Paper on Enterprise, Skills and Innovation similarly puts the emphasis on growth within all regions; in addition, it

stresses the importance of strengthening the development capacity of regions by supporting innovation, enterprise and skills development.

Third, and related to efforts to develop regional capacity and potential, there has been a widespread interest in the utilisation of the knowledge economy for regional development and in the stimulation of technology and innovation at the regional level. In some countries, this has led to a particular stress on cluster-based initiatives. In Wallonia in Belgium, a new regional aid has been introduced which specifically targets firms which provide business services or are otherwise engaged in clustering activities and innovating projects. In the UK, the creation of business-university partnerships in the English regions lies at the heart of a cluster-building strategy which aims to facilitate collaborative R&D and knowledge transfer in the regions. And in Norway, clusters identified at the county level are expected to benefit from pooled regional programme resources aimed at developing networks between businesses and between firms and research providers. More generally, the emphasis placed on the encouragement of regional innovation can be seen in Austria, in the form of the newly-introduced Regional Impulse Support scheme which aims to strengthen regional innovation systems and improve regional networking; in Finland, where the regional policy plan for the next two years envisages the boosting of regional competences, the transfer of technology and know-how in the regions, the development of regional innovation structures and enhanced cooperation between local and regional government, universities, research centres and local business and industry; and in Portugal, where the new SIME is attempting to move beyond support for investment *per se* by providing extra aid for projects which help to improve competitiveness in the regions by targeting internationalisation, innovation and technology, energy efficiency, quality assurance and environmental protection and human resource development.

Fourth, in a range of countries, there has been a recent increased policy stress on spatial planning issues, including the role of urban areas in economic development and the relationship of urban centres to their rural hinterlands. In Finland, the traditional regional policy emphasis on rural areas and on the prevention of out-migration has been replaced by the concept of ‘functional urban regions’; the key policy objective now is to improve regional competitiveness and promote balanced regional development by concentrating development on the main urban centres in each region. The Regional Centre Development Programme, which was introduced in November 2000, is part of this process, aiming to create a network of 30-40 regional centres across Finland. In the Netherlands, the Ministry of Economic Affairs has been keen to increase the *economic* component of decisions taken in the sphere of spatial development policies; to this end, it has argued, amongst other things, for development to be concentrated on ‘special growth points’. The Dutch emphasis on areas of development potential was part of the explanation of the difficult negotiations which the Netherlands had with the European Commission on the coverage of the designated aid areas in the northern provinces. In Ireland, following the division of the country into two NUTS regions for Structural Fund purposes, there has been a move away from Dublin as the sole axis of development, with the 1999 National Development Plan identifying the need for ‘regional gateways’ (development poles) to help address the uneven development of the country. The role of agglomerations in economic development has also recently been stressed in Austria – in particular, the importance of links between urban centres and their hinterlands. However, it is

perhaps in France that most emphasis has been placed on this issue. As policy has moved more towards a polycentric network approach to spatial development, urban and rural areas are seen to be complementary to each other rather than competitive. Related, there has been a growing desire to base policies for regional development around geographic areas relevant to the initiative in question – *pays* and *agglomérations*; increasingly, these spatial entities are seen as playing a key role in promoting national competitiveness and the development of surrounding rural areas.

Fifth, in some countries the theme of sustainable regional development has been growing in prominence. In a number of cases, this is related to the allocation of regional policy responsibilities to the Ministry of the Environment (as in France, for instance, where the key regional policy legislation is the 1999 Framework Law on Sustainable Regional Development, LOADDT). In others, it reflects Structural Fund priorities. For example, as noted above, the Portuguese CSF for the 2000-06 period takes a sustainable development perspective, based simultaneously on the promotion of economic prosperity, social equity and environmental balance. However, there is also a more general interest in achieving sustainable development, not least in supporting activities that are genuinely sustainable over the longer term from both a social and economic point of view. In Sweden, the concept of sustainable development (in a sense wider than just environmental or ecological) is seen as useful in a situation where regional policy is being extended to cover regions throughout the country. This is felt to carry with it the danger that higher national growth could become the dominant priority, leading to support for stronger regions to the detriment of traditionally weaker areas. In this context, the feeling is that the policy weight attached to social issues implied by a wider sustainable development policy could act as an important balance to these growth objectives.

Finally, almost everywhere the policy emphasis on the regional level has been greatly enhanced. There have been three distinct but related aspects to this. First, in many countries, more stress has been placed on local and regional actors within economic development and on the coordination of their activities with national development priorities. Examples include Denmark, where the national level is beginning to take on a more pro-active role to try to ensure optimal economic development conditions across the country through partnership arrangements with regional and local actors; France, where the policy approach is based increasingly on partnership, empowerment and "bottom-up" initiatives within a nationally-defined framework which is itself devised through a consultative process; Italy, where there is a similar view that there should be an increased emphasis on the regional level, partly because of the 1997 Bassanini Law which aimed to reform Italian public administration by reserving only certain functions to the central administration and transferring the remainder to regional and local government, but also because of the perceived success of a number of regional-level economic development 'agreements'; the Netherlands, where the need to enhance both intra-regional and national-regional coordination was stressed in the 2000-06 Spatial Policy Memorandum; Sweden, where the new regional growth agreements reflect a more decentralised approach to regional development and, at the same time, a more coordinated policy, both within individual regions and between the regions and the centre; and the United Kingdom, where the process of devolution has brought with it an increased stress on policy coordination.

A second development at the regional level has seen moves in a range of countries to tailor regional policies more specifically to the needs and strengths of individual regions. For instance, in Finland, one of the main features of the renewed emphasis on regional policy has been the diversification of policy – aiming to differentiate policy measures to reflect the strengths and resources of individual regions. In the Netherlands, there was a similar theme in the 2000-06 Spatial Policy Memorandum. To meet the varied needs of firms in a global network economy, it was recognised that there would have to be considerable diversity at the regional level. Policy measures aim to underpin this diversity, ensuring that the strengths of particular regions are built upon and matched with the spatial preferences of firms. More generally, the growing reliance on regional programming across the Member States – and not only in the context of the Structural Funds – has seen coordinated policy efforts to ensure that regional policy reflects the needs and potential of the regions.

One last point is that increasing efforts have been made to regionalise national policies and priorities. In a number of countries, there have been discussions about the appropriate scope of regional policy and about the degree to which it should concentrate on narrow regional economic development initiatives or should take a broader view, aiming to influence wider government spending in the regions. This has been a common area of debate in the Nordic countries where both narrow and broad regional policy have traditionally played a role. In recent years, broader policy efforts have been receiving more stress. In Sweden, this is encapsulated in the new regional growth agreements which, as already noted, represent a significant shift towards more regionalised and coordinated structures. In Norway, there has been a keen debate relating to the regionalised delivery of government policy and, in particular, to the role of the *fylke* (county/regional level) in the system. In Finland, moves are being made to regionalise sectoral policies (especially education and R&D) and consideration is being given as to how certain central government budget lines might begin to take better account of regional priorities. This has also been a theme in the Netherlands, where covenants are being drawn up between the Cabinet and the Dutch regions to try to ensure that the broader investment decisions of government reflect strategic developments in the regions; and in France, where attempts are being made to link strategic long-term planning with short to medium-term programming. In Denmark, a renewed interest in regional issues has had no significant impact on narrow policy measures but has led to a monitoring of the regional/spatial consequences of general government spending. The spatial distribution of government spending has also been a growing theme in the United Kingdom in the wake of recent devolution legislation; and has also been to the fore in Germany where the fiscal equalisation mechanism is currently the subject of review.

3. REGIONAL POLICY INSTRUMENTS

3.1 The Broad Components of Regional Policy

Member States' regional policies have traditionally comprised a range of instruments, the significance of which has varied considerably between countries and over time. From a historical perspective, six broad types of policy instrument can be identified:

- ***regional incentives***: by this is meant financial aid schemes to support the development of private-sector firms in designated aid areas. As discussed further

below, the most popular measures by far are grants in support of fixed capital investment, though subsidised loans are also found as well as fiscal concessions (increasingly rare), labour-related subsidies and, in the Nordic Member States, transport concessions.

- ***support for the business environment***: this form of assistance does not involve direct support to individual firms but rather focuses on "framework measures" to improve business conditions in problem regions: it includes local infrastructure provision (eg incubator units) as well as measures to enhance information, advice and consultancy, education and training and innovation support.

- ***infrastructure provision***: this refers to improvements in the physical infrastructure in the problem regions including major road and rail links, improvements in water supply and distribution networks and telecommunications facilities.

- ***planning instruments/development of regional strategies***: this involves the use of regional plans and programmes to analyse regional strengths and weaknesses and develop appropriate regional strategies in response.

- ***disincentives to location in congested areas or controls on location in such areas***: this covers both cost penalties and permit systems introduced to encourage firms to consider moving to less congested, problem region locations.

- ***the spatial distribution of the economic activities of the State***: by this is meant policies which cause state-owned concerns to invest in or move to problem region locations; more generally, it covers measures which aim to influence the location of public sector jobs, including those in the civil service.

Of these six categories, the role of the last two has declined significantly in recent decades. Disincentives to encourage re-location to problem regions were introduced in a number of countries in the 1960s and 1970s, including France, the United Kingdom, Italy, the Netherlands and Greece. At one stage, they were of particular importance in France, in respect of the Paris region, and the United Kingdom, in respect of London and the South-East. However, in the face of rising national levels of unemployment, the UK abandoned the policy in the course of the 1970s; its re-introduction has never been actively considered, not least since, although national levels of unemployment are once more at historically very low levels, significant pockets of unemployment remain in even the most prosperous of regions. In contrast, rules on locating in Île de France remain in place though they were relaxed in the mid-1980s amid concerns at the competitiveness of Paris as a European capital. More recently, a proactive policy of encouraging the development of businesses outside the Paris region and the relocation of businesses away from the capital has once more been adopted. France and Greece are currently the only countries that explicitly encourage development away from their congested capitals.

The importance of the economic activities of the State as an instrument of regional policy has declined with the shrinkage in public ownership over the last decade. Large-scale privatisation, especially of publicly-owned manufacturing activities, has removed the investment decisions of such enterprises from the sphere of influence of governments. In practice, however, it was only in Italy that the location of State industry was a major instrument of regional policy, with the state-holding sector (an

inheritance from the inter-war period) being obliged to place a significant proportion of its investment in the *Mezzogiorno*.[3] Privatisation has also reduced the leverage of governments to influence the broader location of public sector jobs, including those in the civil service. Public sector job relocation has, anyway, become increasingly difficult to justify politically as the complexity of the regional problem has increased, with, as already noted, often severe pockets of unemployment in even the most prosperous regions. That having been said, the location of central government institutions resurfaced as a political issue in Denmark in the late 1990s.

The other four policy elements – financial incentives, framework measures, infrastructure provision and regional strategy development – all play a more significant part in the regional policies currently in operation in the Member States. As far as their relative weighting is concerned, this can vary markedly from Member State to Member State (see Table 3.1). There has, however, been a general increase in emphasis in recent years on framework measures and, particularly, on regional strategy development and a reduced stress on regional incentives. On the one hand, this reflects the shift of focus noted earlier towards competitive regions rather than firms, as well as the influence of EU programming under the Structural Funds; on the other, it accords with sentiment moving against aid to business as a policy instrument in the face of more market-oriented policy regimes, concerns about policy effectiveness and increasingly constraining EC regional aid regulations.

Notwithstanding the lower priority attached to regional incentives in recent years, they have been amongst the most durable and significant of regional policy instruments for more than four decades. This reflects their general visibility, the strong competitive (and political) pressures to provide support for problem region firms and the importance of the attraction of inward investment in many regional development strategies. In this context, it is of note that a new foreign investment agency, *Agence française pour les investissements internationaux* (AFII), was set up in France in 2001; while in Finland the need to attract inward investment was one of the elements informing the recent retargeting of policy. On the other hand, the nature of regional assistance has changed over time. As discussed further below, there has been an increasing stress placed on simple and straightforward forms of support (in particular, capital grants), combined with growing pressures for the aid on offer to become ever more selective and targeted (not only spatially but with respect to project size and type). In addition, regional incentive expenditure has been falling in many countries. This is due, in part, to European Commission pressures for State aid to be cut back, but it also reflects increasing national budgetary constraints (as, for instance, most recently in Austria leading to the abolition of the Regional Innovation Premium in 2000) and a growing reluctance to provide direct business support in the face of an increasingly liberal economic agenda. That having been said, Table 3.1 shows that regional incentives still play a central role in the regional policy of nearly all of the Member States. The prime exception is Denmark where regional incentives were completely withdrawn in 1991; in Denmark, the emphasis is on more general business support (framework measures) as part of a policy aimed at promoting development in both the stronger and the weaker regions of the country.

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[3] Between 1957 and 1971 the state-holding sector had to place at least 40 percent of its total investment in the *Mezzogiorno*. This figure rose to 60 percent in 1971. In 1978 over 27 percent of state-holding sector employment was located in the *Mezzogiorno*, compared with 13 percent in 1958.

Table 3.1: The Components of Regional Policy in the Member States

Member State	Regional Incentives	Framework Measures	Infrastructure Provision	Regional Strategies
Austria	ERP regional loan, plus national grants with regional differentiation	Regional Impulse Support to improve regional innovation, but not restricted to regional aid areas		*Land* Programmes
Belgium	Mainly grant-based			Distinct policies in Flanders and Wallonia
Denmark	None. Withdrawn 1991 Notification pool to tackle local closures	Host of regional and local initiatives plus business nodes to aid coordination	Major development projects are set in context of regional initiatives	Regional programmes
Finland	Grants (SME only when outside DAs), tax & transport aids	Business Environment Development Aid. Regional Centre Development Programme	Regionalisation and differentiation of national policies. Broad regional policy	Strategic regional plans
France	Grant-based, but some minor fiscal elements	*Aménagement du territoire*	Outline plans of service provision *Schémas de services collectifs* (SSC)	SRADT (regional development plans), SSC; *Contrats de plan*,
Germany	Grant-based via the GA, plus ERP loan	GA also supports investment in economic infrastructure	GA also supports investment in economic infrastructure	*Land* Programmes. Grant to help weakest regions develop strategies
Greece	Alternative fiscal and grant packages		Structural Funds; Cohesion Fund	Structural Funds
Ireland	Grant-based but wide range of incentives		Structural Funds; Cohesion Fund. NDP	National Development Plan (NDP), Structural Funds
Italy	Grant-based Law 488/92, plus some fiscal aids (eg Law341/95).			Negotiated plans (specified development objectives)
Luxembourg	Grant-based			
Netherlands	Grant-based, RIPG	TIPP: to help develop strategic business locations	Regional covenants to help coordinate investment spending	Programme for the North; Regional covenants; TIPP
Portugal	Grant-based, SIPIE, SIME		Structural Funds; Cohesion Fund	Structural Funds
Spain	Grant-based, RIG		Structural Funds; Cohesion Fund	Structural Funds
Sweden	Grant-based RDG or employment grant; transport aid	Proposed scheme for problem region IT usage; plus impact of broad regional policy	White Paper support for spatial aspects to sectoral policies. Broad policy	Regional growth agreements
United Kingdom	Grant-based, Regional Selective Assistance	Shift to business-environment focused initiatives		RDAs in England; NEDF in Scotland; NI Strategy 2010
Norway	Grants, risk loans, transport aid	Developing interest in clusters		*Fylke* to draw up regional economic strategies

In contrast to the reduced stress on regional incentives, the policy weighting attached to the creation of appropriate framework conditions for business development has grown in recent years. This reflects an increasing policy focus on the needs of indigenous industry and a recognition that regional economic development in general and the formation and growth of enterprises in particular are dependent on a wide range of factors related to the business climate. A number of recent developments are targeted at improving the regional business environment. In Austria, Regional Impulse Support 2000 aims to strengthen the role of regional innovation and technology centres (impulse centres) by providing support for cooperation activities and innovation networks at the regional level. In Wallonia in Belgium a new aid has been introduced to improve the business environment in the designated aid areas in Hainaut by offering assistance to firms which enhance business services or are otherwise engaged in cluster activities. In Finland, the newly-created Regional Centre Development Programme provides the means for more effective cooperation between municipalities, with a view to increasing regional competitiveness, coherence and networking. In the Netherlands, a new tender-based measure, the TIPP (Provincial Investment Programmes Tendering Scheme), has been set up to encourage provinces to work together with municipalities (and other provinces) to develop strategic plans and related investment programmes. The specific aim of the scheme is to strengthen the business environment by fostering the development of new strategic business locations and the restructuring of derelict business locations. In the United Kingdom, the 2001 White Paper has announced a shift away from incentive-based support and towards more integrated business environment focused initiatives. A similar movement can be seen in Italy in the Development Plan for the *Mezzogiorno*. This states that the aim should be to reduce incentive expenditure whilst strengthening infrastructure and other forms of support that enhance territorial competitiveness.

A key problem with many of these developments (both from an analytical perspective and with regard to policy delivery) is that they often cross narrow regional policy boundaries to encompass the activities of a wide range of government departments. This, in turn, frequently places a premium on co-operation with sectoral ministries, not least with respect to policy delivery in the regions. As mentioned earlier, this has historically been a particular issue in the Nordic countries where a distinction is often drawn between narrow (mainly incentive-oriented) regional policy and broad regional policy where the focus is on the regional impact of national policy measures. A related difficulty is that many of the new initiatives are national in orientation – aiming to improve the business environment in regions *throughout* the country rather than just in the designated problem regions.

The provision of physical infrastructure has been a traditional response to regional problems over the years, with the aim of bringing infrastructure standards in the problem regions up to national levels. Such support is associated in particular with poorer countries and regions and encompasses major road and rail links, improvements in water supply and distribution networks and telecommunications facilities. Over the years, a considerable proportion of EU Objective 1 support has been infrastructure-based and Cohesion Fund assistance has also had a strong infrastructure orientation, focusing on transport projects and environmental improvements. The CSFs for the 2000-06 period continue to reflect this emphasis. For instance, in Greece, well over one quarter of the Objective 1 CSF is infrastructure-oriented with a view to establishing a communications infrastructure comparable to

other Member States by 2010; while, in Portugal, some 14 percent of national-level CSF spending has been allocated to transport and communications. In Ireland, over two-fifths of National Development Plan expenditure falls under the heading of economic and social infrastructure. As with framework measures, this is an area of policy that demands co-ordination with the activities and priorities of a range of sectoral ministries if its effectiveness in helping to develop the problem regions is to be assured. Interestingly, and as mentioned elsewhere in this paper, there have been recent moves in a number of countries (including the Netherlands, Denmark, Finland and France) to try to strengthen the degree to which regional needs and priorities are taken explicitly into account in expenditure decisions relating to national infrastructure projects.

