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

Douglas Yuill*

*This report it is based on research contributions from a range of EPRC colleagues. Their input is gratefully acknowledged. The country studies on which this overview rests are available on the Sponsor website.

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European Policies Research Centre
University of Strathclyde
40 George Street
Glasgow G1 1QE
Tel: +44-141-548-3222
Fax: +44-141-548-4898
e-mail: douglas.yuill@strath.ac.uk

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RESEARCH TEAM

The following team was involved in the preparation of this report:

GENERAL OVERVIEW	Douglas Yuill, EPRC
AUSTRIA	Ruth Downes, EPRC
BELGIUM	François Josserand, EPRC
DENMARK	Henrik Halkier, European Research Unit, Ålborg University
FINLAND	Rona Michie, EPRC and Douglas Yuill, EPRC
FRANCE	Fiona Wishlade, EPRC
GERMANY	Mary Louise Rooney, EPRC
GREECE	Dionyssios Tsoukalas, The Athens Graduate School of Economics and Business Science, Athens
IRELAND	Rona Fitzgerald, EPRC and Irene McMaster, EPRC
ITALY	Laura Polverari, EPRC
LUXEMBOURG	François Josserand, EPRC
NETHERLANDS	Douglas Yuill, EPRC
NORWAY	Philip Raines, EPRC
PORTUGAL	François Josserand, EPRC
SPAIN	Fiona Wishlade, EPRC
SWEDEN	Ruth Downes, EPRC
UNITED KINGDOM	Philip Raines, EPRC

1. INTRODUCTION

The period since the start of 2000 has been one of very significant regional policy change. One obvious reason for this is that 2000 was the beginning of the latest EU Structural Funds programming period. Since the Structural Funds co-finance aspects of national regional policy in many Member States, the start of the 2000-06 period was an obvious time for the introduction of new policy initiatives and approaches. The impetus for national regional policy change was reinforced by the application of a new EU framework governing the award of State aid in designated regional aid areas. The March 1998 regional aid guidelines[1] came into force from the start of 2000, impacting on the types of regional aid available, the coverage of the designated aid areas and the maximum rates of award on offer. Indeed, regional aid maps and schemes were suspended from the end of 1999 and were only reintroduced after approval of revised proposals by the relevant State aid authorities (DG Competition for the Member States; ESA, the EFTA Surveillance Authority, for Norway).

In addition to the impact of these external policy frameworks, other factors have helped to create an environment of considerable policy review and change. One has been the growing emphasis placed by countries on international competitiveness and productivity and on the role of regional competitiveness in contributing to national growth and development. Another has been the ongoing shift in policy focus to the regional level in many countries in the context of broader devolutionary and regionalisation trends. Related, the appropriate role of central government in regional economic development has come increasingly under review in a situation of ever more devolved policy delivery. On top of this, in a variety of countries there has been a move away from spatially-targeted intervention in favour of broader (country-wide) support for economic development in the regions.

The focus of this paper is on recent regional policy change; that is, change since the start of 2001. Obviously, change in 2000 cannot be ignored since it covers many important developments for the 2000-06 period; however, it was discussed in detail last year and will therefore be considered more briefly in this paper. The paper is in five further sections. Section 2 reviews the main recent legislative changes that have been introduced in respect of national regional policy and highlights the key policy developments. Section 3 then looks in more detail at change in terms of the different policy instruments, before Section 4 considers the most important recent administrative developments. Section 5 then reviews the changes made to the main regional aid schemes, in particular changes in respect of their spatial coverage, award ceilings and eligibility criteria. The final section, Section 6, discusses regional incentive expenditure trends, setting recent developments in the context of regional incentive spending since the mid-1980s.

[1] OJEC C74; 10 March 1998

2. LEGISLATIVE CHANGE

A detailed overview of recent changes in the legislative basis of regional policy can be found in Table 1 (in Annex 1).[2] The main developments are summarised in Table 2.1 below. The table distinguishes between changes in the detailed legal basis of regional incentive policy and broader regional policy reviews. It shows that most regional incentive laws and decrees were amended in the course of 2000 in response to the EC regional aid guidelines and, in particular, the agreement of the coverage of the new regional aid maps with DG Competition. However, in a few countries, implementing legislation did not come into force until 2001. For instance, in France, changes to the regional policy grant were introduced via *décret* 2001-312 of 11 April 2001, while detailed administrative provisions were contained in two *arrêtés* of 1 June 2001. As in other countries, the changes aligned the scheme with the regional aid guidelines (in terms of spatial coverage and award rates); in addition, job creation and investment thresholds were lowered, the definition of eligible services was broadened and more discretion was introduced into award decisions. In Portugal, too, the necessary decrees spilled over into 2001. Administrative decrees were passed in December 2000 and February 2001 and Portaria no. 164/2001 came into force on 7 March 2001. It brought the designated aid areas into line with the European Commission's Decision on award maxima in Portugal.

Also of note from the table is the fact that DG Competition did not finally approve all elements of the 29th GA Framework Plan in Germany (which laid down the ground rules for German regional policy for the 2000-03 period) until 30 May 2001. The delays and difficulties in negotiating both this and some earlier Plans have led the German authorities to adopt a low-key approach to recent aid scheme changes, thus avoiding the need to seek State aid approval of the two most recent Plans. The next Plan to be submitted to DG Competition will be the 33rd; this will cover the 2004-07 period and will include possible revisions to the regional aid areas, the GA Areas.

As already mentioned, a detailed review of all recent regional incentive changes will be provided in Section 5; this will cover the whole period from the start of 2000 in order to underline the level of change introduced by the regional aid guidelines.

[2] More detailed country-by-country reviews are available on the Sponsor website. A longer-term overview of change is provided in Table 2 (also in Annex 1).