Finally, a policy component that has grown significantly in recent years has been the use of regional plans and programmes to identify strengths and weaknesses at the regional level with a view to developing appropriate regional strategies. The enhanced significance of such measures obviously reflects the growing influence of the EU's Structural Funds on national policy developments. However, in addition, there has anyway been an increasing emphasis within the Member States (and beyond) on regional programming and plan development as a way of improving regional competitiveness across the economy.

Amongst recent developments, the following are of perhaps most note. In France, the progressive implementation of the 1999 Framework Law (LOADDT) has, as mentioned earlier, seen the development of nine outline plans for service provision in the regions (SSC); these establish a long-term frame of reference for the *contrats de plan Etat-regions* (CPER) and the SRADT (development plans devised at the regional level) and thus help to improve the coherence of spatial policies in the broad sense. In Germany, from August 2000, the structurally weakest regions of a *Land* are now eligible to receive grants to help mobilise their regional development potential more effectively and bring their planning capabilities up to the level already found in more dynamic regions. GA financial support is available for use at municipality or city administration level to create suitable organisational structures for development planning, as well as to fund the development of regional strategies and related project implementation and network building. In the Netherlands, the development of regional covenants is one example of an increasing emphasis on programme-based (rather than project-based) policy-making, as a way of ensuring higher-level strategic input within policy decisions. Another is the newly-introduced TIPP scheme which encourages strategic planning amongst municipalities and provinces. A major development in Sweden has seen the introduction of regional growth agreements, a programme-based approach to regional development along Structural Fund lines but involving no new finance (but rather the more effective coordination and utilisation of existing resources). The agreements reflected government interest in exploring new ways of stimulating regional economic growth, particularly involving increased business inputs within the process. The programming model is considered to have potential to bring sectoral and territorial viewpoints together, something which has proven difficult to achieve in practice in the past. In the United Kingdom, regional strategies have been published in Scotland and Northern Ireland and are in preparation in Wales. In England, a core task of the recently-established Regional Development Agencies has been to develop appropriate regional strategies and, increasingly, to help coordinate spending in line with these plans. Finally in Norway, as part of this process

of regionalisation, the *fylke* (counties) are to become responsible for drawing up regional economic plans – strategies effectively – every four years (beginning, it is hoped, in 2002). The strategies appear to be very similar to the regional growth agreements in Sweden in that they present a series of local strategic priorities for the use of central government expenditure in the regions.

3.2 The Distribution of Regional Incentives

The point has already been made that regional incentives have been at the core of regional policy in most Member States for much of the past four decades. Across the Member States, the available regional aids can be allocated to one or more of six distinct types: capital grants (CG), interest or loan-related subsidies (IRS), tax concessions (TC), depreciation allowances (DA), labour-related subsidies (LRS) and transport concessions (TRA). The current distribution of these incentives by country and incentive type is set out in Table 3.2. A full version of the table, complete with accompanying qualifying notes can be found in Table 3 (in Annex 1).

The table shows that grants in general, and capital grants in particular, are the mainstay of almost all the regional incentive packages on offer. This is even true of the Nordic countries where, reflecting the different nature of their regional problem, there is generally a wider range of support on offer and where significant regional incentive expenditure often flows towards aids which tackle the ongoing disadvantages associated with peripheral and fragile locations – transport assistance and, until recently, social security concessions.[4] On the other hand, there are no regional grants in Denmark,[5] nor now in Austria following the abolition of the Regional Innovation Premium in 2000. Furthermore, in Portugal, the 2000-06 programme period has seen an increased emphasis on repayable aid, one of a number of initiatives aimed at countering the development of a subsidy mentality amongst aid recipients.

4 EC competition policy authorities pressed for the removal of social security concessions which they viewed as a form of operating aid. As will be discussed below, the final such concession, in northern Sweden, was withdrawn in December 2000.

5 The entire regional aid package in Denmark was withdrawn in 1991.

Table 3.2: Regional Incentives by Country and Incentive Type

COUNTRY	INCENTIVE	INCENTIVE TYPE					
		CG	IRS	TC	DA	LRS	TRA
Austria	ERP regional programme		✓				
Belgium	Flanders: CG/IS	✓	✓			✓	
	Wallonia IG	✓				✓	
Denmark	no regional incentives	(✓)					
Finland	investment aid	✓					
	regional tax relief			✓			
	transport subsidy						✓
France	regional policy grant (PAT)	✓				✓	
	local business tax concession			✓			
Germany	investment grant	✓				✓	
	ERP regional soft loan		✓				
Greece	investment grant	✓					
	interest rate subsidy		✓				
	tax allowance			✓			
Ireland	IDA - Ireland: industrial projects	✓					
	IDA - Ireland: international services	✓				✓	
	EI - small industries	✓				✓	
Italy	Law 488/1992	✓					
	automatic fiscal aids (eg Law 341/95)			✓			
	'negotiated plans'	✓					
Luxembourg	capital grant	✓				✓	
Netherlands	regional investment project grant	✓					
Portugal	SIPIE, SIME	✓	✓				
Spain	regional investment grant	✓					
Sweden	regional development grant	✓					
	employment grant					✓	
	transport grant						✓
United Kingdom							
Great Britain	regional selective assistance	✓				✓	
Northern Ireland	selective financial assistance	✓	✓			✓	
Norway	investment grant	✓					
	regional risk loan		✓				
	transport subsidy						✓

In contrast to the widespread availability of grants, regional loan-related support is found in just seven countries. In most, it represents a relatively minor element of the regional aid package, though the ERP regional programme is now the only spatially-restricted incentive in Austria, while in Portugal, as just noted, repayable aid has recently increased in prominence. Fiscal aids are also only infrequently available and, indeed, are recorded in the table in just four countries. This reflects the difficulties of incorporating a spatial element into many fiscal concessions and the aversion of the competition policy authorities to certain spatially-restricted tax aids. Those fiscal incentives that remain take the form of tax concessions. There are now no significant regional depreciation allowances in the Member States. While labour-related support is slightly more common, being available in six countries, it divides historically into two quite distinct categories: “free standing” labour-related subsidies (for instance, the employment grant in Sweden and the social security concessions available until recently in Norway and Sweden) and what can be viewed as the job-related components of the main regional grant schemes. These have recently become more important following provision in the March 1998 EC regional aid guidelines for support to be made available relating to the wage cost element of aided projects. Finally, transport concessions are available only in the Nordic Member States. As part of their accession negotiations, the European Commission agreed that such measures be given “sympathetic consideration” as long as the aid is intended to compensate for the additional transport costs associated with sparsely-populated areas.

As noted earlier, Table 1 (in Annex 1) contains a broad overview of the changes that have recently been made to the composition of the regional incentive packages found in the Member States and Norway. A summary of these changes (over the 2000-01 period) is set out in Table 3.3. The changes in the table fall into three broad categories – those arising from competition policy pressures and developments (Sweden, Norway, France, Germany, Luxembourg, the Netherlands and the UK); those reflecting the availability of renewed Structural Fund support (Portugal, Belgium); and those attributable to domestic factors (Austria, Luxembourg, Italy and Finland).

The most significant competition policy related change has seen the abolition of the social security concession in Sweden. The European Commission opened a formal procedure with respect to this scheme on 1 March 2000 (which led to the immediate suspension of its operation) before the decision was taken, in December 2000, to withdraw the scheme. By way of compensation, a component of the budget formerly used for the concession is to be diverted towards financing the extension of IT infrastructure in the north (especially broad band provision) and consideration is also being given to funding a new scheme to help firms in Aid Area A (covering the sparsely-populated north) utilise and exploit this new infrastructure to the full. Competition policy pressures also led to a major revamp of the social security concession in Norway, Following the defeat of the Norwegian government’s long legal challenge to ESA on this issue, the concession was converted into a transport subsidy from the start of 2000 as required by ESA. In practice, the vast majority of businesses were thought to have been largely unaffected by this change: only companies in EU-sensitive sectors (eg. shipbuilding) are believed to have lost out.

Table 3.3: Changes to the Composition of Regional Aid Packages (2000-01)

Country	New Incentives	Incentive Type	Withdrawn Incentives	Incentive Type
Austria			Regional innovation premium (RIP)	Capital grant, labour subsidy
Belgium	Aid for firms providing business services (Wallonia)	Grant		
Denmark				
Finland	Regional investment and small business aid schemes have been combined	Grant		
France	PAT for services subject to two year wage cost ceiling	Labour aid		
Germany	Wage subsidy for quality jobs	Labour aid		
Greece				
Ireland				
Italy	Finanziaria Law 2001, Article 8.	Fiscal		
Luxembourg	Labour cost subsidy for quality jobs under the capital grant.	Labour aid	Interest rate subsidy withdrawn Tax concession limited to innovative projects	Loan subsidy Fiscal
Netherlands	SME support for Overig Groningen	Regional SME grant		
Portugal	SIME, SIPIE	Grants and loans	SIR, RIME, PEDIP	Grants and loans
Spain				
Sweden			Withdrawal of social security concession due to EC pressures (December 2000)	Labour aid
United Kingdom	Enterprise grants (England), Invest for growth (Scotland)	Regional SME grants		
Norway	Transport aid	Transport aid	Social security concession	Labour aid

But the influence of the competition policy authorities has not been restricted to forcing the withdrawal of forms of support considered to be incompatible with the common market. Competition policy also lies behind a number of the new regional incentives highlighted in Table 3.3. Thus, for instance, the new labour-related components to the regional grants on offer in France, Germany and Luxembourg take advantage of the extension of support possibilities related to wage costs in the

regional aid guidelines.[6] Interestingly, in each case, the availability of the wage component is restricted. In France, rates of award for service sector firms, which are expressed in cost-per-job terms, are now subject to ceilings set as a proportion of the two-year salary costs of the jobs created. This contrasts with the position for manufacturing firms where rates are subject to a ceiling set as a proportion of eligible investment. In similar vein, aid in Germany may now be provided as a percentage of the gross wage bill over a two-year period in respect of new job creation linked to an investment project. The new German scheme aims to be ‘quality driven’ in that: the majority of the new jobs created should require an above-average level of qualification; the jobs should involve an especially high level of value added; and they should be created in areas with especially high innovation potential. Only net newly-created jobs are to be taken into account – that is, after subtracting any job losses; moreover, reflecting the regional aid guidelines, the new jobs must remain in place for at least five years. Very similar restrictions apply to the new labour cost component under the capital grant scheme in Luxembourg.

The EC regional aid guidelines also provide (part of) the explanation for the new regional grants for SMEs which have been introduced in parts of the Netherlands and the United Kingdom. In both countries, the constraints imposed by the guidelines have seen the introduction of regional SME support as a way of mitigating their impact. The Dutch authorities were faced with a situation where the Commission insisted that the aid ceiling for Overig Groningen should not exceed 10 percent (since the region has above average GDP per head and below average unemployment). Since they viewed this as the result simply of a statistical anomaly, a new regulation was introduced for SMEs in the area (under the *de minimis* rule) which allows a ceiling of 20 percent gross to be reached for SMEs. In Britain, the major assisted area cutbacks demanded by the reduced population coverage allocated under the guidelines were softened by creating a third tier of assistance (outside those areas covered by Articles 87(3)(a) and (c)). In these newly designated areas, specific SME support was made available under the SME aid guidelines in the form of Enterprise Grants. These Dutch and British initiatives are interesting as examples of how policy responds in the face of regulatory constraints, aiming to ensure that national objectives continue to be met.

The changes in Table 3.3 in Portugal and Belgium are linked to the new Structural Fund programme period. In Portugal, the introduction of the SIME (Incentive Scheme for Business Modernisation) and the SIPIE (Incentive Scheme for Small Entrepreneurial Initiatives) on less generous terms than the schemes they replace (see Section 7) reflects both the new Structural Fund programming period and domestic concerns about subsidy dependency. The previous Regional Incentive System (the SIR) was suspended in April 1998 by which time funding under the 1994-99 Structural Fund programme had been exhausted. In Wallonia, an optional additional aid, new to the regional incentive package, has been introduced in Development Zones within the Objective 1 phase out region of Hainaut. This scheme specifically

[6] A wage subsidy was also made available in Austria under the Regional Innovation Premium. The focus was on production service industries (eg. firms in the new media sector, software companies, engineering offices, value added services such as call centres, private research firms etc) which had only limited support options under the previous aid regime The revised scheme made it possible for new firms and company re-locations in the production service sector to receive an employment bonus, over a maximum two year period, linked to the creation of new high quality jobs. However, the Regional Innovation Premium was withdrawn towards the end of 2000 in response to budgetary cutbacks.

targets firms which provide business services or are engaged in clustering activities and innovation projects.

The final group of Table 3.3 changes are attributable to developments in the domestic environment. The withdrawal of the Regional Innovation Premium in Austria was a direct response to the need for significant budgetary savings to be made across a wide range of policies. No direct alternative has been put in place but ‘compensatory’ activities are viewed as being provided through labour market support and the higher per capita funding now available in Austria under the Structural Funds. In Luxembourg, the Law of 22 December 2000 withdrew the interest-rate subsidy with a view to simplifying procedures and easing the administrative burden. The new law also amended the tax relief component of the regional aid scheme, restricting it to projects that involve innovation. In Italy, too, a policy focus on simplification and rationalisation saw the introduction of automatic non-selective assistance schemes. The *Finanziaria* Law for the year 2001 (Article 8) brought in an automatic fiscal credit for firms investing in the *aree depresse*. This fiscal credit – the maximum rate of which is governed by the regional aid map – is to be awarded to enterprises in a fully automatic way (ie. without any selection of the investment projects to be supported). A final (very minor) change took place in Finland where regional investment aid and small business aid have been combined within a single investment aid scheme. Only the regional investment aid component is restricted to companies in the designated Development Areas.

4. REGIONAL POLICY ADMINISTRATION

An overview of recent changes in regional policy administration in general and regional incentive administration in particular is provided in Table 5 (in Annex 1). The main developments are summarised in Table 4.1 below. The table highlights three common administrative themes: the continuation of the longer-term trend towards the more *decentralised implementation* of policy[7]; to some degree related, the growing emphasis on *policy coordination* both at the regional level and between the centre and the regions; and the on-going emphasis on *selectivity and discretion* in regional incentive administration. Before considering these themes in more detail, it is worth making brief mention of a number of more specific aid-related changes which have recently been made. All aim to simplify aid administration.

In ***Belgium***, payment procedures have been eased under the investment grant in Wallonia with a view to helping firms (especially newly-established firms) that might otherwise experience cash flow difficulties. The revised payment procedures allow aid to be paid out more rapidly than previously: 50 percent is distributed after just 25 percent of a project has been implemented and 75 percent once 60 percent of the investment has been carried out. These more rapid payment provisions follow the abandonment of audit controls by the *Inspection économique* (an auditing body of the Walloon government) prior to such interim payments unless specific doubts are raised about the firm in question. In ***Finland***, the new Aid to Business Act (150/1999),

[7] For details of developments since 1980 see Table 6 (in Annex 1). The strength of the trend towards decentralisation is underlined by the fact that, in contrast to the current position, only Germany operated a regional policy system with significant administrative decentralisation at the start of the 1980s.

which came into force at the start of 2001, is intended to simplify and streamline business aid provision and it has also introduced a commitment to regular aid scheme evaluation. Simplification has been achieved by combining regional investment aid and small business aid into a single investment aid scheme. In ***Luxembourg***, administrative simplification similarly lay behind the withdrawal of the interest rate subsidy in December 2000. In ***Italy***, too, there has been a major review of industrial policy instruments with a view to achieving simplification and rationalisation. Finally, in ***Spain***, a new decree is in preparation that will help streamline aid monitoring procedures.

4.1 Regional Issues and Inputs

More than three-fifths of the countries in Table 4.1 have experienced an increased focus on the sub-national level in the operation and implementation of regional policy in recent years. In France, the Netherlands and Sweden, the recent emphasis has been on enhancing the regional role in the policy process, not least by ensuring that regional inputs are appropriately coordinated within the regions and are also effectively dovetailed with national plans and strategies. This is also true of the United Kingdom, where major devolutionary legislation has been accompanied by measures to ensure that policy continues to be effectively coordinated; Norway, where there has been a major debate about the division of policy responsibilities within the regions and, indeed, about the appropriate level for the regional delivery of policy; and, on a minor scale, in Germany, where grants have been made available to help weaker regions mobilise resources for economic development. In Denmark, too, there are signs of enhanced regional-level inputs through regional initiatives. The main emphasis in Ireland and Italy has been on developing regional capabilities in respect of aspects of policy which, in the past, have been dealt with centrally. Finally, there is a group of countries where the growing importance of the regional level is reflected in attempts to introduce more regional inputs into national-level expenditure decisions. Examples of such approaches are found particularly in the Nordic countries. As mentioned earlier, the regional distribution of national expenditure is also a policy theme of increasing significance in countries like the United Kingdom and Germany.

Table 4.1: Recent Administrative Developments (2000-01)

Country	Increased Focus on the Regional Level	Increased Policy Coordination	Increased Selectivity and Discretion
Austria		A state contract has formalised Structural Fund relations; but RIP removal has reduced genuine federal-*Land* cooperation.	Use of competitive tenders under RIF 2000.
Belgium			Possible move to competitive tendering in Flanders.
Denmark	Enhanced use of regional initiatives.	More pro-active role for central government in local/ regional relations. Annual White Paper on the spatial impact of legislation.	
Finland	Plans to regionalise national budgets; growing interest in the regionalisation of sectoral policies/decisions.	Stress on functional urban areas and regional alliances to enhance coordination.	Aid to Business more selective and subject to more evaluation.
France	Increased emphasis on local partnership, empowerment and the encouragement of regional initiatives.	Enhanced national strategic view: provides balance and assures equity through an overall strategic framework.	More explicit discretion under the PAT with respect to award decisions and award values.
Germany	Grants to help weakest regions mobilise their development potential through better organisation.		
Greece			
Ireland	Regional dimension to national policy (NDP) and to development agency activity.	Coordination via new regional-level bodies.	
Italy	Increased stress on regional level (*Bassanini* law etc).	*Sviluppo Italia* has brought together previously separate agencies.	Changes to competitive bidding under Law 488. More discretion via negotiated plans BUT new automatic fiscal aid.
Luxembourg			
Netherlands	Focus on regions in creating competitive business locations; policy threads pulled together at the regional level.	Regional covenants to introduce a strategic regional dimension to national investment decisions. Also TIPP.	Concentration and selectivity; RIPG more selective with more award discretion; TIPP: competitive bidding.
Portugal		All financial incentives via Ministry of Economy.	SIPIE: competitive bidding.
Spain			
Sweden	RGAs: more regionalisation and coordination. Move to more regionalised policies?	RGAs: more regionalisation and coordination. Also, NUTEK restructured.	
United Kingdom	Devolution: policy-making authority regionalised. Further RSA regionalisation being considered.	Concordats/memoranda of understanding. Proposed new 'super-agency' in Northern Ireland.	New RSA project-quality criteria have increased selectivity. SFA in Northern Ireland also more selective?
Norway	Regional responsibilities rebalanced. More county-level development functions	SND to be one stop shop for business development in the regions.	