Table 2.1: Recent Legislative Change and Broader Policy Reviews (2001-02)

Country	Detailed Incentive Legislation	Broader Policy Review/Change
Austria	No change. New *Richtlinien* for 2000-06 came into force on 5 June 2000	None, but spatially-restricted support now less important; innovation aid is stressed.
Belgium	No change following Flemish amendments to regional aid legislation, 17 July 2000 and Walloon decrees of 8 November 2000.	
Denmark		Autumn 2001 White Paper overtaken by election of new government in November. May 2002 Green Paper on dispersing government jobs. Strategy for Regional Growth in preparation.
Finland	Aid to Business Act (1068/2000) came into force on 1 January 2001	Regional Development Act 2002 will come into force at the start of 2003.
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 (*loi Voynet*) of June 1999 which involved a significant shift in the philosophy of regional policy
Germany	Annual GA *Rahmenplan* provides policy framework. Final EC State aid approval of 29th Plan (2000-3) not granted until 30 May 2001. 30th and 31st Plans low key	Discussion on future of regional policy following *Land* proposals to end “mixed financing” (including the GA). Negotiations due to finish by end 2003.
Greece	No change. Last major regional aid law was Law 2601/1998.	Development of SF programmes 2000-06
Ireland	No change. The main incentives were approved by the EC in October 2000.	National Development Plan for 2000-06; Development of SF programmes 2000-06; National Spatial Strategy in preparation.
Italy	Law 488 implementation decrees 2000-06 (6 March, 8 May and 3 July 2000). Also new fiscal credit under Law 388/2000	Objective 1 CSF for the *Mezzogiorno.* The constitutional reform process has also been important for regional policy delivery.
Luxembourg	Law of 22 December 2000 amended regional aid form, coverage and ceilings	
Netherlands	No legislative change since 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. Royal Decrees of Delimitation set regional aid coverage/rates in line with EC aid rules	Development of SF programmes 2000-06
Sweden	Ordinance of Regional Aid last amended as from 1 January 2000; new Transport Aid guidelines as from 11 May 2000.	New Regional Policy Bill, *A Policy for Growth and Viability throughout Sweden*, was passed in December 2001.
United Kingdom	No legislative change. DTI aid review impacted on RSA administration (April 2002). RSA guidelines revised. Changes to the operation of RSA in Scotland. Invest NI set up in Northern Ireland (Industrial Development Act (NI) 2002.	White Paper on Enterprise, Skills and Innovation (2001) and on Regional Governance (2002); Scotland: Framework for Economic Development (2000); Welsh Economic Development Strategy (2002); N. Ireland: Medium-Term Strategy (2002)
Norway	The detailed implications of the new government’s new approach are expected to take some time to feed through.	2001 White Papers overtaken by election of new government and announcement of a radical new approach to regional policy.

Moving beyond changes to the legal basis of regional aid policy and considering broader policy reviews and developments, Table 2.1 shows that the past year or so has been a relatively active period. Obviously all Member States have begun to implement the Structural Funds in the new programming period and have been facing up to the new challenges introduced by the 2000-06 regulations, in particular, the n+2 decommitment rule.[3] It is interesting that, in at least some countries, this has meant that the Structural Funds have tended to be used for more standard, routine investment, leaving more innovative policy approaches to domestic regional policy. As far as new domestic legislation and White Papers are concerned, the main recent developments have been in the Nordic countries and the United Kingdom, with new regional policy laws in Sweden and Finland and new White Papers in the UK, Denmark and Norway. Interestingly, in the last two countries, White Papers published in 2001 were subsequently overtaken by the election of new centre-right governments which soon announced new approaches to regional development which emphasised the importance of regional growth and competitiveness in *all* regions. An enhanced stress on the regional level has also been a feature of broader policy developments in the United Kingdom and Italy, as part of devolutionary trends in both these countries, and also in France and the Netherlands, in line with policy frameworks introduced over the past two or three years – the 1999 *loi Voynet* in France and the 2000-06 Memorandum on Spatial Economic Policy in the Netherlands. The relative roles and responsibilities of central government and the regions have also become a live topic in Germany where the joint Federal-*Land* approach to regional economic development, the *Gemeinschaftsaufgabe* (or GA), has been called into question by some *Länder* alongside other forms of so-called *Mischfinanzierung* (mixed Federal-*Land* funding).

Before commenting on the main themes to arise from these broader policy reviews and developments, it is useful to consider briefly the key changes which have been taking place on a country-by-country basis in order to provide a fuller picture of recent policy trends. The review is limited to those countries where significant change has been recorded.

In ***Austria***, there has always been a reluctance to see regional development policy focused on narrowly-targeted aid areas and these have traditionally proven difficult to designate; the view has been that the emphasis should be on resolving regional problems rather than designating problem regions. Reflecting this, the term ‘regional policy’ has not been very meaningful outside of the Structural Funds, which, for their part, have become increasingly associated with support for standard routine investment. In contrast, domestic policy to encourage regional development has tended to become synonymous with innovation policy in the regions, particularly since the demise in 2000 of a number of aid schemes which had been restricted to the designated aid areas (the Regional Innovation Premium and Regional Infrastructure Support). Spatially-targeted support was felt increasingly to be inappropriate in respect of a policy area which was innovation-based and concerned with improving growth and competitiveness across the country as a whole. The current stress on non-spatially-targeted innovation policies reflects the longer-term importance attached to endogenous regional development in Austria and the significance of innovation-oriented policies in this context.

[3] Council Regulation (EC) No. 1260/1999 of 21 June 1999, OJEC L161; 26 June 1999, Article 31.

In ***Denmark***, regional policy has traditionally had a low priority, particularly following on from the abolition of the regional aid package in 1991. The focus in recent years has been on framework measures to improve the business environment, coupled with a gradual decentralisation of responsibility for economic development activities whilst maintaining central government control. The election of a new centre-right government in November 2001 has, perhaps surprisingly given the emphasis placed on its liberal credentials during the election campaign, resulted in an enhanced profile for regional issues; indeed, for perhaps the first time in Denmark, a commitment to balanced regional development was included in the coalition agreement that formed the basis for the new government. While it remains to be seen how this will transfer into specific policies, early actions of the new government have seen: the maintenance of regional policy funding, but with slightly more flexibility within the various budget heads; a Green Paper to encourage the movement of central government bodies outside Copenhagen, part of the new government's strong emphasis on institutional reform; and the declaration of the importance of the promotion of growth and competitiveness in *every* region across the country, while also stressing the need to improve coordination between national and regional actors in order to increase the efficiency of regional policy.

In ***Finland***, changes in the operating environment for policy have caused the goals of national regional policy to be reviewed (favouring regional competitiveness over territorial balance), the range of policy instruments to be widened and policy action to be retargeted so as to develop a competitive regional structure covering the whole country. The 2002 Regional Development Act, which is due to come into force at the start of 2003, aims to encourage both the diversification of regional policy, pursuing different types of measure in different regions in line with (regional views of) the varied strengths and resources of each region; and the regionalisation of sectoral policies, with sectoral bodies preparing regional strategies and developing regional principles to ensure that policy reflects the varied needs and priorities of each region. The concept of 'functional urban areas' has also been given increased stress in recent years, particularly in the context of the Regional Centre Development Programme which began in November 2000 with the aim of creating a balanced and properly planned network of regional centres. More generally, urban areas have, in recent years, been given more policy emphasis than in the past.

In ***France***, broader regional policy developments in the last few years have focused on the implementation of regional framework legislation introduced in 1999, the *loi Voynet*. This changed the direction of policy by emphasising: the provision of demand-led services in the regions on the basis of equity rather than equality; the role of local initiatives led by "self-defined" geographical entities (so-called *pays* and *agglomérations*); and the importance of urban centres in the regional economic structure. These changes reflected three factors which, over the previous two decades, were seen to have radically altered the role of, and context for, a central-government-led regional policy – the internationalisation of the economy, which has reduced the scope for governments generally to steer economic development; decentralisation, which has created new actors and partners in spatial economic development; and the reform of the Structural Funds, which has added a European dimension bringing both new policy elements and opportunities, but also constraints. At the same time, the general trend towards "less government" and the emphasis on "market solutions" has reinforced the move away from the highly prescriptive policies of the 1960s towards

an approach based increasingly on partnership, empowerment and "bottom-up" initiatives within a nationally-defined framework.

In ***Germany***, an important debate has been initiated about the future of the GA, the joint Federal-*Land* framework which, on the basis of consensus-based decision-making, limits competition between the *Länder* in the provision of regional support, while allowing the *Länder* maximum independence in terms of policy implementation. The debate has arisen out of concerns in some powerful *Länder* about forms of 'mixed funding', where both the federal and *Land* levels contribute to the funding of a single policy area. In general terms, the *Länder* view such funding as problematic, arguing that it leads to a confusion of responsibilities between the different levels of government, a lack of transparency and a loss of efficiency because of the high coordination demands. Accordingly, they have called for it to be withdrawn, with the legal basis for reform being in place by the end of 2004. The regional policy GA is one of only a relatively few examples of mixed funding in Germany. Regional policymakers have argued that it is different from some of the other GAs because of its key regulatory and coordination functions: it provides a uniform country-wide framework which protects weaker regions and constrains competition between the *Länder*; it utilises transparent and objective criteria to designate areas and distribute resources; it ensures aid is awarded in line with agreed rules; it represents the regional policy interests of the *Länder* in discussions and negotiations with the EC; and it provides a coordination framework for other policies with spatial implications. However, it remains to be seen whether these arguments will prevail in the negotiations relating to the abolition of mixed funding; these are due to be concluded by the end of 2003.

In ***Ireland***, broader economic development measures are channelled through the National Development Plan (NDP). This provides a national framework for investment in economic development over the 2000-06 period. The funding is organised into six operational programmes – three are national/inter-regional in orientation, focusing on economic and social infrastructure, employment and human resource development, and productive investment; two are regional (one for the Border, Midlands and West (BMW) region, the other for the Southern and Eastern region); and the final programme is the Peace operational programme with Northern Ireland. The main NDP priority is to address infrastructure bottlenecks and regional imbalances. The regional elements of the plan are noteworthy in the Irish context where past policy approaches (including in respect of the Structural Funds) were highly centralised. They are being followed through via the two regional operational programmes, the development of a National Spatial Strategy to promote balanced regional development, the possible future designation of regional development gateways and the incorporation of a significant regional dimension to the activities of the main development agencies in Ireland – IDA-Ireland and Enterprise Ireland.

In ***Italy***, the approval of the Objective 1 CSF for the 2000-06 period confirmed an important strategic change which has been taking place in the operation of regional policy in that it emphasised the need to promote the competitiveness of the *Mezzogiorno* by exploiting its endogenous potential. The CSF marked a more general shift from an exogenous approach to regional economic development, focused on incentives to firms to create employment and attract inward investment, to an endogenous approach, based on a holistic consideration of the strengths and

weaknesses of local economies and societies. Such changes have been supported by developments in the broader policy environment, in particular the recent constitutional reform process which has seen a radical shift in the allocation of responsibilities between tiers, with a much stronger emphasis on regional and local levels of government. Under the revised constitution, local economic development is an exclusive competence of the regions. However, it remains to be seen how and when the reforms will be fully operationalised. In particular, questions remain about how national-level coordination and coherence of development policies implemented by the regions is to be attained and whether sufficient support will be made available to lagging regions.

In ***the Netherlands***, the 2000-06 Memorandum on Spatial Economic Policy stressed the importance of competitive business locations as a response to the growth of the global network economy, emphasised the value of regional cooperation and coordination in the delivery of policy and recognised the key role of the regional level in helping to ensure the coherence of policy actions. Traditional regional policy as applied in the north of the country (in the form of incentives and economic development programmes) was thought of as "the last remaining component of classical regional policy".[4] More recently, the questioning of traditional regional policy has continued, particularly in light of the increasing policy stress on labour productivity. This recognises future constraints on the growth of the labour force and a consequent need to rely on productivity-driven rather than employment-driven growth. While this has implications for a range of policy areas, the question that arises for regional policy is where the spatial focus of policy should lie if productivity growth is the dominant policy goal. The feeling is that, looking to the future, big cities are likely to be given more policy weight. Certainly, there is a view that, if the key challenge is to stimulate labour productivity, then classical regional policy responses may no longer be appropriate.

In ***Sweden***, a regional policy Bill in December 2001 (2001/02:4) brought together traditional regional policy (mainly incentive-based and focused on designated aid areas) and the recently-introduced regional industrial policy (built around programme-oriented Regional Growth Agreements covering regions throughout the country). The resultant regional development policy had, as its overall objective, "*well functioning and sustainable local labour market regions with an acceptable level of service in all parts of the country*". Compared to previous legislation, the new Bill involved: an increased stress on a whole country approach with a view to stimulating regional development in *all* regions; a greater focus on issues of regional competitiveness, growth and employment; the more explicit involvement of a wider range of policy areas which impact on regional development (not only regional development policy itself but also trade and industry policy, labour market policy, education policy, transport policy, innovation policy, rural development policy and cultural policy); a clear distribution of responsibility between government and local authorities, with municipalities within county boundaries being encouraged to combine for economic

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[4] Ministerie van Economische Zaken (2000), *Nota Ruimtelijk Economische Beleid: Dynamiek in netwerken* (Ministry of Economic Affairs, *Memorandum on Spatial Economic Policy in the Netherlands: Dynamics in networks*), The Hague, English Summary, page 13.

development purposes;[5] a new emphasis on local labour market areas in order to enhance the potential and capabilities of every region; and the encouragement of programming and benchmarking (with a view to learning and re-applying experience in policy design and implementation). While some of these changes legitimise shifts which have been occurring for a number of years, it is important to note that they do not replace the emphasis on the traditional priority regions, characterised primarily by sparse population and out-migration and more recently including areas of industrial restructuring. The main regional development incentives, spatially targeted on the designated aid areas, have been continued and operate with little change.