Reviewing these developments briefly in turn, in ***France***, one of the four policy priorities identified by the CIADT[8] at an important meeting in December 1997 was the need to increase the involvement of citizens in decisions on regional development. Rather than being imposed by central government, the view of the committee was that regional development policy should emerge from a "bottom up" process involving local actors, coupled with a "top down" approach that integrates, provides balance and assures equity. More recently, the 1999 Framework Law has stressed the importance of the "redrawing" or blurring of regional borders to encourage the emergence of *pays* and *agglomérations* that cut across administrative boundaries but reflect commonalities of interest or areas with an economic, cultural, social or geographical cohesion. The 1999 Law also reflected changes in the philosophy underpinning regional development policy, with a return to a more strategic future-oriented approach, a relaunch of spatial planning and a policy emphasis on partnership, empowerment and "bottom-up" initiatives within a nationally-defined framework. The prime role of the State is now seen to be to provide an overall framework for policy that assures equity and facilitates local economic development initiatives.

In ***the Netherlands***, the 2000-06 Spatial Policy Memorandum underlined the importance of developing competitive business locations and the pivotal role of the regional level in this process. It stressed that it is in the regions that "all the threads of policy meet…. (and) can best be knotted together".[9] This, in turn was seen to demand an integrated regional approach, tailored to take advantage of the particular strengths of each region. Many of the policy proposals developed in the Memorandum (including, for instance the TIPP and, in the north, the *Kompas voor het Noorden*) have been implemented at the regional level with the aim of optimising the utilisation of the economic potential of each region, not least through enhanced regional cooperation.

In ***Sweden***, the Regional Growth Agreements (RGAs), which were launched in March 2000 in all 21 Swedish counties with a three-year duration, similarly represent an important shift towards more regionalised and coordinated initiatives. In part, this reflects the influence of the Structural Funds. However, the introduction of the RGAs was also driven by a changing domestic agenda which emphasises long-term growth, supports the active coordination of societal resources, and widens the responsibilities for the implementation of actions. The Regional Growth Bill of 1998 recognised that, in order to accelerate growth in Sweden, regional-level resources had to be more effectively exploited and this required industrial policy to adapt to regional and local circumstances. The RGAs are designed to coordinate and adjust different policy areas at the regional level to help achieve these goals, as well as explore new and targeted approaches to regional development in individual areas. This is designed not only to stimulate area-specific growth but also to maximise the effectiveness of sector-specific central government expenditure.

In the ***United Kingdom***, the major constitutional developments in recent years have obviously brought the design and implementation of economic development measures

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[8] *Comité interministérial d'aménagement et de développement du territoire* - the interministerial committee for regional development policy.

[9] Ministry of Economic Affairs (2000), *White Paper on Spatial Economic Policy in the Netherlands: Dynamics in Networks – Summary*, page 10.

far closer to the regional level. This has been the case not only in Scotland, Wales and Northern Ireland but also within England, where core tasks of the newly-established Regional Development Agencies are to enhance regional-level inputs into policy development and delivery and to coordinate the regional spending of central government. In similar vein, the recent policy reviews in ***Norway*** seem likely to result in a transfer of economic development spending powers to the county level (the *fylke*), with the amalgamation of existing programme funds within the *fylke* and a possible pooling of other central government resources at this level. These developments reflect a belief in the Ministry of Local Government and Regional Development that regional policy is more effective when priorities are determined close to the regional problems to be addressed.

While in the same policy direction, the regional-level changes highlighted in Table 4.1 in both Germany and Denmark are very minor, not least because both countries already lay considerable emphasis on the regional level in economic development. In ***Germany***, where economic development powers lie with the *Länder*, support for regional management in the structurally weakest regions of a *Land* (ie. at municipality (*Kreise*) or city (*kreisfreie Städte*) level) has been strengthened by GA grants to help mobilise regional development potential and target regional development activities more specifically at growth and employment. In ***Denmark***, there have been a string of so-called regional initiatives in recent years, each involving an in-depth study of the strength and weaknesses of particular localities which then forms the basis for concrete development projects brought forward by local and regional actors in partnership with central government. Although such initiatives started out on a purely *ad hoc* basis, there are signs that they might provide a starting point for future policy approaches. This will become clearer when a new policy White Paper is published in Autumn 2001.

It was noted above that the Table 4.1 changes in respect of Ireland and Italy focus on the development of administrative capacities in the regions. In ***Ireland***, a new regional structure has been adopted in line with the division of the country into two NUTS II regions and, consequently, two different categories of Structural Fund area. This introduction of meaningful regionalisation was underpinned by the November 1999 National Development Plan which accepted the urgent need to address infrastructure bottlenecks and regional imbalances and involved considerable consultation with regional interests. Regionalisation has also led to a more explicit regional focus to the activities of the main development agencies – IDA-Ireland and Enterprise Ireland. However, the challenge of delivering regionally-differentiated strategies in a policy- and decision-making system that has been forged for so long in a national context remains considerable.

In ***Italy***, the recent period has been one of institutional renewal. First, the so-called *Bassanini* laws of 1997-98 introduced a major reform of the public administration, including transfers of responsibilities from the central administration to regional and local government. Notwithstanding concerns about the technical capacity of the southern regions to manage the responsibilities accorded to them under the *Bassinini* legislation, the shift of competencies has gone further than originally anticipated. A constitutional law of March 2001 listed the responsibilities of the central state, reserving all other subjects to local authorities; this reversed the previous approach where local authority responsibilities were listed. There is now a stronger emphasis on

local authority involvement in programme interventions (to better reflect local needs) and an enhanced role for regional administrations in determining policy priorities. These developments were supported by the establishment of a national development agency, *Sviluppo Italia*, in 1999; one of its core functions has been to improve the planning capabilities of central and local government.

Finally in the context of an enhanced stress being placed on the regional level in regional development, there have been a series of recent policy initiatives that aim to increase regional influences on national expenditure decisions. Examples are found particularly in the Nordic countries where there has, anyway, always been an appreciation of the importance of broader regional development measures (the regional impact of government policies in general) alongside narrow regional incentive policy. In ***Finland***, there are plans to regionalise some 30 Ministerial budget lines (totalling around €3 billion), where funding is important for regional development and where there is an element of choice on how it is spent. The aim is that central ministries should prepare regional allocations of their budgets as part of the ongoing trend of decentralisation to State offices in the regions. This is in line also with a growing interest in the regionalisation of sectoral policies (for instance, the Ministry of Labour is now willing to support differentiation of labour market policy in different regions, taking into account regional problems and tailoring measures accordingly). More generally, efforts are being made to change national decision-making criteria to take account of differing regional situations.

In ***Sweden***, the Regional Growth Agreements are a step in the same direction. Moreover, a 2000 Parliamentary Commission proposed that the government should move away from 'narrow' regional policy (ie. grant support for designated areas principally in northern Sweden) and should consider instead the greater encouragement of spatial aspects in all sectoral policy areas. On this basis, measures of relevance to regional development activity were distinguished as:

- *structural measures*: mainly in the two areas of education and infrastructure (including both physical infrastructure and IT);
- *stimulating measures*: targeted measures similar to those currently provided under narrow policy approach; and
- *welfare measures*: the provision of basic services in all parts of the country. While not an active part of regional policy, their role in regional development was underlined.

However, it remains to be seen to what extent these proposals will be taken up by the government in its 2001 White Paper.

A related point is that there has been growing interest in a number of countries in the regional distribution of government expenditure. In ***Denmark***, a number of major infrastructure projects in the capital city region led to concerns that more peripheral areas might be losing out; this, in turn, has seen the introduction of an annual review of the spatial impact of government legislation. In similar vein, the concentration of infrastructure spending in ***the Netherlands*** on key transport hubs in the west of the country created a reaction in the northern provinces which led, first, to an April 1998 agreement between the north and the Dutch Cabinet about future funding flows and, subsequently, to the goal of developing similar regional conventions with the east, south and west by 2002. In ***Germany***, there has always been a very strong element of uniformity in per capita expenditure across the *Länder*. The current solidarity

agreement which governs this dates from 1995 and runs for ten years. Discussions relating to its renewal have sometimes been difficult and it remains to be seen how the new *Länder* will be supported after 2004. Finally, in the ***United Kingdom***, English voices have been increasingly heard questioning the Barnett Formula which helps determine the distribution of government spending to Scotland.

Notwithstanding these various developments, it would be misleading to overplay the importance of regional-level inputs within the current policymaking environment, particularly with respect to the administration of regional aid schemes. An (albeit simplified) overview of the administrative level at which regional grants are delivered is set out in Table 4.2.

The countries in Table 4.2 can be divided into three broad groups. First, there are five countries where regional grant awards are wholly centralised: Denmark (in the period when it awarded regional aid), France, Greece, Luxembourg and Portugal. This group is dominated by centralised unitary Member States. Italy could also have been included in this group until recently. However, the Law 488 award criteria are becoming increasingly regionalised, part of a more general shift of responsibilities towards the regional level. That having been said, Law 488 remains a national competence. Second, there is a group where a distinction is drawn between the treatment of large and small projects. For the former, decision-making remains highly centralised while, for the latter, decisions are increasingly taken at the regional level, albeit in line with relatively tightly drawn central government guidelines and often by central government agencies in the regions. This group consists of Finland, Ireland, the Netherlands, Sweden and Norway and also covers the operation of regional aid policy in England. The final group involves countries where there is significant regional-level input into the administrative system – both through involvement in the process of developing the award framework and in terms of the administration of awards. This group consists of those Member States that have federal systems of government – Austria, Belgium, Germany and Spain – and also describes the operation of policy in parts of the United Kingdom.

Viewed across all the Member States, the degree of decentralisation in the delivery of regional incentive policy remains limited. Amongst other things, this reflects the importance attached to the avoidance of regional aid competition between regions and to ensuring award consistency between comparable projects in different locations. On the other hand, and considering regional policy more generally, the situation is obviously very different to that of 20 years ago when the primacy of central government departments in designing and delivering regional policy was unchallenged. In the interim, regional development has come to involve a much wider range of actors. Most regions now have a complex mix of public, private and quasi-public/private intermediaries involved in regional development and there has been an explosion of ‘bottom-up’ local initiatives, including voluntary and community-based movements. As a result, in a growing number of countries, the role of central government is moving strongly towards policy design and co-ordination and away from policy implementation. That having been said, the central government level remains key in most Member States, certainly as far as the delivery of regional incentive policy is concerned.

Table 4.2: Administrative Decentralisation - Regional Grants

COUNTRY	CENTRAL GOVERNMENT		JOINT CENTRAL /REGIONAL		REGIONAL DECISION		DELEGATED AGENCY
	DECISION	CONTROL	DECISION	CONTROL	CENTRAL GOVT	REGIONAL GOVT	
Austria			(✓)	(✓)			✓ ERP Fund
Belgium		✓				✓	
Denmark	(✓)						
Finland							
large	✓						
small		✓			✓		
France	✓						✓ DATAR
Germany				✓		✓	
Greece	✓						
Ireland							
large	✓						✓ IDA-Ireland
small		✓			✓		✓ Enterprise Ireland
Italy (Law 488)	✓						Use of banks
Luxembourg	✓						
Netherlands							
large	✓						
small		✓				✓	✓ SNN
Portugal	✓						
Spain							
large	✓						
small		✓	✓				
Sweden							
large	✓						✓ NUTEK
small		✓			✓		✓ CABs
United Kingdom							
England							
large	✓						
small		✓			✓		
Scotland				✓		✓	
Wales				✓		✓	
N Ireland		✓			✓		✓ IDB
Norway							
large	✓						✓ SND
small		✓			✓		✓SND Districts

4.2 Policy Coordination

Many of the developments just discussed combine moves to increase the role of the regional level in regional policymaking with attempts to adopt a more coordinated approach to policy implementation in the regions. Such regional-level coordination

has also been stimulated by programme-based approaches to policy implementation (including the Structural Funds), as well as by efforts to ensure that the national level provides an appropriate framework within which the regional level can operate.

With regard to regional coordination, ongoing reform of central government in ***Finland*** is being accompanied by plans to move decision-making powers to State authorities in the regions; at the same time, the new regional target programme has provided support for improved cooperation at the regional level between the Regional Councils (which anyway have a coordination role in the development of regional plans) and the regional offices of the State. In ***France***, the growing importance of the regional level in regional development reflects the view that this is the appropriate articulation point for coordinating national, European and sub-regional strategies. The development of a major new policy strand centred on *pays* and *agglomérations* has further strengthened coordination between rural areas and small towns and has helped develop territorial entities relevant for local development initiatives. In ***the Netherlands***, the 2000-06 Policy Memorandum sets out how competitive business environments can be enhanced through regional cooperation – not only within the public domain but also between the public and private sectors. In this context, the new programme-based TIPP aims to encourage provinces to co-operate with municipalities (and other provinces) to develop strategic plans and related investment programmes for their areas. In ***Sweden***, too, the recently-launched RGA programmes have the goal of coordinating and adjusting different policy areas at the regional level. Programme-based coordination at the regional level is also highlighted in Table 4.1 in respect of Austria and Ireland. In ***Austria***, a new Structural Fund management structure is designed to improve transparency and consistency in programme implementation by allocating responsibility for coordination of decision-making, award communication and monitoring to a single funding agency; while in ***Ireland***, one of the responsibilities of the new group regional authorities is to promote the coordination of the provision of public services in their areas.

Measures to enhance policy coordination through the use of development agencies are also featured in the table. In the course of the 1990s, there were moves in a number of countries to create agencies which brought together a range of previously separate functions – most obviously, business development and training but also innovation and exporting.[10] A recent example is in ***Italy*** where a new promotional organisation, *Sviluppo Italia* (literally, "Development Italy") was set up in 1999 under the Ministry for the Treasury, Budget and Economic Planning. There has been similar national-level coordination in ***Portugal*** through combining all incentive-related activities within the Ministry of Economy. On the other hand, in ***Sweden***, NUTEK, the former Swedish National Board for Industrial and Technical Development, which itself was formed out of the merger of three previously separate agencies in 1991 (responsible for energy, industry and technical development) has been split from the start of 2001 into three operational bodies – NUTEK (now, the Swedish Business Development Agency), Vinnova (the Swedish Agency for Innovation Systems) and the Institute for Growth Policy Studies.

[10] For details, see Table 6 in Annex 1.

In addition to national-level coordination, development agencies have also played a coordination role at the regional level. In the ***United Kingdom***, the recently-established Regional Development Agencies in England are heavily involved in policy coordination from a strategic perspective and seem likely to take on increasing functions in the coordination of policy delivery in the regions; while in Northern Ireland a new agency is to be set up which brings together the functions of the IDB (broadly focusing on businesses with over 50 employees), LEDU (businesses with under 50 employees) and IRTU (support for innovation and RTD), as well as parts of the Tourist Board. In similar vein, in ***Norway***, a recent White Paper has suggested that the SND (National Industrial and Regional Development Fund) take on more coordination responsibilities through its regional offices. The proposal is that it becomes a one-stop-shop for business assistance at the regional level.

A final coordination theme highlighted by Table 4.1 concerns recent developments that aim to improve national-regional coordination. In ***Denmark***, the regional initiatives referred to earlier have enhanced the scope for partnership between local and regional actors and the central government. In ***France***, as already noted, the role of the State has changed with the 1999 Framework Law to one of providing an overall framework to assure equity and facilitate local economic development initiatives. In the ***Netherlands***, the newly-introduced regional covenants have been developed to ensure a higher-level strategic input within policy decisions (especially in the context of major investment projects), thus improving the overall level of national-regional coordination. In ***Sweden***, one feature of the regional growth agreements is that they have provided a framework for enhanced national-regional interaction, though there remain practical difficulties in coordinating the activities of sectoral Ministries under a regional banner. Finally, in the ***United Kingdom***, an early response to devolution was to improve levels of collaboration between the centre and the devolved administrations. This included publication of a Memorandum of Understanding in October 1999 on financial assistance to industry, prompted by concerns at possible bidding contests for large mobile investment projects. In the event, the formal disputes procedure has not been tested. Instead, an informal system of notification and coordination appears to have been successful in preventing inward investment conflicts.

4.3 Selectivity and Discretion

It was noted earlier that there have been moves in Italy to introduce new automatic fiscal measures (under Article 8 of the *Finanziaria* Law for 2001). This followed a period of intense review of industrial policy instruments with the aim of simplifying and rationalising policy approaches. Apart from this change, it can be seen from Table 4.1 that developments in the eight countries that have registered a change have involved more selectivity and/or discretion in award. In five of these – Austria, Belgium, Italy, the Netherlands and Portugal – the changes relate to competitive tendering systems for aid, a relatively new and increasingly popular means of providing support as aid budgets have become more constrained. The remaining changes – in Finland, France, the Netherlands and the United Kingdom – do not concern the form of aid but rather the degree to which there is selectivity and discretion in the decision to make an award or in the level of award. These two components of change are now considered briefly in turn.

New regional measures which utilise competitive bidding mechanisms have been introduced in the Netherlands, Portugal and Austria, are under consideration in Flanders in Belgium and continue in Italy. In ***the Netherlands***, the TIPP (Provincial Investment Programmes Tendering Scheme) is a new tender-based measure, which encourages provinces to co-operate with municipalities and other provinces to develop strategic plans and related investment programmes. The scheme replaced the (similarly tender-based) StiREA (Space for Economic Activity Stimulation Scheme), which had a more limited focus on the development of industrial estates. It is anticipated that around four submissions per funding round will be supported out of six or seven made and that funding will be around Fl 15 million per successful submission.