In the ***United Kingdom***, a White Paper on Enterprise, Skills and Innovation, published in early 2001, espoused a new approach to regional development, one that recognised sub-regional diversity in economic performance but presented a *regional* rather than a *national* solution to it. 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 can be summarised as follows: regional growth must be a *bottom-up process*; involving a greater reliance on Regional Development Agencies to identify local development priorities and devise programmes in response; incentive-based support is no longer a sufficient tool for regional policy but must be supplemented by *more integrated, business-environment-focused initiatives*; and *knowledge-based development* is essential, involving, for instance, more support for regional clusters. In May 2002, a White Paper on Regional Governance in England restated the goals of regional policy (with policy tailored to the needs of individual regions but also providing solutions "which work in the best interests of the country as a whole") and, as part of the broader process of devolution, set out proposals for elected regional assemblies. Elsewhere in the United Kingdom, economic strategies have been published in Scotland, Wales and Northern Ireland which generally stress the importance of international competitiveness and productivity growth for regional development.

Finally, in ***Norway***, a change of government in autumn 2001 (to a centre-right coalition) led to the announcement of a radical shake-up of regional policy. The changes seem likely to affect not just the budgets, institutional responsibilities and schemes of regional policy, but also herald a significant shift in the overall approach to regional development. While, in many respects, the revised policy directions can be viewed as simply involving an intensification of ongoing trends, there are substantial new elements in the emerging policy, even though it may take several years before the full implications of the policy shift are manifest. According to the new government, regional policy will, in future, aim for balanced development involving population growth in *all* regions, rather than simply maintaining the existing settlement pattern. The preference at the national level will be for automatic, non-selective business support measures, which will aim to enhance the business environment through tax cuts, measures to stimulate innovation and broader infrastructure support, rather than financial aid schemes which target particular aspects of business operations or apply in certain areas. Regional policy spending will be devolved to the *fylke* (county) level; the view of the new government is that the regions should be as free as possible to

[5] See Government Bill 2001/02:7, also passed in December 2001.

determine their own spending priorities. Different from the previous approach, central government will have little power to determine how money should be spent or what the content of regional strategies should be; this represents a significant shift of resources and responsibilities to the regional level. The overall aim is that the market failures addressed by regional policy should in future be tackled at the regional level. Questions remain about the future form and size of national regional aid schemes, but the SND, the main development agency in Norway, is already restructuring in the face of a sharply-reduced budget while the Ministry of Local Government and Regional Development has begun to review its policy functions based on a 'coaching and facilitating' model.

A number of themes arise out of this review of recent changes in policy approaches and directions. One is that, in a range of countries, traditional approaches to regional policy (primarily based around spatially-targeted business aid schemes) are becoming less central to regional development policy. Thus, in Austria, both the Regional Innovation Premium and Regional Infrastructure Support have been withdrawn as the focus has shifted towards non-spatially-targeted innovation policies. In Finland, the main policy goal has become the promotion of regional competitiveness (rather than territorial balance) and the range of policy instruments has widened with a view to developing a competitive regional structure across the country as a whole. In Italy, there has been an important strategic shift towards the exploitation of endogenous potential for regional development and away from an exogenous approach based on incentives to firms to create employment and attract inward investment. In the Netherlands, the appropriateness of the last remaining element of classical regional policy, targeted at the north of the country, has been questioned in light of the need to focus policy on areas of productivity growth. In Sweden, though traditional regional policy is largely unchanged, recent legislation has seen a shift in emphasis towards broader, programme-based measures with a view to stimulating regional competitiveness, growth and employment in all regions. In the United Kingdom, recent White Papers have stressed regional rather than national solutions to regional development problems; in this context, incentive-based support is no longer viewed as a sufficient regional policy tool but is now supplemented by more integrated, business-environment-focused initiatives. Finally in Norway, the election of a new centre-right government has seen the policy goal shift to regional growth in all regions while automatic, non-selective measures have become the preferred form of business support.

Related to the relative decline in emphasis on traditional forms of regional aid, there have been clear moves in many countries towards a more regionalised approach to regional policy, stressing the promotion of growth and competitiveness at the regional level. For instance, in Finland, a core aim of the 2002 Regional Development Act is to encourage the diversification of regional policy, with different types of measure being used in different regions in line with priorities drawn from regional-level analyses of the varied strengths and resources of each region. In France, longer-term decentralisation trends have created new actors and partners in spatial economic development and have led to an approach to spatial development under the 1999 *loi Voynet* which is based on partnership and bottom-up initiatives within a nationally-defined framework. In Ireland, a previously highly-centralised approach has been given a regional dimension under the 2000-06 National Development Plan which has fed through into a more strategic role for regional authorities, the development of a

National Spatial Strategy to promote balanced regional development and the incorporation of significant regional aspects into policy delivery. In Italy, the strategic shift which has been registered in favour of endogenous regional development has been supported by the constitutional reform process which has resulted in a much stronger emphasis on regional and local levels of government; indeed, under the revised constitution, local economic development is an exclusive competence of the regions. In the Netherlands, the 2000-06 Memorandum on Spatial Economic Policy emphasised the value of regional cooperation and coordination in the delivery of policy and recognised the key role of the regional level in helping to ensure the coherence of policy actions. In Sweden, the December 2001 regional policy Bill increased the stress placed on regional competitiveness, growth and employment and, through separate but related legislation, created the opportunity for municipalities within a county to combine together for economic development purposes. This potentially strengthens their economic development role and, over time, facilitates a clearer distribution of responsibility between central government and local authorities. In the United Kingdom, the broader devolution process since 1999 and more recent White Papers have greatly enhanced regional-level inputs into policy development and delivery not only through increased economic development responsibilities in Scotland, Wales and Northern Ireland but also through the growing role of regional development agencies in the English regions. Lastly, in Norway, the new government has announced that it will devolve most regional policy spending to the county level, leaving the regions as free as possible to determine their own spending priorities.

These more regionalised approaches to regional development and policy have, in turn, raised a variety of issues about the regional delivery of policy. One concern relates to how a ‘whole country’ approach to regional development can be reconciled with the modulation of policy to address (and be seen to address) the enhanced problems of the worst-off areas. Another focuses on the issue of regional-level coordination: is this best achieved through the activities of central government in the regions or by creating *ad hoc* regional partnerships or via democratically-accountable regional bodies? A third issue concerns the level of regional analysis. A number of countries have stressed the importance of working with appropriate areas from a functional perspective – in particular, the *pays* and *agglomérations* in France but also labour market areas in Sweden and functional urban areas in Finland. How can these be reconciled with traditional administrative areas? Finally, there is a question as to how far national sectoral policies can be regionalised and how this might best be achieved. Recent legislation in both Finland and Sweden has tried to facilitate the regionalisation of sectoral policies.

While all of these issues are important, and will be considered further in later sections, perhaps the key general theme to arise from the regionalisation trend has concerned how regional-level development efforts might best be coordinated to ensure that national as well as regional goals are met. Recent policy developments have addressed this issue in a range of countries. For instance, in Austria, where most economic development activity is *Land*-based, the coordination role of the Federal Chancellery has increasingly involved providing institutional support and promoting exchange of experience such as to encourage new ways of thinking and approaching regional development bottlenecks. In Denmark, the new government has stressed the need for improved coordination between national and regional actors in order to increase the efficiency of regional policy. In this, it has carried forward arguments contained in the

2001 White Paper of the previous government, which highlighted national-regional coordination as a key concern. In Finland, the 2002 Regional Development Act foresees regions developing appropriate plans and strategic priorities and then negotiating with state bodies in the regions about the use of resources. In France, stress has been placed on the fact that bottom-up policy initiatives must operate within nationally-defined frameworks. In this context, *schémas de services collectifs* have been drawn up to provide a long-term frame of reference for public service provision in the regions in nine key policy areas. In Germany, where economic development is, constitutionally, a *Land*-level function, an important debate has arisen concerning the future of joint Federal-*Land* funding mechanisms like the regional policy GA (*Gemeinschaftsaufgabe*, Joint-Task). Although German regional policymakers argue strongly that the regional policy GA is essential in the German context in view of its important regulatory and coordination functions, it remains to be seen whether these arguments will be accepted in the high-level Federal-*Land* negotiations that are soon to take place. In Italy, the regionalisation process has not yet been fully operationalised; one of the main outstanding questions concerns how national-level coordination and coherence of development policies is to be achieved. In the Netherlands, national-regional convenants have developed in recent years as a way of promoting policy coordination. In December 1999 a covenant, *Partnership in the Regions*, was signed between central ministries and provincial and municipal associations in order to enhance centre-region cooperation in a number of important economic development spheres. In Sweden, one of the features of the recent legislation has been its general stress on coordination, not least through the new Regional Growth Programmes which aim to provide a coordination framework for regional funds. In the United Kingdom, the move towards regional solutions to regional economic development problems has been accompanied by clear recognition that such solutions must 'work in the best interests of the country as a whole'. To this end, regional strategies in England are subject to central government review and approval, while often-detailed inter-departmental targets are set for Regional Development Agencies on a range of issues. Finally in Norway, it remains to be seen how the national coordination role will develop in what will become a highly regionalised system. It is, however, of note that the functions of the Ministry of Local Government and Regional Development are being reorganised to focus on the provision of advice to the county level, the coordination of regional development issues at the national level and the oversight of regional policy, particularly in the State aid context.

3. CHANGING REGIONAL POLICY INSTRUMENTS

The aim of this section is to review briefly the key components of regional policy in the Member States and Norway, with a view to highlighting the most significant recent changes and longer-term trends. The section begins by considering broad regional policy instruments in the countries under study before discussing the regional aid packages on offer in more detail.

3.1 Changes in 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;
- ***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 played by the last two has been relatively minor in recent years. Disincentives and controls to encourage the re-location of businesses away from congested areas 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 in the United Kingdom, with regard to London and the South-East. However, the UK abandoned the policy during the 1970s in the face of rising national levels of unemployment; its re-introduction has never been actively considered, not least since, although national levels of unemployment are once more at historically low levels, significant pockets of unemployment remain in even the most prosperous regions. In contrast, rules constraining business location in the Île de France region remain in place. Although they were relaxed in the mid-1980s amid concerns at the competitiveness of Paris as a European capital, a proactive relocation policy away from the Paris region has once more been adopted in recent years. 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, it was anyway only in Italy in the 1960s and 1970s 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*.[6] 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 more 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. On the other hand, in Denmark, a Green Paper on moving central government bodies outside Copenhagen was published in May 2002 as part of the new government's approach to institutional reform.[7] Although the number of jobs to be moved was fairly limited, the Green Paper proposed that the onus should be on institutions to justify their presence in the capital rather than the other way around. More generally, across a range of countries the transfer of central government functions to the sub-national level as part of broader decentralisation trends clearly impacts on the ultimate location of civil service employment; in effect, it moves civil service jobs to the regions even though individuals may not themselves be relocated.

The other four policy elements – regional incentives, business environment measures, infrastructure provision and regional strategy development – all play a more significant part in the regional policies currently in operation in the Member States. A summary overview of their distribution across the countries under study is provided in Table 3.1. For more than four decades, regional incentives have been amongst the most durable and significant of regional policy instruments and they remain an important element of regional policy in most countries (Denmark and, more recently, Austria are the main exceptions). The popularity of regional incentives over time reflects their general visibility and administrative simplicity, 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. However, in recent years sentiment has begun to move against aid to business as a regional policy instrument in at least some countries in the face of more market-oriented policy regimes, concerns about policy effectiveness and increasingly constraining EC regional aid regulations. Recent changes in the availability of regional aids in the Member States and Norway are discussed further in Section 3.2.

In contrast to the reduced stress on regional incentives, the broad policy weighting attached to business environment measures aimed at creating appropriate framework conditions for business development has been growing. This reflects the increasing policy focus on endogenous development and 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. It is also in line with the shift of focus noted earlier towards competitive regions rather than firms, as well as the influence of EU programming under the Structural Funds.

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[6] 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.

[7] Regeringen (2002) *Redegørelse til Folketinget om udflytning af statslige arbejdspladser*, København: Statsministeriet.