In ***Portugal***, the newly-introduced SIPIE (Incentive Scheme for Small Entrepreneurial Initiatives) is aimed at small firms and projects. Projects are submitted to application deadlines and assisted in order of merit according to transparent criteria, subject to the funding available. This is the funding mechanism also used within the new Regional Impulse Support scheme in ***Austria***. Practical implementation of the programme has been passed to the TiG (*Technologie Impulse Gesellschaft mbH*) which uses this approach for a number of the other support measures for which it is responsible. The perceived benefits of competitive tenders to the TiG include: transparency; a clear understanding of the finance involved; an objective and open presentation of the assessment criteria; a level playing field in terms of timing, with the same application deadline for all applicants; and a positive impact on the quality of the projects (which is assessed by an independent qualified jury). Project quality is believed to be taken more seriously in such a competitive environment, while experience suggests that the quality of tenders increases with successive calls. Moreover, unsuccessful projects are often developed and financed through other sources – with the result that the programme is felt genuinely to act as an impulse for action.

A similar mechanism operates in ***Italy*** under Law 488. This was approved by the European Commission in March 2001 for the 2000-06 period. The scheme is administered on a competitive basis in the sense that applications are submitted to an annual deadline and assisted in order of merit until the funds for that tranche of applications are exhausted. The ranking of a project in the application process is determined with respect to a "score" based on five evaluation criteria: (i) the proportion of own funds invested in the project in relation to total investment; (ii) the number of jobs created in relation to investment; (iii) the value of assistance sought as a proportion of the maximum rate applicable in the region; (iv) regional priorities regarding project type and sector; and (v) an indicator related to the environmental impact of the project. Finally, in Flanders in ***Belgium***, plans are in train to introduce a system based on this Italian model in 2002. In the face of growing budgetary constraints, the aim is to move to a competitive tendering approach that involves the ranking of applications according to a score generated by transparent eligibility criteria.

The increasing popularity of such funding mechanisms represents a massive change of philosophy and approach over the last couple of decades. From a situation where the base element of most regional incentive packages was automatic in administration (certainly in the larger Member States) – and indeed where there was often a legal entitlement to aid – it is becoming ever more common for awards to be distributed

solely on merit as a consequence of intense competitive bidding for limited (and fixed) funds.

Changes in Finland, France, the Netherlands and the United Kingdom fall within the second change category mentioned above, involving more selectivity and discretion in award. In ***Finland***, the Aid to Business Act (150/1999), which came into force at the start of 2000, has introduced a series of measures to improve the efficiency of aid. These include: 'a more selective allocation of aid to business in accordance with pre-set objectives'; the minimisation of deadweight; and more evaluation and monitoring for control purposes. In ***France***, the new *décret* of 11 April 2001, which relates to the administration of the regional policy grant (PAT), is more explicit than previous legislation in emphasising the discretionary nature of the scheme both with respect to the decision to make an award and regarding award values. In ***the Netherlands***, an evaluation of the regional investment aid on offer highlighted the need for awards to be of significant value if they are to influence location decisions. Given the available budget, this in turn created an imperative to target the scheme at new business projects. Under the Regional Investment Project Grants Decree 2000 support for the expansion of existing firms is available only very selectively and then only if the extension is considered to be "strategic" in nature. This is in line with two of the key principles highlighted in the Dutch Policy Memorandum for the 2000-06 period: *concentration* and *selectivity*. Finally in the ***United Kingdom***, the award of regional grants has become more selective in both Britain and Northern Ireland. In Britain, Regional Selective Assistance has had new project quality criteria added; in large measure, these reflect the conclusions of an evaluation of RSA over the 1991-95 period which, while re-affirming the overall effectiveness of the scheme, expressed some concerns about the expectations of grant assistance by some long-established investors. In Northern Ireland, pressures to make awards more selective have been similar. A desire to reduce capital grant 'dependency' has meant that more discretion has been introduced into awards, a point reflected in significantly lower average award values in recent years.

5. REGIONAL AID AREA COVERAGE

A central consideration in the design of regional policies in general and regional aid policies in particular concerns the designation of those problem regions where support is to be made available and where policy spending is to be focused. In deciding which areas to designate Member States do not have a free hand.[11] Their designations must not only meet their own internal criteria, but they must also win the approval of the Competition Policy Directorate of the European Commission (DG Competition) under either Article 87(3)(a) or Article 87(3)(c) of the EC Treaty. These articles provide for two regional policy-related exceptions to the general European Community ban on State aids that distort or threaten to distort competition or the production of certain goods.[12] The practical operation of these articles was codified in the Commission's March 1998 guidelines on regional aid which set population ceilings for the designated aid areas in each Member State and provided a detailed framework for the

[11] The same is true of Norway where control is applied by the EFTA Surveillance Authority (ESA) following guidelines which mirror those which apply to the Member States.

[12] Wishlade F (2001) Paper on the future of the EC regional aid guidelines prepared forr the Sponsors Meeting.

designation exercise which each country had to carry out within the ceilings set. By stipulating that all maps previously in force would lose their validity at the end of 1999, the guidelines ensured that all the Member States (and Norway) undertook detailed area designation exercises during 1998 and 1999. The resultant maps were then submitted to the Competition Policy Directorate for approval, following which there were (often lengthy and acrimonious) negotiations between the Commission and the individual Member States before a final designation was agreed. It was September 2000 before maps for all the Member States had been approved.[13] The resultant population coverage of Member State regional aid areas is shown in Table 5.1. The table also sets the most recent changes within a longer timeframe by providing a summary overview of changes in designated regional aid area population coverage since 1980. This can be seen also in chart form in Figure 5.1 where the countries are ranked in order of their current population coverage.

Table 5.1: Trends in Regional Aid Area Population Coverage in the Member States (1980-2000)

Member State	1980	1985	1990	1995	2000
Austria				35.2	27.5
Belgium	39.5	33.1	33.1	35.0	30.9
Denmark	27.0	24.0	20.7	19.9	17.1
Finland				41.6	42.3
France	38.2	39.0	41.9	40.9	34.0
Germany(west/total)	36.0	35.0	34.8	22.0/38.2	17.7/34.9
Greece		100	100	100	100
Ireland	100	100	100	100	100
Italy	35.6	35.6	35.6	48.8	43.6
Luxembourg	100	100	100	79.7	31.9
Netherlands	27.4	25.0	19.9	17.3	15.0
Portugal			100	100	100
Spain			58.6	58.6	60.7
Sweden	28.6	18.5	18.5	18.5	15.9
U.Kingdom/G.Britain	45.5/42.7	37.8/35.0	37.8/35.0	36.8/34.0	30.7/28.7

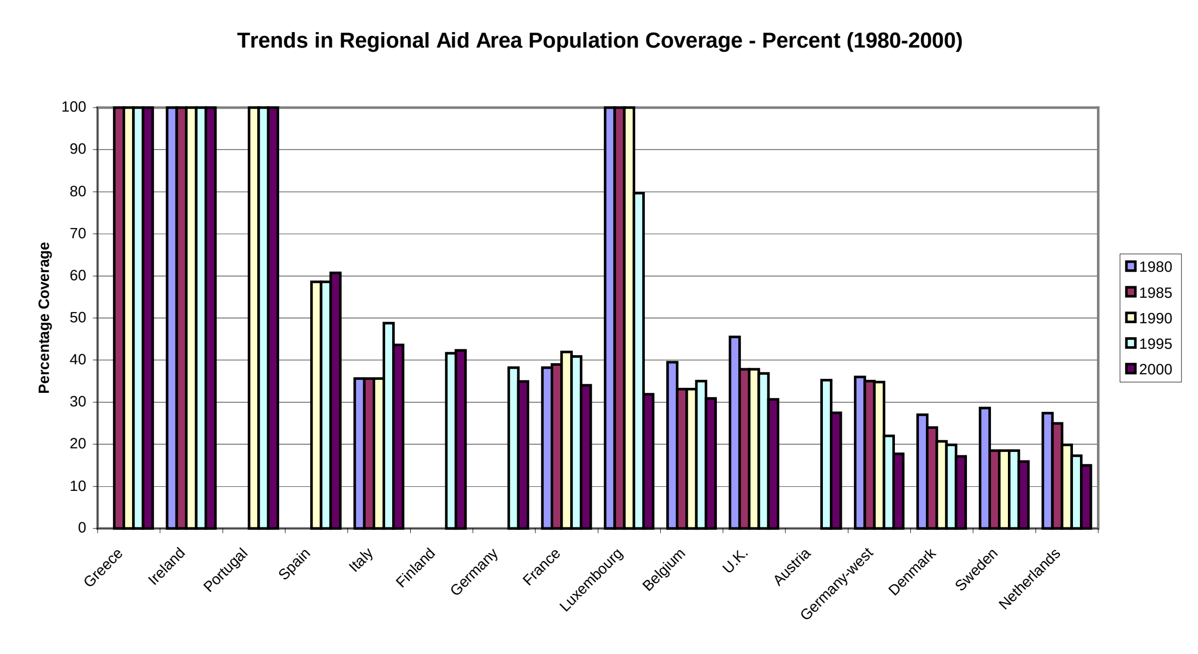
Source: Data drawn from Table 8 in Annex 1. A detailed narrative of designated problem region coverage change in each Member State since 1980 is provided in Table 9 in Annex 1.

The table underlines three basic points. The first is that there have been very significant reductions in designated aid area population coverage (often a third or more) in a majority of Member States over the past two decades: Austria, Belgium, Denmark, France, Germany, Luxembourg, the Netherlands, Sweden and the United Kingdom. Interestingly, Figure 5.1 shows that, Luxembourg apart, the cutbacks have

[13] Wishlade F (2000) *Area Designation under the National Regional Aid Guidelines: the Final Frontier?* Paper prepared for the Sponsors Meeting, October 2-3.

been greatest in those countries which, even in 1980, had relatively low population coverage – Denmark, Sweden and the Netherlands.[14] In these three countries designated aid area population coverage is now between 15 percent and just over 17 percent of the national total, having been 27 percent to 29 percent in 1980. In the remaining countries where population coverage has fallen it now lies in the 27 percent to 35 percent range. This compares to 35 percent to 45 percent in 1980.

Figure 5.1: Trends in Regional Aid Area Population Coverage (1980-2000)



Second, there are three countries where designated aid area population coverage has increased over time – Finland, Italy and Spain. In Finland, the picture in Figure 5.1 is slightly misleading since only the period of EU membership is covered. Prior to this, just over half of the Finnish population was located in regional aid areas. Taking this into account, there has indeed been a cutback in the designated aid areas in Finland over the past decade. In Italy too there are special circumstances lying behind the increase in population coverage recorded in Figure 5.1 – a shift in policy focus from the *Mezzogiorno* to problem regions located throughout the country, including those in the Centre-North. More recently, and notwithstanding the wider population coverage permitted under the regional aid guidelines, the main spatial target of policy is once more the *Mezzogiorno*. Finally, in Spain, EU membership – and, more specifically, the requirement under the regional aid guidelines that Spanish regional problems be set in an EU context – has created pressures for aid area coverage to grow. Prior to EU membership, less than half the Spanish population was located in designated aid areas. Now the proportion is around three-fifths. It should be noted, however, that, under the regional aid guidelines, even more of the country could qualify for national regional aid – just under four-fifths of the population total. The Spanish authorities have chosen not to take full advantage of these provisions; they take the view that the more prosperous Autonomous Communities (Spanish regions)

[14] There has also been a reduction of more than half in west Germany, in part explained by the re-unification process.

have the capacity to fund aid themselves if they so wish and that national resources for regional development should be focused solely on priority areas.

Finally, there are three countries where the entire population qualifies for regional aid, and this over the whole period covered: Greece, Ireland and Portugal. On the other hand, the position in these countries is not as uniform as Figure 5.1 would suggest. In particular, all three discriminate between different regions in terms of aid ceilings and (in some instances) award conditions. Thus, in Greece, there are four basic designated areas (Regions A, B, C, and D), with Region A, centred on Athens and Thessaloniki, receiving support only in respect of particular categories of project – for example, manufacturing firms producing ‘state of the art products’, research organisations, high technology services and software development firms. In Ireland, a distinction has traditionally been drawn between Designated and Non-Designated Areas, with the former eligible for higher award ceilings while, in Portugal, the traditional dichotomy has been between the coastal strip running between Lisbon and Oporto and the interior of the country. An interesting change was introduced in Ireland and Portugal in the most recent area designation round. In both countries, significant areas (holding almost three-quarters of the Irish population and one-third of the Portuguese population) are now excluded from Article 87(3)(a) coverage and thus qualify for significantly lower award ceilings.

A more specific comparison of recent changes in designated aid area coverage is contained in Table 5.2.[15] This shows the population coverage of designated regional aid areas for each of the Member States (and Norway). For each country, the table is in four columns, two relating to the position in 2000 and two to 1999. The designated areas listed are those areas designated for regional aid purposes by the country concerned. The data on total coverage (in bold) is information provided by the Member States (and Norway). As noted above, for designation purposes, competition policy authorities distinguish between areas designated under Article 87(3)(a) and Article 87(3)(c) of the Treaty of Amsterdam. The former are areas that are underdeveloped from an EU perspective (NUTS II areas with GDP per head measured in PPS of less than 75 percent of the EU average) while the latter are areas which, within a population coverage ceiling laid down in the guidelines, can be shown to be badly off from a national perspective. The population coverage of the Articles 87(3)(a) areas (drawn from Commission sources) is shown in the table in italics. Article 87(3)(c) coverage for each country is the difference between this figure and total regional aid area coverage.

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[15] An overview of recent changes in spatial coverage can be found in Table 7 in Annex 1.

Table 5.2: Population Coverage of Regional Aid Areas – 1999 and 2000 (Percent)

	2000		1999	
Country	**Designated Area (award ceiling – percent) (*gross*/net)**	**Total Coverage** *3(a) italics*	**Designated Area (award ceiling – percent)**	**Total Coverage** *3(a) italics*
Austria	Burgenland (35) Burgenland (30) Other areas (20) Other areas (17.5) Other areas (12.5) **Total (5 grades)**	*1.7* *1.7* 19.1 4.5 0.5 **27.5** *(3.5)*	Burgenland (40) Burgenland (30) E. Obersteiermark (25) Other areas (20) Other areas (15) **Total (5 grades)**	*1.8* *1.7* 2.3 26.4 3.0 **35.2** *(3.5)*
Belgium	Development zone (20) Development zone (17.5) Development zone (15) Development zone (10) **Total (4 grades)**	8.9 8.7 5.4 7.9 **30.9** *(0.0)*	Objective 1 (Hainaut) Zone 1 Zone 2 **Total (3 grades)**	12.6 9.7 12.6 **35.0** *(0.0)*
Denmark	Priority areas (20) Ordinary areas (10) **Total (2 grades)**	3.2 13.9 **17.1** *(0.0)*	Priority areas Ordinary areas **Total (2 grades)**	4.9 15.3 **20.2** *(0.0)*
Finland	Development Area 1 (*30*/24) Development Area 2 (*25*/20) Development Area 3 (*20*/16) Area 3-Aaland Islands (*14*/10) **Total (4 grades)**	*13.4* 6.9 21.7 0.3 **42.3** *(13.4)*	Development Area 1 Development Area 2 Development Area 3 Structural Adjustment Areas **Total (4 grades)**	*12.7* 12.9 5.4 10.6 **41.6** *(13.8)*
France	DOMs (65) Maximum rate zone (20) Standard rate zone (15) Alsace/Franche-Comte (10) **Total (3 grades in France)** **Total (including DOMs)**	*2.7* 14.0 19.4 0.5 **33.9** **36.7** *(2.7)*	DOMs Longwy, Corsica Objective 1 (Nord-P d C) Maximum rate zone Standard rate zone **Total (4 grades in France)** **Total (including DOMs)**	*2.1* 0.4 1.5 12.1 26.9 **40.9** **42.0** *(2.1)*
Germany	Problem Area A (35) Problem Area B (28) Area B – Berlin LM (20) Problem Area C (18/10) Problem Area D (SME) **Total (5 regional aid grades)** **Total (including Area D)**	*8.1* *8.1* 5.2 13.5 5.7 **34.9** *(17.7)* **40.6**	Problem Area A Problem Area B Problem Area C **Total (3 grades)**	*13.0* *8.7* 16.2 **38.0** *(20.8)*
Greece	Region D (50/40) Region C (50/40) Region B (50/40) Region A (40) **Total (4 grades)**	*14.0* *30.0* *14.0* *42.0* **100.0** *(100)*	Region D (3 grades) Region C Region B Region A **Total (6 grades)**	*14.0* *30.0* *14.0* *42.0* **100.0** *(100)*
Ireland	BMW region (40) S&E region (20) S&E region Mid-East (18) S&E region Dublin (17.5) **Total (4 grades)**	*26.6* 34.6 9.6 29.2 **100.0** *(26.6)*	Designated Areas Non-Designated Areas **Total (2 grades)**	*28.0* *72.0* **100.0** *(100)*

Table 5.2: *continued*

	2000		**1999**	
Country	**Designated Area (award ceiling – percent) (*gross*/net)**	**Total Coverage** *3(a) italics*	**Designated Area (award ceiling – percent)**	**Total Coverage** *3(a) italics*
Italy	Calabria (50) Other Art. 87(3)(a) areas (35) Molise/Abruzzi (20) Other Art. 87(3)(c) areas (8) **Total (4 grades)**	*3.6* *30.0* 1.7 8.3 **43.6** *(33.6)*	Mezzogiorno (2 grades) Molise Abruzzi Centre-North (Obj 2/5b) **Total (5 grades)**	*34.2* 0.4 2.0 12.3 **48.9** *(34.2)*
Luxembourg	Designated areas (10) **Total (1 grade)**	31.9 **31.9** *(0.0)*	25 percent ceiling 17.5 percent ceiling **Total (2 grades)**	34.6 7.9 **42.5** *(0.0)*
Netherlands	Flevoland (part) (*20*/18) RIPG – north (*20*/18) S. Limburg, Twente (*15*/15) Rest Groningen (*10*/10) **Total (3 RIPG grades)**	0.6 8.4 4.9 1.0 **15.0** *(0.0)*	Flevoland (Objective 1) IPR – north S. Limburg, Twente **Total (2 IPR grades)** **Total (including Flevoland)**	1.7 9.0 6.6 **15.6** **17.3** *(0.0)*
Portugal	(3)(a) (62/50/46/43/40/36/32) Rest Lisbon area (20) Greater Lisbon (10) **Total (9 grades)**	*66.7* 14.9 18.4 **100.0** *(66.7)*	SIR Areas Other Areas **Total (2 grades)**	*47.0* *53.0* **100.0** *(100)*
Spain	Approved Areas (50) Approved Areas (40) Approved Areas (37) Approved Areas (35) Approved Areas (30) Approved Areas (30) Approved Areas (20) Approved Areas (10) **Total (8 grades)** Total RIG Areas	*25.0* *23.4* *6.3* *3.3* *0.4* 0.3 20.0 0.8 **79.2** *(58.3)* 60.7	Approved Areas (60) Approved Areas (50) Approved Areas (40) Approved Areas (30) Approved Areas (25) Approved Areas (20) Approved Areas (15) **Total (7 grades)** Total RIG Areas	*31.6* *16.8* *4.5* *6.8* 5.8 9.7 0.8 **75.7** *(59.6)* 60.7
Sweden	Aid Area A (*35*/30) Aid Area B (*20*/17) **Total (2 grades)**	10.9 5.0 **15.9** *(0.0)*	Aid Area 1 Aid Area 2 Temporary Areas **Total (3 regional aid grades)** **Total (Approved Areas)**	2.3 5.0 6.2 **13.5** **18.5** *(0.0)*
United Kingdom	Northern Ireland (40) Tier 1 (35) Tier 2 (30/20/15/10) Tier 3 (SME) **Total (6 regional grades)**	2.9 *8.6* 19.2 n.a. **30.7** *(8.6)*	Northern Ireland Development Areas Intermediate Areas **Total (3 grades)**	*2.9* 15.5 17.5 **36.8** *(5.3)*
Norway	Zone A Zone B Zone C **Total (3 grades)**	2.0 10.6 13.0 **25.6** *(0.0)*	Zone A Zone B Zone C **Total (3 grades)**	2.0 10.6 13.0 **25.6** *(0.0)*

Note: The population coverage breakdowns in 2000 for Belgium, France, Germany, Italy and parts of the Netherlands and Finland are EPRC estimates based on DG Competition data. In the United Kingdom, Tier 3 applies only in England. In 2000, Tiers 1-3 in England held 52 percent of the English population.