Table 3.1: The Components of Regional Policy

Member State	Regional Incentives	Business Environment	Infrastructure Provision	Regional Strategies
Austria	ERP regional loan. Some national grants have regional differentiation	RIF 2000 (Regional Impulse Support) aids regional innovation; national in coverage		*Land* Programmes
Belgium	Mainly grant-based			Distinct policies in Flanders and Wallonia
Denmark	None. Regional aid schemes withdrawn in 1991.	Host of regional and local initiatives plus business nodes to aid coordination	Major development projects are set in context of regional initiatives	Regional programmes. Strategy for Regional Growth being developed
Finland	Grants, tax relief, transport aid. Pilot SSC in north (*de minimis*). Business aid is main policy weapon	Business Environment Development Aid. Centres of Expertise Programme	Regionalisation and differentiation of national policies. Broad regional policy	Strategic plans of Regional Councils. Regional Centre Development Programme
France	Mainly grant-based, but some fiscal elements	*Aménagement du territoire/loi Voynet*	Outline plans of needs-based service provision *Schémas de services collectives.*	Regional development plans; *Schémas de services collectives; Contrats de plan.*
Germany	Grant-based via the GA, plus ERP loan. Investment allowance in new *Länder*		GA also supports investment in economic infrastructure	*Land* Programmes. GA grant to help weakest regions develop strategies
Greece	Alternative fiscal and grant packages	Objective 1 CSF	Structural Funds; Cohesion Fund	Structural Funds
Ireland	Grant-based but wide range of incentives	National Development Plan (NDP)	Structural/Cohesion Funds; NDP; National Spatial Strategy etc	Regional components of NDP; Structural Funds
Italy	Grant-based Law 488/92, plus fiscal aid (eg Law 388/2000).	Objective 1 CSF	Structural Funds	Structural Funds (Objective 1 CSF). Negotiated plans
Luxembourg	Mainly grant-based			
Netherlands	Grant-based, IPR	TIPP: to help develop strategic business locations/investment programmes	TIPP plus regional covenants to help coordinate investment spending	Programme for the North; Regional covenants; TIPP
Portugal	Grant-based SIME (part repayable) plus SIPIE (suspended)	Objective 1 CSF	Structural Funds; Cohesion Fund	Structural Funds
Spain	Grant-based, RIG	Objective 1 CSF	Structural Funds; Cohesion Fund	Structural Funds
Sweden	Grant-based RDG or employment grant; transport aid; *de minimis* SSC		Eight sectoral policy areas charged regional development objectives	Regional growth agreements (RGAs) and programmes (RGPs); Delegations
United Kingdom	Grant-based, Regional Selective Assistance; SFA in N.Ireland	Regional-level business-environment focused initiatives		RDAs in England; Development strategy for Scotland/Wales/NI
Norway	Grants; risk loans; transport aid (formerly social security aid)	Emphasis on business environment and innovation policy		*Fylke* regional economic strategies. Policy regionalisation

Recent developments in policy instruments targeted at the regional business environment are set out in Table 3.2. The table focuses on measures which are generally viewed in the country concerned as part of national regional policy. Such measures are not always easy to isolate, on the one hand because the boundaries between national regional policy and the operation of other national policies in the regions (for instance, SME and innovation policy) is becoming increasingly blurred and, on the other, because, particularly with respect to measures to improve the business environment, it can often be difficult to distinguish national regional policy from the operation of regional-level development initiatives.

Although specific changes are registered in respect of fewer than half the countries in the table, all continue the longer-term trend of providing enhanced support for improvements to the regional business environment. For example, in ***Austria***, a new measure, Regional Impulse Support 2000 (*Regionalen Impulsfőrderung 2000*, RIF 2000) has been introduced to increase the scope for the existing Austrian “impulse” centres (technology and innovation centres) to encourage innovative and effective R&D activities in their regions. Aid is provided to the regional impulse centres in response to competitive tenders under which projects are ranked (by an independent expert jury) on the basis of eligibility and quality criteria. The first tender closed on 15 March 2001 and resulted in 23 applications. Three further calls for proposals are anticipated in the period up until 2006. Projects are supported which strengthen regional innovation systems, contribute to improvements in the regional socio-economic environment, increase the innovative potential of regional SMEs and generally improve the role and impact of the impulse centres within their regions (for instance, by intensifying cooperation among them and between them and relevant educational and research establishments). The scheme is one of a number of recent developments in Austria which aim to strengthen the regional business environment by supporting innovation-oriented policies at the regional level across the country.

In ***Belgium*** and ***Denmark***, the changes recorded in the table are relatively low-key. In Wallonia in Belgium a new aid was introduced in November 2000 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 Denmark, the new centre-right government strongly supports the policy consensus of the last decade in favour of framework measures to improve the business environment. While no policy change has yet been introduced, DKK 20 million has been made available in the regional policy budget to support new but as yet unspecified initiatives.

In ***Finland***, the Centres of Expertise Programme has been operating since 1994 alongside the available business aid support. The programme builds on previous regional innovation policies which aimed to develop expertise in the regions, including policies relating to the location of universities. Now in its second phase (1999-2006), the programme encourages the development of regional, national and international networks among key research providers and users in selected internationally-competitive fields of expertise. Regions focus on different areas of expertise selected on the basis of submissions from Regional Councils as part of a competitive tendering exercise. There are currently 14 regional and two national centres. In May 2002, a new call for tenders was issued to seek out possible new centres and fields of activity. The relevance of current centres is also under review.

Table 3.2: Recent Changes in the Components of Regional Policy

Member State	Regional Incentives	Business Environment	Infrastructure Provision	Regional Strategies
Austria	Regional innovation premium withdrawn in late 2000.	RIF 2000 (Regional Impulse Support) introduced in 2000; national in coverage	Regional Infrastructure Support withdrawn in 2000. Replaced by RIF 2000	*Land*-level strategies reviewed in context of 2000-06 programming period
Belgium	Wallonia: new aid for business services	Wallonia: new aid for business services		
Denmark		New government: business environment support still favoured		New Strategy for Regional Growth being developed
Finland	Combined regional investment and SME aid. Pilot SSC in north (*de minimis*)	Centres of Expertise Programme: new call for tenders (May 2002).	2002 RDA (Regional Development Act): Regionalisation of sectoral policies.	2002 RDA: Regional Council strategic plans Regional Centre Dev't Programme Nov 2000
France	Re-operationalisation of the PAT in 2001. More subnational scope for business aid.		Adoption in 2002 of *schémas de services collectives.* Shift away from infrastructure.	Needs-based *schémas de services collectives* set framework for *Contrats de plan* 2003
Germany	Investment allowance in new *Länder* under review (needs new legislative basis 2004)		GA aid for economic infrastructure investment increased from 80 to 90 percent.	GA grant to help develop strategies in weakest regions (August 2000).
Greece				
Ireland	Regionalised venture capital funds		NDP: stress on infrastructure deficiencies. National Spatial Strategy.	NDP: stress on tackling regional imbalances. Regional components of NDP
Italy	Law 488/1992 updated for 2000-06. New automatic fiscal credit (Law 388/2000)		O1 CSF stressed need for infrastructure. Regionalisation of development powers.	Strategic framework provided by O1 CSF. Regional strategies in regional OPs.
Luxembourg	Dec 2000: end interest subsidy.			
Netherlands		StiREA replaced by TIPP in 2000. First call for proposals, Feb. 2001	TIPP, plus regional covenants. Spatial productivity agenda.	Northern development programme; Regional covenants; TIPP.
Portugal	Grant-based SIME (part repayable) plus SIPIE (suspended)			
Spain				
Sweden	Former social security concession withdrawn in 2000. New SSC in the north (*de minimis*)		New Bill. Acceptable service provision level in regions. Sectoral policy regionalised.	RGAs and RGPs. Also Delegations in inland north & Bergslagen. Municipal cooperation
United Kingdom	New RSA criteria. More devolved policy. New regional venture capital schemes	Movement towards business-environment focused initiatives	On-going devolution of economic development powers	Policy regionalisation RDAs in England; Development strategy for Scotland/Wales/NI
Norway	Regional business aid review. Transport aid review	New government: emphasis on business environment and innovation policy	New government: regionalisation of economic development powers	New government: more stress on *fylke* regional economic strategies.

In ***the Netherlands***, a new tender-based measure, the TIPP (Provincial Investment Programmes Tendering Scheme), has been set up to strengthen the business environment by fostering the development of new strategic business locations and the restructuring of derelict business locations. The programme operates by encouraging provinces to co-operate with municipalities (and other provinces) to develop strategic plans and related investment programmes for their areas. The original budget for the scheme was Fl 50 million (€22.7 million) per annum over the 2000-03 period (Fl 200 million in total) but this was subsequently increased to Fl 300 million (€136.1 million). The first call for proposals was published in February 2001. An (independent) expert committee ranked the proposals, utilising a scoring system which favoured poorer areas and "quality". Five submissions were funded, with about Fl 15 million (€6.8 million) per programme being awarded. For aided programmes, the TIPP finances a maximum 50 percent of net costs (that is, costs minus any benefits minus any other subsidies) up to an absolute maximum of €6.8 million. The national level provides 85 percent of the funding and the provinces 15 percent. A second call for proposals followed in 2002 to fund a further six programmes.

In the ***United Kingdom***, the 2001 White Paper on Enterprise, Skills and Innovation stressed that incentive-based support must be complemented by more integrated, business-environment-focused initiatives, boosting regional capacity for innovation, enterprise and skills. In keeping with the White Paper's overall theme of developing a high-tech, ICT-literate knowledge economy, the recommendations for regional policy actions reflected increasing interest in the importance of knowledge in economic development. Measures to increase the links between research providers (especially universities) and businesses were seen as central in terms of improving skills levels, technology transfer and new firm formation. Most prominently, the White Paper announced the establishment of a series of university innovation centres and technology institutes – "top class, long term partnerships between business interests and the university sector" – which were to be at "the heart of cluster development". The ultimate aim is to create up to two such centres in each of the English regions with regional partnerships invited to bid for funding on a competitive basis. The approach reflects the clear cluster focus which has been developing over the past few years, not least via the strategies set out by Regional Development Agencies (RDAs) in England. Similar developments are also to be found elsewhere in the UK. For instance, in Scotland, considerable stress is being placed on the development of university-industry links, while in Northern Ireland recent strategic planning documents have emphasised the importance of innovation and knowledge-based growth.

Finally, in ***Norway***, the new centre-right government has announced that it favours broad improvements to the business environment (through non-selective tax cuts, innovation support and infrastructure provision) in preference to selective, targeted support (including regional aid). In line with this policy, a new tax incentive scheme to support RTD in all businesses throughout the country is being introduced as a key measure in the new government's programme. At the same time, the new government wishes to see the further regionalisation of regional development expenditure, with an associated decline in national-level measures. On the other hand, final decisions on the appropriate balance between national and regional support and between automatic and selective policy instruments have still to be taken.

The third component of regional policy in Table 3.1, 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 Objective 1 CSFs for the 2000-06 period continue to reflect this emphasis. For instance, in Greece, well over one quarter of Objective 1 CSF expenditure 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 and the main Plan priorities are to address infrastructure bottlenecks and regional imbalances. In Italy, too, considerable weight has been placed on infrastructure provision as a way of creating a favourable environment for economic development.

Recent developments in the provision of infrastructure as part of national regional policy are shown in Table 3.2. A common theme has been to try to improve policy mechanisms to allow regional views to be taken into account in national spending. Thus, in ***Finland***, a key goal under the 2002 Regional Development Act is to encourage national ministries (including those involved in the provision of infrastructure in the regions) to respond to regional needs and priorities and develop regional targets and goals as part of their sectoral strategies. In similar vein, the December 2001 regional policy Bill in ***Sweden*** has tried to clarify regional development responsibilities and bring regional perspectives to bear on investment decisions across eight broad policy areas: regional development policy itself; trade and industry policy; labour market policy; education policy; transport policy; innovation policy; rural development policy; and cultural policy.

In ***the Netherlands***, the Ministry of Economic Affairs has begun work on an important new project, the so-called Spatial Productivity Agenda. The vision behind this is that there must be a differentiated policy response in different parts of the country depending on the different productivity gains that can be realised. The aim is to shift the policy focus towards those spatial investments that will most improve labour productivity. At one level, this involves focusing policy on issues which will directly improve productivity by improving the business climate in the regions. At another level, the Spatial Productivity Agenda can be used to prioritise investment spending in the regions. Every four years, the Dutch regions submit large-scale investment projects (many of an infrastructure nature) to the Dutch Cabinet for funding. Together, these submissions far exceed the available finance. The out-going Cabinet carried out its analysis (based on Central Planning Bureau studies and input from the Ministries of Transport and Planning, amongst others) but left the actual choice of projects to support to the next Cabinet. In the view of the Ministry of Economic Affairs, this choice should be structured to reflect productivity gains/impacts. The Spatial Productivity Agenda project aims to provide this structure by putting the bids through what could be viewed as a productivity sieve. This is

likely to favour projects in the west of the country over those in more traditional problem regions.

In ***France***, *schémas de services collectifs* (SSC) were adopted by *décret* in April 2002. They are intended to provide a long-term frame of reference for the provision of public services across the country in nine key policy areas: higher education and research; culture; health; information and communication; passenger transport; goods transport; energy; natural and rural areas; and sport. They were an important element in the reorientation of spatial policy under the 1999 *loi Voynet* in several respects. In particular, they represented a shift away from physical infrastructure as a core component of regional economic development. In addition, the emphasis is on the provision of services in response to locally-expressed need, rather on the uniform delivery of services as decided by central government.[8] The aim of the *schémas* is to inform the basis of service provision across the country taking a twenty-year time horizon (with periodic evaluations and adaptations), and to provide a frame of reference for subnational planning.[9] In short, the overall objective is to link strategic long-term *planning* with short to medium-term *programming* to improve the coherence of spatial policies in the broad sense.

One last point to make with respect to infrastructure provision and regional development is that the more regionalised approach to regional policy discussed in Section 2 also has an obvious bearing on the provision of infrastructure in a regional context. By devolving responsibilities and spending across a broad spectrum of policies (as has happened and is happening to a significant extent in a range of countries including Italy, the United Kingdom and Norway, for instance), a policy environment is created which is likely to foster a closer relationship between infrastructure provision and regional development goals. In this context, it is worth noting that the GA (Joint Federal-*Land* Task) in ***Germany*** provides a framework not only for the award of regional aid but also for the provision of economic infrastructure. The most recent Framework Plan (for the 2002-05 period) increased the level of assistance for GA-aided infrastructure investments from 80 to 90 percent, with a view to providing a stronger incentive for investment in economic infrastructure.