Perhaps the most obvious point to arise from Table 5.2 is that, in over three-fifths of the countries, designated aid area population coverage declined markedly as a result of the 1999/2000 area designation exercises. In Luxembourg, the United Kingdom and Austria, the cutback was more than 20 percent; in Denmark, Sweden, France and the Netherlands, it was around 15 percent; and in Belgium, Italy and Germany, it was some 10 percent. Comparison with Table 5.1 shows that these are very significant declines historically. In contrast, in both Finland and Spain there were small population coverage increases (though, as already noted, in Spain the Regional Investment Grant areas remained unchanged); while in Greece, Ireland, Portugal and Norway overall coverage stayed as before. On the other hand, and as just mentioned, both Ireland and Portugal had large areas downgraded from Article 87(3)(a) to (c), resulting in very much lower aid ceilings in the areas concerned.

In addition to highlighting the notable decline there has been in designated aid area population coverage in most Member States, Table 5.2 shows that there has also been a general (though not universal) increase in the number of different aid area categories, as expressed in differentiated rate of award ceilings. Between 1999 and 2000, there was an overall rise of almost one fifth in the number of rate categories, with particularly significant increases in Portugal and the United Kingdom. This is a direct consequence of the impact of the regional aid guidelines where the Commission stated that it would try to differentiate aid ceilings "to reflect the seriousness and intensity of the regional problems addressed when examined in a Community context". Table 5.2 confirms the general success of Commission efforts to modulate aid ceilings by area. That having been said, the impact on actual award rates has so far been muted. Rates of award in practice are generally significantly below the available maxima (see Section 7).

A number of other themes have emerged from the recent area designation exercises. One is that there has been a questioning by the Member States of the Commission's overall approach to the application of the guidelines. In particular, many Member States have been concerned about what they perceive to be a move away from a genuinely negotiated solution, taking account of the practical and political realities facing the Member States, to a far more combative and legalistic approach – with the guidelines held up, not as a framework for improving area designation systems and solutions, but as the 'law' on how things *must* be done. The quasi-legal nature of the exercise was underlined by the importance attached by the Commission to the *multilateral* implications of designation decisions in a process of multiple *bilateral* discussions. It was this which prolonged the negotiations in a number of cases where the designation decision *per se* was essentially low-key, certainly when viewed from the perspective of the country concerned.[16]

However, it was not only the nature of the designation discussions with the Commission which created problems for the Member States but also aspects of the methodology set out in the guidelines. A general issue concerned the population coverage ceilings set.[17] For nearly all of those countries where cutback was imposed

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[16] The Dutch authorities are not alone in having expressed surprise at the difficulties in achieving agreement on an issue which, from a national perspective, was expected to be relatively uncontentious.

[17] Even now, with the new maps in operation in every country, the population coverage issue has not been resolved. The German authorities were particularly concerned about the application of 'side conditions' to the

there were genuine difficulties in designating areas viewed as appropriate from a national regional policy perspective within the ceilings laid down in the guidelines. The ability to achieve internal political consensus at the same time as arriving at a map agreeable to the Commission was particularly strained in federal countries like Germany and Belgium; however, there were also major difficulties in other Member States including the United Kingdom and Italy. A related problem concerned the unit of analysis utilised for area designation purposes. The pressure, on the one hand, to reduce population coverage while, on the other, ensuring that core problem areas continued to be eligible for support, led to more pin-pointed approaches to area designation with, in a number of countries, a particular emphasis on areas of development potential. The associated desire to base area designation on units below NUTS III and, on occasion, to sub-divide the basic unit of analysis in order to remain within the allocated population ceiling met with considerable (and, to a degree, understandable) opposition from the Commission. It was one of the main reasons for the delayed approval of many maps including those in the Netherlands and the United Kingdom. Lastly, rate ceilings within the designated areas have also been a contentious issue for a number of countries. The desire of the competition policy authorities to introduce as much rate differentiation as possible has created a number of specific difficulties for the Member States. In addition, Commission insistence on a maximum 10 percent rate for Article 87(3)(c) areas with above EU average GDP per head and below EU average unemployment has, in a number of instances, cast a question mark over the base data on which the designation exercise rests.

Finally, in some countries, there has been a questioning of the outcome of the area designation exercise and even of the philosophy underlying area designation. In ***France***, for instance, the new assisted areas map has been the source of some controversy among politicians, notably in rural areas. The controversy has arisen because a poor area, the Lozère, which has very low population density, is now excluded from the map while other more prosperous areas containing urban centres are designated. In part, this is a consequence of the use of *zones d'emploi* as the area designation building block, coupled with the criteria chosen and the fact that the French map has been designed for the PAT scheme which is oriented towards the attraction of mobile projects meeting minimum size limits. The difficulty that arises in the context of areas such as the Lozère is not so much the loss of eligibility for the PAT but, rather, the fact that designated regional aid areas also determine award maxima for aids to small and medium-sized firms. Under the Commission guidelines, these are 7.5 percent and 15 percent gross for small and medium-sized firms respectively in the non-assisted areas, but up to 30 percent net grant-equivalent in the assisted areas. In the context of rural disadvantaged areas where most economic activity is likely to be undertaken by SMEs, but where the local economy is relatively fragile, it is difficult for local politicians to comprehend the rationale under which SMEs in parts of major agglomerations qualify for substantially higher levels of aid.

Aside from the PAT map, there are growing signs of disenchantment in France with the whole notion of "zonage" or area designation. In part, this reflects the increasing emphasis on local initiatives based on spatial units relevant to the project being undertaken – *pays* and *agglomérations*. It is also a backlash against the hugely

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Commission's basic method of allocating the Article 87(3)(c) population quota to the individual Member States and have taken the Commission to court on this question. The proceedings continue.

complex matrix of assisted area types and related aids that is found in France. Concerns at the complexity and effectiveness of spatially-restricted policies caused the Prime Minister to commission a report to review the position and propose means of simplifying the approach. The report, published in Spring 2001, argued that spatially-restricted policies should be replaced by 2006 by partnership-based initiatives linking economic development and environmental protection within the framework of *pays*, *agglomérations* and natural parks. Under this proposal, the substance of policy would shift away from aids to firms and, instead, would emphasise *aides aux territoires* – in other words, government support for partnership-based policies. A problem region orientation would be maintained by adjusting levels of government support for *pays* and *agglomerations* in line with the economic, social and cultural difficulties facing particular areas. The report made no explicit recommendations regarding the PAT scheme. However, it goes without saying that, under EU competition rules, large firms could not receive investment aid above *de minimis* levels in the absence of an approved map.

The emerging debate in France has drawn attention to the disadvantages of concessions related to assisted area maps: in some cases the level of aid is insufficient to be a determining factor in investment or location; in others, the eligibility criteria are mismatched with the type of investment likely to predominate in a given area. There are also concerns at the extent of windfall gains, the boundary effects of area designation and the potential stigmatisation of localities as “problem” areas. The retrospective dimension of area designation and its dependency on criteria that are out-of-date or difficult to interpret have also been criticised – not least because of the lifetime of the maps and their role in determining significant sums of public expenditure.[18]

Nor are such sentiments limited to France. In ***Austria***, the type of policy intervention increasingly viewed as important for regional economic development is affecting the way in which measures are designed and delivered. A focus on designated assisted areas is considered to make little economic sense in, for example, the promotion of networking or stimulating the activities of technology and innovation centres. This reluctance to limit policy to strict designated areas was also the prevailing regional policy approach prior to Austria’s accession to the European Union when, as noted earlier, the policy stress was very much on regional problems rather than problem regions. More generally, the difficulties faced in the 1999/2000 area designation negotiations with the Commission, the significant aid area cutbacks which resulted in most Member States, the increasing complexity of the regional problem and the changing nature of the policy response, all seem destined to ensure that area designation will be an increasingly important topic for regional policymakers in the run-up to the planned review of the European Commission’s regional aid guidelines by the end of 2004.

6. ELIGIBILITY CRITERIA

It was noted in Section 4.3 that regional aid policy is becoming more discretionary in its operation, more selective in its targeting. Examples were given of the increased use

[18] The PAT map, for example, was based on 1990 census data but will operate until 2006.

of competitive bidding mechanisms for policy delivery and of the growing targeting of assistance. Further evidence of enhanced selectivity in award is contained in Table 10 in Annex 1, which reviews recent changes in aid scheme eligibility criteria. This information is presented in summary form in Table 6.1. The table distinguishes between changes relating to project size, project sector and project type.

As far as ***project size*** is concerned, change has generally been in the direction of providing more support for small and medium-sized enterprises – either through the introduction of specific assistance possibilities for SMEs (as in Germany, Italy, the Netherlands, Portugal and the United Kingdom) or through easing minimum size criteria (as in France) or by becoming more restrictive in the treatment of larger firms (as in Wallonia in Belgium). These changes are part of a longer-term trend towards improving regional development support for SMEs.

As regards new regional aid schemes for SMEs, these have already been discussed in Section 3. In ***Portugal***, the introduction of the SIPIE (Incentive Scheme for Small Entrepreneurial Initiatives) was part of a broader package of measures for the new Structural Fund programming period. Eligibility is restricted to small firms and micro enterprises undertaking investments of between € 15,000 and € 150,000. The scheme operates under the Commission’s *de minimis* provisions. The introduction of regional SME assistance in the Overig Groningen region in ***the Netherlands***, Enterprise Grants in Tiers 1-3 in ***England*** and Area D support for SMEs in the GA Areas in ***Germany*** were all a consequence of the reduced spatial coverage of regional aid under the March 1998 regional aid guidelines. Support under either the SME aid guidelines or the *de minimis* rule was used in all three instances to soften the impact of aid area cutbacks. In ***Scotland***, the new Invest for Growth scheme is restricted to the designated aid areas. It provides discretionary grants of up to £100,000 for (predominantly) small and medium-sized enterprises, though its focus is on small projects rather than small firms; larger projects are dealt with under Regional Selective Assistance. More generally, across the Member States, SMEs in designated problem regions have benefited under the new regional aid guidelines since these provide for significantly higher aid ceilings for SMEs (see Table 7.1) – a 15 percent supplement (gross) in Article 87(3)(a) areas and a 10 percent supplement (gross) in Article 87(3)(c) areas.

Table 6.1: Changes in Other Coverage Conditions (2000-01)

Country	Project Size	Project Sector	Project Type
Austria		Reduced innovation content within regional aid schemes.	
Belgium	Larger firms in Wallonia have restricted sectoral coverage. Also, more stringent job creation and cost per job conditions apply.	More sectoral selectivity for larger firms in Wallonia. Specific cluster support in Wallonia.	
Denmark			
Finland			
France	Lower PAT eligibility thresholds in terms of job creation and investment.	PAT extension to embrace any service activities that might be outsourced.	
Germany		Some State aid restrictions to eligibility. Extension of support to intangibles/innovation.	State aid rules have restricted support for takeovers etc.
Greece			
Ireland			
Italy	Separate ranking lists for small and large projects.	Extension of eligibility, especially to services; strategic sectors are favoured.	
Luxembourg			
Netherlands	Specific SME support for Overig Groningen. Restrictive size minima for strategic expansions/ fundamental change		Highly selective support for expansions; new fundamental change category (restricted).
Portugal	Specific SIPIE support for SMEs	Projects weighted by sectoral merit, impact and risk. Support for investment in competitiveness.	
Spain		R&D assisted from other sources (regional aid restricted to fixed asset investment).	Relocation is no longer eligible for support.
Sweden		RDG now includes up-stream technological development.	
United Kingdom	Specific regional SME support; RSA not longer available for SMEs in England or small projects in Scotland.	RSA being refocused on high quality, projects.	
Norway		State aid restrictions to transport aid eligibility.	

Three final size-related changes concern France, Italy and Belgium. In ***France***, project size thresholds have been lowered under the new PAT *décret*. Previously, projects had to create at least 20 jobs; in the manufacturing sector, an additional requirement was a minimum investment of FF 20 million. Under the new *décret*, the revised size thresholds are 15 jobs and a minimum investment limit for manufacturing of FF 15 million. The requirements for extension projects have also been relaxed. These changes reflect pressures for the PAT to be made more accessible to smaller firms and projects. In ***Italy***, changes have been made to the Law 488 ranking lists that determine, on a competitive basis, whether or not an award will be made. Whereas, previously, rankings were simply by eligible area, different lists now apply to small (up to 50 billion lire) and large projects. For small projects, the new approach involves one 'ordinary' and one special ranking list in each region, the latter relating to strategic sectors and/or areas. While this change has increased the support possibilities for smaller projects, it was made mainly to improve the flexibility of the instrument and ensure that it responded more to local needs, allowing regional authorities to make policy choices. Lastly, in Wallonia in ***Belgium***, a distinction has been drawn between firms employing less than 20 and those with more than 20 staff. Larger firms (with more than 20 employees) must now belong to one of 16 "specific sectors" (defined by decree) in order to qualify for support.

Changes in respect of ***project sector*** in Table 6.1 also generally involve a more targeted approach. They can be categorised in three broad ways. Most have seen an enhanced focus on what are perceived to be future-oriented activities: services and/or innovation and/or strategic sectors (Belgium, France, Germany, Italy, Portugal, Sweden and the UK). In contrast, a few countries (Austria and Spain), have removed support for innovation from the regional aid package; in these countries regional assistance is now restricted to investment support. A final group of countries (Germany and Norway) have reduced their sectoral coverage in line with State aid restrictions.

As regards the first category, in Wallonia in ***Belgium*** support for larger firms is, as mentioned above, now restricted to 16 favoured sectors: business services; biotechnology; chemicals/pharmaceuticals; new materials; ITCs; aeronautics and aerospace; scientific, medical and optical instruments; textiles (but not clothing); the exploitation of natural resources; environmental protection; renewable energies; tourism; agribusiness and the food industry; R&D; logistics; and call/distribution centres. In ***France***, there has been an extension of service sector eligibility under the PAT. Eligible services (basically producer services) are now no longer limited to "higher" tertiary activities, but embrace almost any service that might be outsourced by a firm – including, for instance, information technology, management services, call centres, engineering, research and design. In ***Italy***, the list of eligible services has also been widened to include hotels and restaurants, transport support services, telecommunications, informatics and related activities, R&D activities, consultancy, training activities, environmental waste, sport, culture and recreation. In ***Portugal***, the SIME (Incentive Scheme for Business Modernisation) has also seen an extension of coverage – moving beyond narrow fixed investment to include investment in competitiveness via support for internationalisation, innovation and technology, energy efficiency, quality assurance and environmental protection and human resource development. In ***Sweden***, changes to the Regional Development Grant, though minor, have similarly involved more support for innovative activities; in

particular, there has been an extension of aid coverage towards more up-stream technological development. In ***Britain***, Regional Selective Assistance has been 'refocused' to encourage high-quality, knowledge-based projects that provide skilled jobs. More generally, (and not just in Britain) there has been a significant increase in emphasis on innovation-oriented cluster-based approaches at the regional level. In ***Northern Ireland***, too, the recent strategic reviews have seen an increasing interest in a sectoral approach to delivering economic development services. In addition, the capital grant component of Selective Financial Assistance seems destined to move more towards the encouragement of higher value-added, RTD-based investments and related employment.

In contrast to this growing regional aid emphasis on innovative activities, in both Austria and Spain support for innovation is no longer part of the regional aid package. In ***Austria***, this was, on the one hand, a consequence of the withdrawal of the Regional Innovation Premium for budgetary reasons. In addition, the newly-introduced RIF 2000 scheme has national coverage while the measure it replaced (the RIF) had been available only in the designated aid areas. The wider coverage of RIF 2000 is in line with the view that the stimulation of regional innovation is a national rather than regional priority; it also reflects the narrowed spatial focus of the designated aid areas in Austria which is increasingly felt to be inappropriate to innovation support. In similar vein, in ***Spain*** only fixed assets are now eligible for the Regional Investment Grant; this follows a tightening of eligiblity criteria to exclude support for research and development projects which can be assisted from other sources.

In terms of the last project sector category, recent developments in both Germany and Norway have been much influenced by the competition policy authorities. In ***Germany***, DG Competition has insisted on a more restrictive approach in respect of certain activities including teleworking and the processing and marketing of agricultural products. On the other hand, agreement with the Commission on the treatment of intangibles (after a difficult period of negotiation) has allowed GA support to take more account of the increasing importance of patents, licences and know-how within innovative firms. In ***Norway***, the transformation of the social security concession into a transport subsidy in line with State aid requirements has meant that EU-sensitive sectors (eg shipbuilding) are no longer eligible for support.

In respect of ***project type*** coverage, change has been more limited. Indeed, only three countries register project-type changes in Table 6.1 – Germany, the Netherlands and Spain. In all three, coverage has become more restricted. In ***Germany***, the State aid rules have limited support for takeovers and factories threatened with closure. In ***Spain***, concerns about internal competition for mobile investment have meant that relocation is now no longer eligible for Regional Investment Grant support. Finally in ***the Netherlands***, there is now an almost exclusive focus on setting up projects. Under the centralised RIPG decree, expansions are eligible for regional aid only in the north and then only if they can be viewed as "strategic" (that is, major expansion projects – with eligible investment of over Fl 30 million – which are the subject of competitive out-bidding from alternative (assisted) EU locations). This focus on setting up projects is in line with a recent evaluation of the Investment Premium, which stressed that award rates have to be significant in order to be effective. The other eligible project type in the Netherlands relates to "fundamental change" projects. Although

this is a new support category, it should be noted that, to be eligible, projects must be of exceptional importance to the regional economy (with eligible investment of over Fl 100 million), must involve substantial regional employment (over 400 jobs) and must contribute in a major way to technological innovation in the region.

7. AWARD CEILINGS AND VALUES

The point was made earlier that the March 1998 regional aid guidelines have had an obvious impact on which aid areas have been designated by the Member States (and Norway) for the period from 1 January 2000. Equally, and in a much more formalised manner than was previously the case[19], the EC guidelines determine the maximum award ceilings in different categories of aid area. As Table 7.1 shows, maximum rates of award under the guidelines are explicitly related to the type of assisted area in question and to the situation in the area as measured by various problem region indicators (GDP per head, population density and unemployment).

Table 7.1: Maximum Rates of Award under the Regional Aid Guidelines

Assisted area type	General maximum rate	SME supplement
Article 92(3)(a) (outermost regions)	65% nge	15% gross
Article 92(3)(a) (standard ceiling)	**50% nge**	**15% gross**
Article 92(3)(a) (outermost with GDP > 60% EC average)	50% nge	15% gross
Article 92(3)(a) (GDP > 60% EC average)	40% nge	15% gross
Article 92(3)(c) (Northern Ireland)	40% nge	10% gross
Article 92(3)(c) (low population density)	30% nge	10% gross
Article 92(3)(c) (standard ceiling)	**20% nge**	**10% gross**
Article 92(3)(c) (GDP > EC av. & unemployment < EC av., outermost or low population or adjacent to Article 92(3)(a))	20% nge	10% gross
Article 92(3)(c) (GDP > EC av. & unemployment < EC av.)	10% nge	10% gross

Source: Wishlade, F "RAGS and LIPS: New Weapons in the Commission's Regional Aid Control Armoury", Report to Sponsors: October 1998.
Note: Article 92 of the EC Treaty was renumbered as Article 87 of the Treaty of Amsterdam.

However, it is important to note that the Table 7.1 figures are *upper limits*. According to the guidelines:

> "Beneath these ceilings, the Commission will ensure that the regional aid intensity is adjusted to reflect the seriousness and intensity of the regional problems addressed when examined in a Community context".

[19] See Wishlade, F "RAGS and LIPS: New Weapons in the Commission's Regional Aid Control Armoury", Report to Sponsors: October 1998, Section 2.5.1.

The implications of this were that the Commission had reserved for itself the discretion to set lower ceilings on an area-by-area basis. This proved to be a contentious aspect of the map negotiations in many Member States, as is reflected in the discussion which follows. This is in three sections. First, an overview is provided of the rate-related changes which have been introduced since the start of 2000. Second, there is a more detailed consideration of rate change on a country-by-country basis. Third, trends in average rates of award are reviewed. While the aid ceilings laid down by the competition policy authorities have, historically, had only a limited impact on the Member States, it seems likely that they will play a more constraining role in future.

7.1 Changes in Maximum Rates of Award

An overview of recent changes in rate maxima across the Member States and Norway is provided in Table 11 (in Annex 1). Table 7.2 summarises these changes by comparing the aid ceilings which applied in 1999 with those which have come into force from 2000 under the March 1998 guidelines. The changes are clearly significant, especially in respect of Article 87(3)(a) areas in poorer Member States where the ceiling has been reduced from 75 percent in Greece Ireland and Portugal (and 60 percent in Spain) to 50 percent or less (62 percent in the poorest parts of Portugal, 40 percent in the Irish Objective 1 area).[20] In Article 87(3)(c) areas, too, the cutbacks are noteworthy; where previously the standard award ceiling was usually 25 or 30 percent, the 20 percent standard ceiling set out in Table 7.1 is now very clearly in operation, with even lower ceilings applying quite widely.

It is interesting to relate the ceilings which have been agreed in Table 7.2 with the maxima laid down in the regional aid guidelines (Table 7.1). The highest Article 87(3)(a) maximum (65 percent nge) is available in those outermost regions with GDP per head below 60 percent of the EU average. In practice, this ceiling is available only in the DOMs in France. In Madeira and the Acores in Portugal the agreed ceiling is 62 percent. At the other end of the Article 87(3)(a) scale, the maximum is set at 40 percent where GDP per head exceeds 60 percent of the EU average. In practice, maxima of below 40 percent are found quite widely: 35 percent and 30 percent in Austria; 24 percent in Finland; 35 percent in Germany (with the German authorities setting a still lower limit of 28 percent for standard projects in stronger areas of the new *Länder*); 35 percent in Italy (outside Calabria); 36 percent and 32 percent in small parts of Portugal; 37 percent, 35 percent and 30 percent in parts of Spain; and 35 percent in the United Kingdom.

[20] In the DOMs in France the ceiling has been reduced from 75 percent to 65 percent.

Table 7.2: Rate Ceilings and Population Coverage - 1999 and 2000

Country	Regional Aid Ceilings 1999 (nge)	Population Coverage	Regional Aid Ceilings 2000 (nge)	Population Coverage
Austria	40 percent	1.8		
			35 percent	1.7
	30 percent	1.7	30 percent	1.7
	25 percent	2.3		
	20 percent	26.4	20 percent	19.1
			17.5 percent	4.5
	15 percent	3.0		
			12.5 percent	0.5
	Total	**35.2**	**Total**	**27.5**
Belgium	25 percent	12.6		
	20 percent	9.7	20 percent	8.9
			17.5 percent	8.7
	15 percent	12.6	15 percent	5.4
			10 percent	7.9
	Total	**35.0**	**Total**	**30.9**
Denmark	25 percent	4.9		
			20 percent	3.2
	16.9 percent	15.3		
			10 percent	13.9
	Total	**20.2**	**Total**	**17.1**
Finland	*35 percent gross*	12.7		
			30 percent gross (24 net)	13.4
	27 percent gross	12.9		
			25 percent gross (20 net)	6.9
	20 percent gross	16.0	*20 percent gross* (16 net)	21.7
			14 percent gross (10 net)	0.3
	Total	**41.6**	**Total**	**42.3**
France	75 percent	(2.1)		
			65 percent	(2.7)
	30 percent	0.4		
	25 percent	1.5		
	22 percent	12.1		
			20 percent	14.0
	15 percent	26.9	15 percent	19.4
			10 percent	0.5
	Total	**40.9(42.0)**	**Total**	**33.9(36.7)**
Germany	*35 percent gross*	13.0	*35 percent gross* (35 net)	8.1
	28 percent gross	8.7	*28 percent gross* (35 net)	8.1
			28 percent gross (20 net)	5.2
	18 percent gross	16.2	*18 percent gross* (18 net)	12.9
			18 percent gross (10 net)	0.6
			15/7.5 percent gross	(5.7)
	Total	**38.0**	**Total**	**34.9 (40.6)**
Greece	75 percent			
	67.9 percent	14.0		
	64 percent			
	58.2 percent	30.0		
	54.2 percent	14.0		
			50 percent	24
	47.4 percent	42.0		
			40 percent	76
	Total	**100.0**	**Total**	**100.0**
Ireland	75 percent	2.4		
	71.4 percent	25.6		
	57.3 percent	72.0		
			40 percent	26.6
			20 percent (by 2004)	34.6
			18 percent (by 2004)	9.6
			17.5 percent	29.2
	Total	**100.0**	**Total**	**100.0**

[Table continued

Table 7.2: *continued*

Country	Regional Aid Ceilings 1999 (nge)	Population Coverage	Regional Aid Ceilings 2000 (nge)	Population Coverage
Italy	50 percent	9.4	50 percent	3.6
	40 percent	24.8		
			35 percent	30.0
	25 percent	2.4		
			20 percent	1.7
	10 percent	12.3		
			8 percent	8.3
	Total	**48.9**	**Total**	**43.6**
Luxembourg	*25 percent gross*			
	20 percent gross	34.6		
	17.5 percent gross	7.9		
			10 percent	31.9
	Total	**42.7**	**Total**	**31.9**
Netherlands	*25 percent gross*	1.7		
	20 percent gross	9.0	*20 percent gross* (18 net)	9.0
	15 percent gross	6.6	*15 percent gross* (15 net)	4.9
			10 percent net	1.0
	Total	**17.3**	**Total**	**15.0**
Portugal	*75 percent gross*	100.0		
			62 percent	5.1
			50 percent	12.6
			46 percent	0.5
			43 percent	9.2
			40 percent	8.1
			36 percent	2.5
			32 percent	28.7
			20 percent (by 2004)	14.9
			10 percent	18.4
	Total	**100.0**	**Total**	**100.0**
Spain	60 percent	31.6		
	50 percent	16.8	50 percent	25.0
	40 percent	4.5	40 percent	23.4
			37 percent	6.3
			35 percent	3.3
	30 percent	6.8	30 percent	0.7
	25 percent	5.8		
	20 percent	9.7	20 percent (part by 2004)	20.0
	15 percent	0.8		
			10 percent	0.8
	Total	**75.7**	**Total**	**79.2**
Sweden	*35 percent gross*	5.9	*35 percent gross* (30 net)	10.9
	25 percent gross	12.6		
			20 percent gross (17 net)	5.0
	Total	**18.5**	**Total**	**15.9**
United Kingdom	47.4 percent	2.9		
			40 percent	2.9
			35 percent	8.6
	30 percent	15.5	30 percent	0.2
	20 percent	17.5	20 percent	9.5
			15 percent	8.3
			10 percent	1.2
			Tier 3	-
	Total	**35.9**	**Total**	**30.7**
Norway	30 percent	2.0	30 percent	2.0
	25 percent	10.6		
			20 percent	10.6
	15 percent	13.0	10 percent	13.0
	Total	**25.6**	**Total**	**25.6**

Note: The population coverage breakdowns in 2000 for Belgium, France, Germany, Italy, the UK and parts of the Netherlands and Finland are EPRC estimates based on DG Competition data.

Similarly, in the Article 87(3)(c) areas there are a wide range of rates recorded of less than the standard 20 percent: in Austria (17.5 and 12.5 percent); Belgium (17.5, 15 and 10 percent); Denmark (10 percent); Finland (16 and 10 percent); France (15 and 10 percent) Germany (18 and 10 percent); Ireland (18 and 17.5 percent); Italy (8 percent); Luxembourg (10 percent); the Netherlands (18, 15 and 10 percent); Portugal (10 percent); Spain (10 percent); Sweden (17 percent); the United Kingdom (15 and 10 percent); and Norway (10 percent). The common 10 percent rate applies to Article 87(3)(c) areas with above EU-average GDP per head and below EU-average unemployment. Finally, there are a number of Article 87(3)(c) areas where the ceiling exceeds 20 percent nge: in Spain (30 percent in certain sparsely-populated parts of Aragon); in Sweden (30 percent in the former Objective 6 areas); in the United Kingdom (40 percent in Northern Ireland, reflecting the Province's special treatment, and 30 percent in parts of the Highlands and Islands of Scotland); and in Norway (30 percent, again reflecting sparcity of population).

One way of summarising the extent to which award maxima have been reduced by the March 1998 regional aid guidelines is to calculate weighted rate maxima for each country – that is, weighting each rate by the population of the area in which that rate applies. The outcome is shown in tabular form in Table 7.3 and in chart form in Figure 7.1.

Table 7.3: Weighted Rate Maxima (percent)

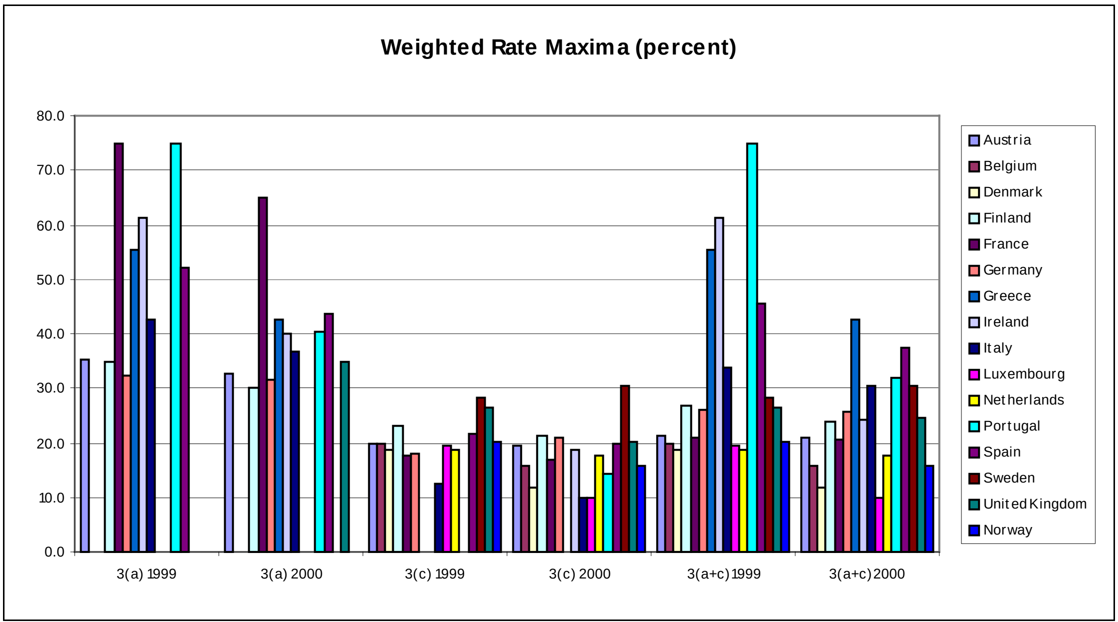
	Article 87(3)(a)		**Article 87(3)(c)**		**Article 87(3)(a/c)**		
Country	**1999**	**2000**	**1999**	**2000**	**1999**	**2000**	**2000 net**
Austria	35.1	32.5	19.9	19.4	21.4	21.0	21.0
Belgium			19.9	15.9	19.9	15.9	15.9
Denmark			18.9	11.9	18.9	11.9	11.9
Finland	**35.0**	**30.0**	**23.1**	**21.1**	**26.8**	**23.9**	19.1
France	75.0	65.0	17.6	17.0	20.9	20.4	20.4
Germany	**32.2**	**31.5**	**18.0**	**20.8**	**26.1**	**25.8**	26.1
Greece	55.5	42.4			55.5	42.4	42.4
Ireland	61.3	40.0		18.7	61.3	24.4	24.4
Italy	42.7	36.6	12.4	10.0	33.6	30.5	30.5
Luxembourg			19.4	10.0	19.4	10.0	10.0
Netherlands			**18.6**	**17.7**	**18.6**	**17.7**	16.5
Portugal	**75.0**	40.4		14.5	**75.0**	31.8	31.8
Spain	52.3	43.6	21.5	19.8	45.7	37.4	37.4
Sweden			**28.2**	**30.3**	**28.2**	**30.3**	25.9
United Kingdom		35.0	26.5	20.3	26.5	26.1	26.1
Norway			20.3	15.7	20.3	15.7	15.7

Note: The figures in the table are calculated on the basis of the rate maxima and population coverage data in Table 7.2. Those in bold are gross figures. Otherwise the table is in net grant equivalent terms

The table shows clearly that there have been significant reductions (over one third and more) in Article 87(3)(a) areas in Ireland and Portugal, in Article 87(3)(c) areas in Denmark and Luxembourg and, overall, in these same four countries. The decline in Portugal and Ireland reflects both marked reductions in the available Article 87(3)(a) ceilings and the fact that almost three-quarters of the Irish population and around one-third of the Portuguese population is now covered by Article 87(3)(c). In both Denmark and Luxembourg, the rate decline reflects the impact of the 10 percent nge limit on designated areas with above EU-average GDP per head and below EU-average unemployment. Elsewhere, change has been less marked (generally involving a weighted cut of 10 percent or less, though reductions of around one-quarter overall are recorded in respect of Belgium, Greece and Norway).

As far as rate levels are concerned, DG Competition has commented that the average aid intensity ceiling is now around 39 percent in the Article 87(3)(a) areas and 17 percent in the Article 87(3)(c) areas.[21] These broad orders of magnitude are confirmed by Table 7.3 (and Figure 7.1). More specifically, the table shows that, for each country, the weighted averages in the Article 87(3)(a) areas lie in the 30-44 percent range (the sole exception are the DOMs in France where the maximum is 65 percent). In the Article 87(3)(c) areas, the countries divide into a number of distinct groups: Luxembourg, Italy and Denmark (with weighted ceilings in the 10-12 percent range); Portugal, Belgium, Norway, the Netherlands and France (14.5-17 percent); and Ireland, Austria, Spain, the United Kingdom, Germany and Finland (just under 19 percent to slightly above 21 percent). In Sweden, the weighted maximum is just over 25 percent, reflecting the significance of sparsely-populated areas within the Swedish designated Aid Areas.

Figure 7.1: Weighted Rate Maxima (percent)



[21] Report of the Competition Policy Directorate (2000), paragraph 347.

7.2 A Country-by-Country Review of Change

In order to gain more of an insight into the changes recorded in Table 7.2, it is useful to consider the changes briefly on a country-by-country basis. Further information can be found in the country reviews in Annex 2. Maps of the designated aid areas are provided in Annex 3.

In ***Austria***, the award ceiling in 10 (out of 24) areas had been reduced in 1998 when the coverage of the aid area map was extended for a year until the end of 1999. The ceiling in east Obersteiermark fell from 25 percent to 20 percent; in six areas where the ceiling had been 20 percent it was cut to 17.5 percent and in three 15 percent areas the rate maximum was reduced to 12.5 percent. These cutbacks were continued in 2000 with further (minor) reductions in the population coverage of those areas facing the 20 percent and 12.5 percent ceilings. In addition, the rate ceiling in mid and south Burgenland was reduced from 40 percent to 35 percent but remained at 30 percent in north Burgenland. This compares with the 40 percent guideline ceiling for Article 87(3)(a) areas with GDP per head of more than 60 percent of the EU average (see Table 7.1). Overall, the Austrian system currently has five different award ceilings; it is, however, worth noting that nearly 70 percent of the overall designated aid area population (and almost 80 percent of the Article 87(3)(c) area population) are located in areas where the 20 percent nge maximum applies.

In ***Belgium***, there were three distinct net grant equivalent award ceilings in 1999: 25 percent in the Objective 1 region of Hainaut in Wallonia; 20 percent in the remaining Development Zones in Wallonia and also in a “buffer zone” in Flanders along the borders of Hainaut; and 15 percent in the rest of the Development Zones in Flanders. In the revised (post 2000) map there are four grades of designated aid areas, with net grant equivalent ceilings of 20, 17.5, 15 and 10 percent. Taken together, these areas cover 30.9 percent of the national population. The 20 percent ceiling applies in parts of Hainaut and parts of Namur (both in Wallonia); these areas hold 8.9 percent of the Belgian population. Most of the remaining Wallonian Development Zones, containing 8.7 percent of the national population, face a 17.5 percent ceiling. However, in parts of the province of Luxembourg (0.8 percent of the national population) a 15 percent ceiling applies while areas holding broadly the same population (0.8 percent) face a 10 percent maximum. In Flanders, the aid maximum in the Development Zones is either 15 percent or 10 percent. Together, the Flemish aid areas hold 9.5 percent of the Belgian population. Finally, in the Brussels region the aid maximum in those areas eligible for support is 15 percent. The areas concerned contain 2.2 percent of the national population.

In ***Denmark***, both the Priority Areas and the Ordinary Areas suffered a reduction in population coverage – from 4.9 percent to 3.2 percent and from 15.3 percent to 13.9 percent respectively. More important, the aid ceilings in the areas were significantly cut back – from 25 percent to 20 percent and from 16.9 percent to 10 percent respectively. On the other hand, there is no regional aid on offer in Denmark at present: these ceilings are of relevance only in the context of support to firms under the Objective 2 programme.

In ***Finland***, it can be seen from Table 7.4 that the ceilings introduced in the new map are generally well below those available under the March 1998 guidelines, the more

so since the ceilings for small firms in Development Area 1 and for all firms in Development Areas 2 and 3 are 10 percentage points below those listed except in ‘justified cases’. Also of note is the fact that in the Åland islands the maximum rate of award is lower still: 24 percent for SMEs and 14 percent for large firms. Comparing the ceilings under the new and old maps, two points arise. First, in Development Area 1 the ceiling increased for SMEs from 37 percent to 40 percent whilst falling for large firms from 35 percent to 30 percent. This was part of a more general aim to focus support more on SMEs. The increase in the ceiling for SMEs reflected the fact that Development Area 1 now qualifies as an Article 87(3)(a) area and is thus eligible for the higher award rate. Second, lower award rates now apply in Development Areas 2 and 3, especially for large firms. Whereas the rate ceiling for SMEs fell from 37 percent to 34 percent and from 30 percent to 25 percent respectively, the cut-back for large firms was from 27 percent to 15 percent and from 20 percent to 10 percent (except in justified cases where an additional 10 percent gross is available). Such declines for large firms again reflect Government attitudes towards limiting the overall value of investment aid by focusing support more on SMEs.

Table 7.4: Award Ceilings in Finland (percent)

	1998 Guidelines		**New Map**		**Previous Map**	
Assisted Area	SME	Large	SME	Large	SME	Large
Area 1 (Art 87(3)(a))	55	40	40	30	37	35
Area 2 ((3)(c)-sparse)	40	30	34	25	37	27
Area 3 (Art 87(3)(c))	30	20	25	20	30	20

In ***France***, rates of award were an issue of contention in the submission of the map to the Commission. In particular, the rates proposed in some areas explicitly exceeded the rates set out in the guidelines and so were bound to be rejected. DATAR knew in advance that this would be the case, but there was local demand for higher award rates and it was deemed easier to let the proposal be turned down by the Commission than to argue the point domestically. The solution reached on rates of award under the new map was to continue the banding that had been in place under the previous regime. As a result, in the higher rate areas (those where the maximum rates had been 34, 28 or 25 percent gross up to end 1999) the maximum rate is now 23 percent gross (a net grant-equivalent of 20 percent); in the areas were the ceiling was 17 percent gross up to end 1999, this ceiling will remain (a net grant-equivalent of 15 percent). The only exception to this concerns eligible areas in Alsace and Franche-Comté where the ceiling will be 11.5 percent gross, a net grant-equivalent of 10 percent, reflecting levels of GDP per head and unemployment rates compared with the European average. Overall, a pragmatic solution to the question of award maxima was reached by continuing existing rate discrimination, but subject to the new (lower) ceilings.

The Commission also took issue with certain of the rate proposals in ***Germany***, even though the same basic award matrix applied under the previous German system (see Table 7.5)

Table 7.5: Proposed Award Ceilings in Germany (percent) - gross

Assisted Area	SMEs	Other	
Problem Area A	50	35	new *Länder* - weak
Problem Area B	43	28	new *Länder* - strong
Problem Area C	28	18	west Germany

The only difference of note was that the proportion of new *Länder* residents in the weaker regions (Problem Area A) was reduced from 60 percent to 50 percent. For 10 percent of the population in the new *Länder* there was, therefore, a significant reduction in maximum award rates. Commission concerns related to two issues: the undifferentiated nature of the 18 percent maximum (28 percent for SMEs) throughout Problem Area C and, related, the fact that the 18 percent gross ceiling exceeded (in the Commission's view) the 10 percent nge ceiling set for Article 87(3)(c) areas with above average GDP per head and below average unemployment. Neither point was accepted by the German authorities. In the event, the award matrix set out below was eventually accepted by the Commission, subject to one proviso. This was that the ceiling in the Berlin labour market area (formally part of Problem Area B) should be set at 20 percent net (plus 10 percent gross for SMEs). It is also of note that, whereas Problem Areas A to C are covered by the regional aid guidelines, the Problem Area D ceilings reflect the SME aid guidelines.

Table 7.6: Actual Award Ceilings in Germany (percent) - gross

Assisted Area	SMEs	Other
Problem Area A	50	35
Problem Area B	43	28
Problem Area C	28	18
Problem Area D	15% for small firms; 7.5% for medium-sized firms	maximum €100,000 within three years of first receipt of financial assistance

In ***Greece***, the new aid ceilings mirror the rate maxima set out in the guidelines (see Table 7.1) – 50 percent generally but 40 percent in those areas with GDP per head more than 60 percent of the EU average. As noted earlier and as can be seen from Table 7.2, these ceilings represent a significant reduction on those which previously applied.

The picture in ***Ireland*** is similar in some respects. In the remaining Article 87(3)(a) area (the BMW region) the new award ceiling was set at 40 percent in line with the guidelines. This represents a significant reduction on the ceilings that had previously applied (these ranged from 57.3 percent to 75 percent depending on location). In the (new) Article 87(3)(c) areas, a general ceiling of 20 percent was proposed in line with the guidelines, but with lower maxima in the Mid-East (18 percent) and Dublin (17.5 percent). After negotiation, agreement was reached on these ceilings, with the Dublin limit coming into force immediately while the new maxima in the other Article 87(3)(c) areas will be phased in over time – being reduced from 40 percent in 2000 to

the agreed ceilings by 2004 (that is, 40,35,29,23 and 18 percent in the Mid-East and 40,37,31,26 and 20 percent in the South-East and South-West).

In ***Italy***, in the Article 87(3)(a) areas, the ceiling has been set at 50 percent in Calabria and at 35 percent elsewhere. The latter rate represents a reduction from the previous 40 percent limit and is also below the 40 percent ceiling stipulated in the guidelines for Article 87(3)(a) areas with GDP per head above 60 percent of the EU average. In the Article 87(3)(c) areas the rate ceilings for large firms are 20 percent in parts of Molise and Abruzzo and 8 percent in other eligible areas in the Centre-North. This represents a significant decline on the ceilings previously in force – 25 percent and 10 percent respectively. The full Italian award matrix is as set out in Table 7.7.

Table 7.7: Award Ceilings in Italy (percent)

Article 87(3)(c)Areas	**Small Enterprises**	**Medium Enterprises**	**Large Enterprises**
Calabria	50% nge + 15% gross		50% nge
Basilicata, Campania, Puglia, Sicily, Sardinia	35% nge + 15% gross		35% nge
Areas in Molise and Abruzzo under Article 87(3)(c)	20% nge + 10% gross		20% nge
Molise, phase-out area for Objective 1 not under Article 87(3)(c)	15% gross	7.5% gross	-
Other Centre-North areas under Article 87(3)(c)	8% nge + 10% gross	8% nge + 6% gross	8% nge
Other Centre-North Objective 2 areas or Objective 2 phase-out areas, not under Article 87(3)(c)	15% gross	7.5% gross	-

In ***Luxembourg***, all the regions eligible for support have above EU-average GDP per head and below EU-average unemployment. As a result, an aid ceiling of 10 percent was agreed with the Commission in line with the guidelines. This represents a significant lowering of the previous (gross) ceilings, which ranged from 17.5 percent to 25 percent.

In the ***Netherlands***, no aid maxima were specified in the initial (March 1999) map submission but the implication was that a uniform award ceiling would apply to all eligible locations. However, the Commission considered that, in order to conform to the guidelines, the aid ceiling for Overig Groningen should not exceed 10 percent since the region had above average GDP per head and below average unemployment The Dutch response was to highlight the statistical anomalies which explained this result. The Commission replied that “figures are figures”.[22] The Ministry of Economic Affairs has had to accept this but remained disappointed that the Commission did not

[22] This has echoes of the points made by the Dutch authorities to the Commission in the context of the designation of Flevoland for Objective 1 purposes over the 1994-99 period, in large measure as a consequence of statistical anomolies.

respond more positively. To help ameliorate the situation (which is viewed as unfair by the Dutch authorities), a new regulation was introduced for SMEs in the area (under the *de minimis* rule) which allows a ceiling of 20 percent gross to be reached for SMEs. Current aid ceilings are as set out in Table 7.8. They compare to previous aid ceilings in the north of 20 percent for setting up projects and extensions within five years of setting up and 15 percent for extension projects after five years. The previous ceiling in the transitional areas in Twente and South Limburg was 15 percent.

Table 7.8: Aid Ceilings in the Netherlands (percent)

Location	Aid Ceilings (percent)
3 northern provinces, excluding Overig Groningen but including Steenwijk and Hardenberg	20 gross
Flevoland (Lelystad and Urk)	20 gross
Twente and South Limburg (NUTS III)	15 gross
Overig Groningen (NUTS III)	10 net
Middle Limburg (NUTS III)	10 net

Source: Ministry of Economic Affairs

In ***Portugal***, the proposal made to the Commission for the Article 87(3)(a) areas set aid ceilings of 62 percent net grant-equivalent for the Acores and Madeira, 50 percent for Centro and Alentejo and 40 percent for Norte and the Algarve. This compared to the previous 75 percent limit. Regarding Lisboa and Vale do Tejo – which is eligible under Article 87(3)(c) as an ex-Article 87(3)(a) area – the proposal provided for a progressive fall in maximum award values to apply to the whole region over the four-year transitional period provided for in the guidelines. The Commission objected to this proposal and opened the Article 88(2) procedure against aid to the Lisboa e Vale do Tejo region.[23] Following a period of negotiation, the Commission finally approved the aid map for the Lisboa e Vale do Tejo region in June 2000.[24] This decision provided for aid levels in the Grande Lisboa (NUTS III) region to be limited to a net grant-equivalent of 10 percent with immediate effect and for transitional provisions to apply to the remainder of the Lisboa e Vale do Tejo NUTS II region such that aid levels be gradually reduced from 47.68 percent net grant-equivalent in 2000 to 20 percent net grant-equivalent in 2004. It should be noted that rate discrimination has also been introduced in the Centro region (with limits of 50, 46 and 43 percent) and in Norte (with ceilings of 40, 36 and 32 percent).

In ***Spain***, the new regional aid map also saw an increase in rate modulation, certainly over what is required under the guidelines. Within the Article 87(3)(a) areas, the agreed ceilings were:

- 50 percent nge in Extremadura, Andalusia and the Canary Isles
- 40 percent nge elsewhere, except in the following NUTS III areas:
    - 37 percent nge in Segovia, Palencia and Valencia

[23] IP/99/958 *Commission approves part of Portugal's regional aid map for 2000-2006 but launches investigation in aid to "Lisboa e Vale do Tejo" region,* Brussels, 8 December 1999.

[24] IP/00/672 *The Commission approves the part of the regional aid map for the "Lisboa e Vale do Tejo" region in Portugal,* Brussels, 28 June 2000.

- 35 percent nge in Burgos, Valladolid and Castellon
- 30 percent nge in Guadalajara

Within the Spanish Article 87(3)(c) areas the ceiling set was generally 20 percent nge, but was 30 percent nge in parts of Aragon and 10 percent nge in parts of Catalonia. In Cantabria, a former Article 87(3)(a) area, it was agreed that the ceiling be progressively reduced from 40 percent to 20 percent nge between 2000 and 2004. The revised ceilings created few domestic difficulties, since rates of award in Spain are typically much lower than the available maxima.

In ***Sweden***, the maximum award rate in Aid Area A is now 35 percent while in Aid Area B it is 25 percent for SMEs and 20 percent for larger companies. This compares with the previous award maxima of 35 percent in Aid Area 1 (40 percent for SMEs) and 20 percent in Aid Area 2 and the temporary areas (35 percent for SMEs).

In the ***United Kingdom***, close reference to the guidelines was made in the original submission to the Commission[25]. The ceilings proposed were: 40 percent nge in Tier 1 (ie Article 87(3)(a) areas); 40 percent nge in Northern Ireland (viewed as an "exceptional case"); 20 percent generally in Tier 2 (ie Article 87(3)(c) areas) but 30 percent nge in the sparsely populated Highlands and Islands NUTS II area and 10 percent nge for areas with above average GDP per head and below average unemployment. Apart from Tier 1, these proposed ceilings generally lay below the previous maxima of just over 47 percent nge in Northern Ireland, 30 percent nge in Development Areas and 20 percent nge in Intermediate Areas. However, the proposals did not prove acceptable to the Commission. The map finally approved had the following rate maxima:

- a ceiling of 40 percent net in Northern Ireland, reflecting its special status
- a ceiling of 35 percent net in Tier 1 (the Article 87(3)(a) areas)
- in general, ceilings of 10, 15 and 20 percent net in Tier 2, depending on the socio-economic status of the particular region
- but a ceiling of 30 percent net in Tier 2 areas facing special problems arising from low population densities
- support was also made available to SMEs in Tier 3 under the SME aid guidelines.

Overall, these ceilings introduced significant rate modulation compared both to the previous rate of award matrix and to the general maxima set out in the guidelines.

Finally, in ***Norway***, the March 1998 guidelines have also had an impact on aid ceilings in line with the European Economic Area (EEA) agreement. As part of a May 1998 aid area review, Zone A in the far north of the country lost its Article 92(3)(a) status. As a result, rate ceilings in this zone were adjusted so that, from 1 January 2000, they reflected the maxima set for sparsely-populated Article 87(3)(c) areas. This can be seen from Table 7.9.

[25] See *The Government's Proposals for New Assisted Area,* URN 99/963, 15 July 1999.

Table 7.9: Award Ceilings in Norway (percent)

	Pre May 1998		1998-99		From 2000	
Assisted Area	SME	Large	SME	Large	SME	Large
Zone A	50	35	45	30	40*	30*
Zone B	30	25	30	25	25	20
Zone C	25	15	25	15	20	10

Note: *45 percent in four municipalities in Finnmark.

The rate maximum for SMEs in Zone A fell by 5 percentage points on 1 May 1998 and again by the same amount on 1 January 2000; the Zone A maximum for large projects also fell by 5 percentage points on 1 May 1998. A 5 percentage point cut also applied from the start of 2000 to large projects in Zones B and C.

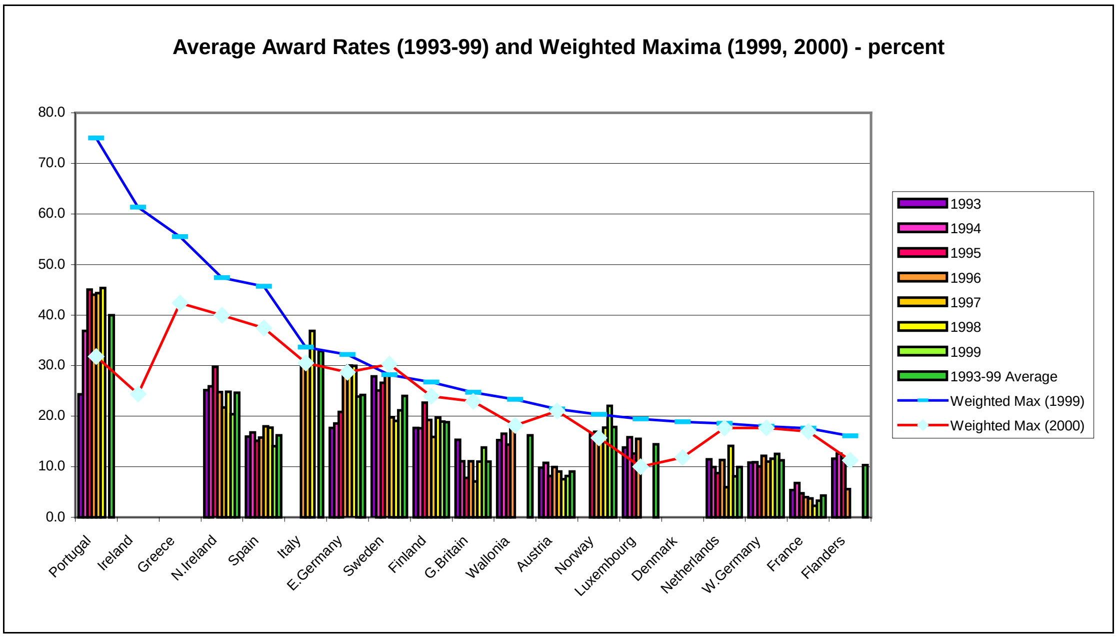
Summing up, it is clear that the new guidelines have had a notable impact on rate maxima. More than this, the Commission insistence that what it considered to be appropriate rate modulation be introduced has caused a significant number of ceilings to lie below the rate maxima stipulated in the guidelines. As already mentioned, rate modulation was a disputed aspect in the map negotiations in a majority of the Member States. Given the lower ceilings now in force, it seems likely to become an even more contested aspect of policy in future, not least because, as discussed in the next section, the new award ceilings have, in a number of countries, moved much closer to historical average awards.

7.3 Trends in Average Rates of Award

Finally in this review of award values, it is worth commenting briefly on average rates of award and of their relationship to the available maxima. Table 12 (in Annex 1) sets out rate averages for the main regional capital grants in the Member States and Norway over the 1993-99 period. In addition, it shows the weighted award maxima for 1999 and 2000 discussed above. A number of cautionary points are in order in relation to the table. First, relevant data has not been obtained for all the countries under review. In particular, recent grant expenditure information is not available for Greece and associated investment data is not published for Ireland on an annual basis. Moreover, as noted earlier, there have been no capital grants in Denmark since 1991. Second, the differing nature of the grants on offer has implications for any interpretation of the data. In this context, the very considerable differences that there are between schemes in respect of the number of grants awarded each year are worth noting. While there are generally over 1000 awards per annum in Germany, Italy, Great Britain and Norway, at the other extreme there are fewer than 100 in Austria, Luxembourg, the Netherlands and Northern Ireland. A related point is that rate decisions are far more automatic in some countries than in others. They are directly determined by explicit and transparent award criteria rather than being subject to administrative discretion with respect to levels of support. Finally, the averages shown would obviously be more meaningful if they were regionalised and related to the specific award maxima in each region. However, at present, such regionalised data is only available for a limited number of countries.

The data in Table 12 is presented in chart form in Figure 7.2. In terms of average rates of award, the grants covered divide into four broad groups. First, the average award over the 1993-99 period is well over 20 percent in countries and regions which are predominantly designated under Article 87(3)(a): Portugal, Italy and eastern Germany and also Northern Ireland (which, though not an Article 87(3)(a) area, has a special status under the regional aid guidelines). Greece and Ireland would also be in this group were average award rate data to be available. Second, there is a group where the rate average tends to be in the 15-20 percent range: the Nordic countries (Finland, Norway and, since 1997, Sweden) plus Spain, Wallonia and Luxembourg. For the third group, the average lies between 9 percent and 12 percent: western Germany, Great Britain, Flanders, the Netherlands and Austria. Finally there is France, where the rate average is less than 5 percent, a reflection of the extent to which awards under the PAT scheme are constrained by the number of jobs created.

Figure 7.2: Average Award Rates and Weighted Award Maxima



The countries and regions in Figure 7.2 are arranged in order of their weighted award maximum for 1999. Two main points emerge about the relationship of average to maximum awards. The first is that average awards are, for most countries, well below the available maxima, In France, Spain, Austria and Great Britain the average is less than half the award ceiling; in a further five countries/regions (Northern Ireland, Portugal, the Netherlands, west Germany and Flanders) it is less than two-thirds of the maximum; and in four more (Wallonia, Finland, Luxembourg and east Germany) it is less than three quarters of the weighted maximum. Only in Sweden, Norway and Italy is the average award within 15 percent of the available maximum. Second, it is clear from the chart that the new award maxima, introduced at the start of 2000, have lowered award ceilings in virtually all countries/regions and have significantly reduced them in a considerable number – including, most obviously, Portugal, Ireland, Greece, Northern Ireland, Luxembourg and Denmark. More than this, there are some (like Portugal, Italy, Luxembourg and Norway) where the new weighted maximum lies below average awards over the 1993-99 period. This suggests that, while the

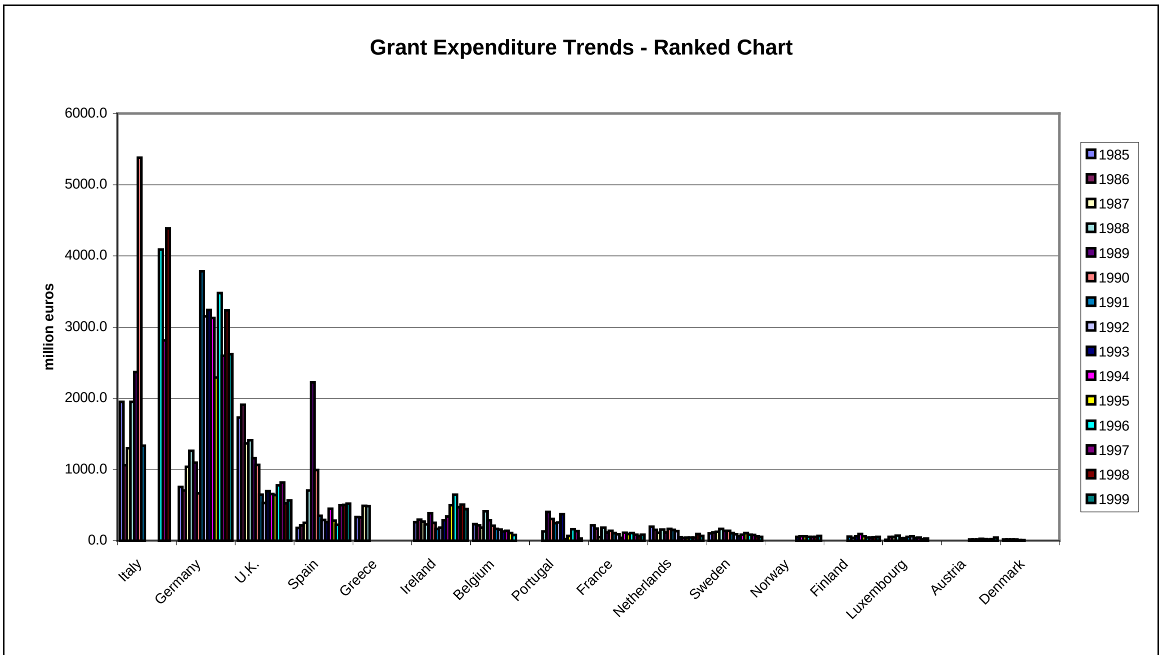
Commission's aid ceilings may not have had a major impact in the past, they may represent more of a constraint on policy implementation in the future.

8. REGIONAL AID EXPENDITURE TRENDS

This section provides a brief overview of regional incentive spending in the Member States and Norway over the period 1985-99. It discusses, in turn, the overall *distribution* of regional incentive spending, *trends* in grant expenditure over time, the *scale* of the regional grant spend (adjusted to take account of country size) and the *intensity* of expenditure (relating spending to the population in those areas in receipt of support). The section utilises expenditure data drawn from the detailed aid description material that is produced by EPRC annually. The expenditure data is provided in summary form in Annex 1 (Tables 13-18).

Figure 8.1 provides an overview of spending on the main regional capital grants in the Member States and Norway since 1985. The data has been brought on to a common (euro) basis using 1999 prices and 1999 purchasing power parities. As far as the *distribution* of expenditure is concerned, it can be seen that overall expenditure is concentrated in just a few countries. Over three-fifths is attributable to Italy and Germany and almost four-fifths to these two countries plus the UK and Spain. Half the countries in the chart account for less than 5 percent of total expenditure. Figure 8.1 also shows that, in most (though not all) countries, the *trend* has been for regional grant spending to decline over time.[26] That having been said, *overall* expenditure has proven to be remarkably resilient. The total "all country" figures for 1996 and 1998, for instance, are significantly above the average for the 1985-99 period as a whole.

Figure 8.1: Grant Expenditure (1985-1999)



[26] Due to the scale used in Figure 8.1, trends are more clearly seen in subsequent charts.

An obvious problem with Figure 8.1, when used for comparative purposes, is that it takes no account of country size. The next two charts compare the relative *scale* of grant expenditure in the countries under study by adjusting for national population (Figure 8.2) and GDP (Figure 8.3).

Figure 8.2: Grant Expenditure per Head of National Population (1985-99)

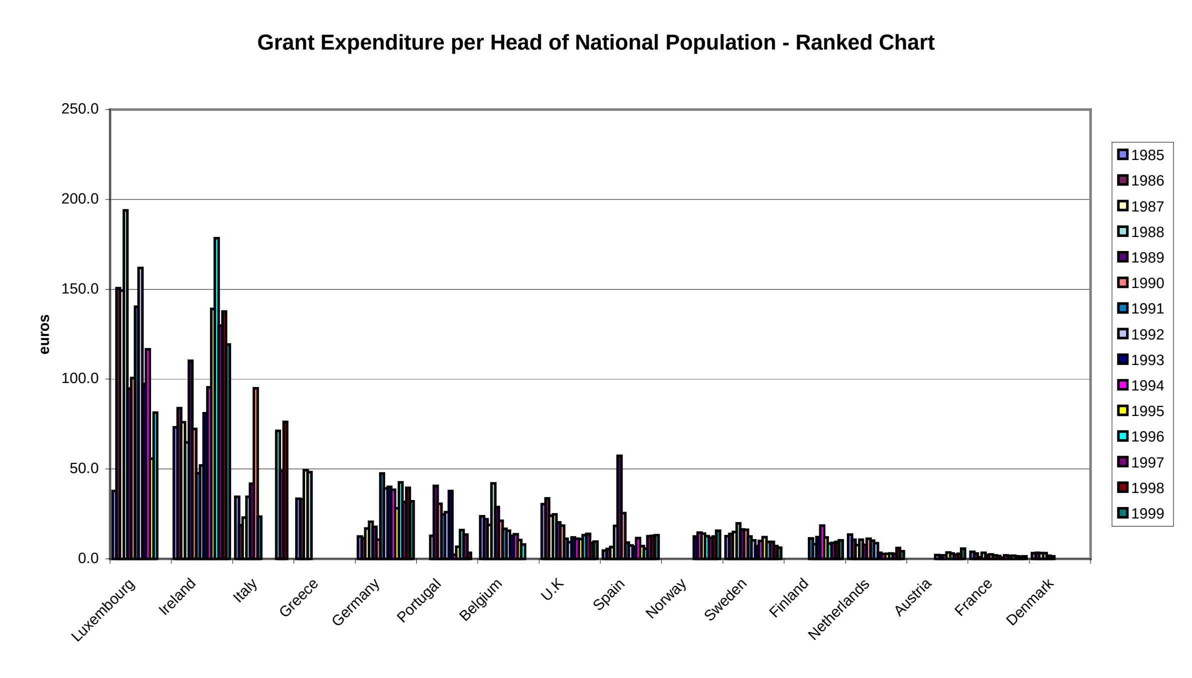
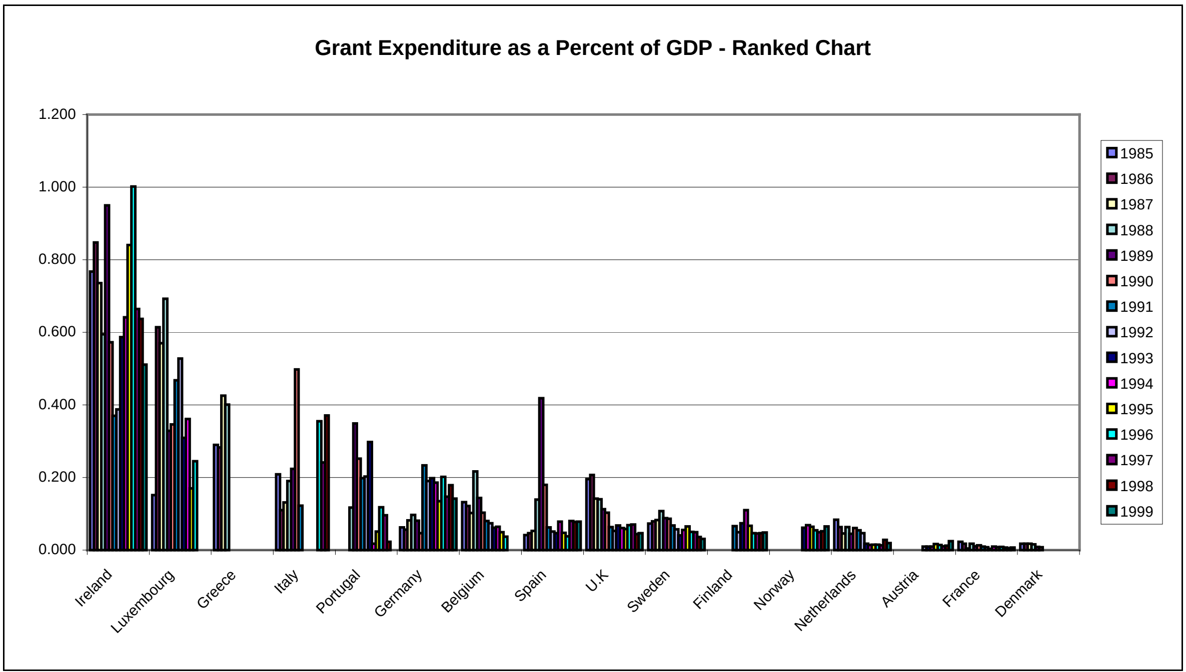


Figure 8.3: Grant Expenditure as a Percent of GDP (1985-99)



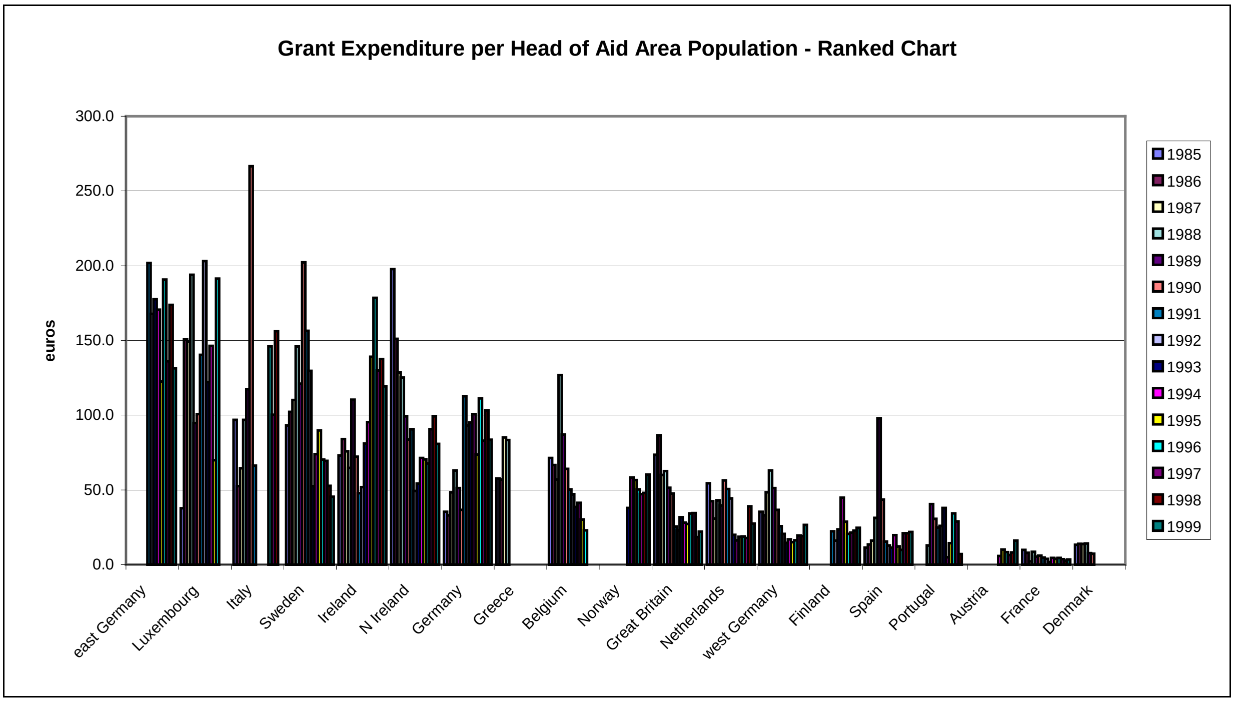
The countries in Figure 8.2 divide into four broad groups: those where per capita spending averages around 100 euros in 1999 prices (Luxembourg and Ireland); those where average expenditure per head is in the 40-50 euro range (Italy and Greece);

those with spending of below 10 euro per head (the Netherlands, Austria, France and Denmark); and the remaining countries (11-20 euros per head). Only Germany does not fit within this categorisation. Averaging just under 30 euros per head it is midway between the second and third group. This reflects the very different levels of per capita spending in the east (broadly on a par with the second group) and the west (closer to the fourth group).

Figure 8.3 shows a very similar picture in terms of GDP. The low levels of expenditure as a percentage of GPD are also of note. For only six countries is average regional grant spending in excess of 0.1 percent of GDP: Ireland, Luxembourg, Greece, Italy, Portugal and Germany. At the other end of the spectrum, spending has averaged less than 0.02 percent of GDP over the entire period in Austria, France and Denmark and has been broadly at this level in the Netherlands since 1993.

A final chart reviews the *intensity* of grant expenditure by relating spending to the population in those areas in receipt of support. A feature of designated aid area population coverage (highlighted in Section 5) is that it tends to be most concentrated in those countries where aid expenditure is relatively low. Conversely, there is generally less emphasis on spatial concentration in poorer Member States where the policy stress is often on national rather than regional development. The outcome of this, as Figure 8.4 shows, is that there is much more uniformity across countries in terms of the intensity of regional grant expenditure within the designated aid areas than there is in respect of the overall scale of expenditure.

Figure 8.4: Grant Expenditure per Head of Aid Area Population (1985-99)



The countries/regions in the chart can be viewed as four broad groups. First, there are those where spending averages around 100 euros per head or more: east Germany, Luxembourg, Italy, Sweden, Ireland and Northern Ireland. Second, there is Germany and Greece, with an average spend of 70-75 euros per head of recipient region population. Third, most of the remaining countries/regions have averages in the 25-50

euros per head range, with significantly lower levels of spend in many countries in this group in later years. Finally, in Austria, France and Denmark, regional grant spending averages less than 10 euros per head. In considering these figures, it should be noted that Structural Fund allocations for the 2000-06 period average just under 220 euros per head per annum in Objective 1 regions and are some 41 euros per head per annum for Objective 2.[27]

[27] Wishlade F (1999) *Eligible Areas and Financial Allocations under the New Structural Funds: Quarts, Pint Pots and Half Measures*, Report to Sponsors, October 1999