The final component of regional policy highlighted in Table 3.1 relates to 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 wide-ranging importance of such measures obviously reflects the strong influence of the Structural Funds on national policy developments. However, in addition, the Member States (and other countries, like Norway) have themselves been placing increasing stress on regional programming and plan development as a way of improving regional competitiveness across the economy.

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[8] In Sweden, too, there has been a similar shift: from uniform service provision across the country to ensuring ‘an acceptable level of service in all parts of the country’; that is, from policy equality to policy equity.

[9] Notably the *contrats de plan État-région* (CPER), multi-annual economic development planning agreements, and the *schémas regionaux d’aménagement et de developpement du territoire* (SRADT), development plans devised at the regional level.

Amongst the recent developments summarised in Table 3.2, the following are of perhaps most note. In ***Denmark***, it has been announced that the new government's general strategy for growth will be followed by a specific regional growth strategy. This seems likely to stress the importance of improved national-regional coordination through programme-based policymaking. In ***Finland***, the 2002 Regional Development Act makes Regional Councils responsible for medium-term strategic programming in their respective regions, including developing a plan to use sectoral and other resources (including EU funding) to finance the programme. In ***France***, the progressive implementation of the 1999 *loi Voynet* has, as mentioned earlier, seen the development of nine outline plans for service provision in the regions (SSC); these came into force in 2002 and have established a long-term frame of reference for the *contrats de plan Etat-regions* (CPER) and the SRADT (development plans devised at the regional level), thus helping to improve the coherence of spatial policies in the broad sense. In ***Germany***, under the 30th GA Framework Plan (2001-04), the structurally weakest regions of a *Land* became eligible to receive grants to help mobilise their regional development potential more effectively and bring their strategic planning capabilities up to the level already found in more dynamic regions. In both ***Ireland*** and ***Italy***, the regional aspects of programming have been considerably strengthened for the 2000-06 period. In Ireland, the National Development Plan contains significant regional elements while, in Italy, the Objective 1 CSF (and, before it, the *Programma per lo Sviluppo del Mezzogiorno*) shifted the strategic focus to a programme-based consideration of regional strengths and weaknesses. 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 already-mentioned TIPP scheme which encourages strategic planning amongst municipalities and provinces.

In ***Sweden***, there has been an important development as part of the new regional policy Bill. The Regional Growth Agreements (RGAs), which were originally introduced in 1998, are being extended by one year and will now run until the end of 2003. Thereafter, new Regional Growth Programmes (RGPs) will be introduced to promote regional growth in trade and industry. While the final form of the RGPs is still to be established, it is likely that they will be similar to the RGAs (and Structural Fund programmes) in their inclusion of a programme structure of analysis, objectives, regional priorities and a plan for financing, implementation and evaluation. As with the current RGAs, they are not likely to be associated with specific funding but will act as a coordination framework for other regional funds. The programme period for the new RGPs will be 2004-07, which is coordinated with the planning cycle for regional infrastructure planning in Sweden. The RGPs will be the responsibility of the new municipal cooperative bodies where these exist[10] and the County Administrative Boards (CABs, the representatives of the State in the regions) where they do not.

In the ***United Kingdom***, regional strategies have been published in Scotland, Wales and Northern Ireland. In England, a core task of the Regional Development Agencies (RDAs) established in the late 1990s has been to formulate appropriate regional

[10] As noted earlier, provision for their establishment was made in Government Bill 2001/02:7, passed in December 2001.

strategies and, increasingly, to help coordinate spending in line with these plans. Developments within the last year have seen the RDAs being given significantly increased resources to implement their own strategies and much greater spending flexibility though the development of a 'single pot' approach to their budgets. Finally in ***Norway***, as part of a wider process of regionalisation, the 2001 White Paper on rural and regional development stated that the *fylke* (counties) should become responsible for drawing up regional economic plans – strategies effectively – every four years. These were to be very similar to the Regional Growth Agreements in Sweden in that they were to present a series of local strategic priorities for the use of central government expenditure in the regions. As already mentioned, in November 2001, a new centre-right government took office. It has announced that there will be a very significant increase in the scale of resources allocated directly to the *fylke*. Its view is that the regions should be allowed to determine their own spending priorities with as few limits placed on them as possible. While the *fylke* will still be compelled to determine their plan strategies and spending priorities in partnership with all relevant regional interests, central government will have little power to influence how the money should be spent or the content of the strategies. This represents a radical shift of responsibilities to the regional level.

Reviewing these various developments in respect of the non-aid components of regional policy, a number of general points can be made. One is that such measures have clearly been receiving increased stress in recent policy reviews and legislation. In part, this reflects the shift in the focus of policy towards endogenous development with its emphasis on supply side measures; however, it is also related to the growing emphasis on developing regional solutions to regional problems. This in turn tends to result in more integrated approaches incorporating a wider range of policy instruments. As far as the individual components of policy are concerned, it is of note that the new business environment measures have very often been innovation-oriented, with choices made between regional bids on the basis of competitive tenders. Although often viewed as part of regional policy, few such measures are in practice restricted to the designated aid areas. As regards physical infrastructure (and the application more generally of national policies in the regions), it is interesting how a growing number of countries have been striving to develop mechanisms to allow regional needs and priorities to be reflected in national policy decisions. That having been said, it remains to be seen just how successful they will be in practice. Finally, with respect to regional plans and programmes, it is clear from the above review that the development of regional strategies and programmes is now taking centre stage in an increasing range of countries.

3.2 Changes in 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 five distinct types: capital grants (CG), interest or loan-related subsidies (IRS), tax concessions and other fiscal aids (TC), labour-related subsidies (LRS) and transport concessions (TRA). The current distribution of these incentives by country and incentive type is set out in Table 3.3. A full version of the table, complete with accompanying qualifying notes can be found in Table 3 (in Annex 1).

Table 3.3: Regional Incentives by Country and Incentive Type

COUNTRY	INCENTIVE	INCENTIVE TYPE				
		CG	**IRS**	**TC**	**LRS**	**TRA**
AUSTRIA	ERP regional programme		✓			
BELGIUM	Flanders: CG/IS	✓	✓		✓	
	Wallonia IG	✓			✓	
DENMARK	no regional incentives	(✓)				
FINLAND	investment aid	✓				
	regional tax relief			✓		
	transport subsidy					✓
	[social security concession (*de minimis*)]				(✓)	
FRANCE	regional policy grant (PAT)	✓			✓	
	local business tax concession			✓		
GERMANY	investment grant	✓			✓	
	ERP regional soft loan		✓			
	investment allowance			✓		
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 aid (eg Law 388/2000)			✓		
	'negotiated plans'	✓				
LUXEMBOURG	capital grant	✓			✓	
NETHERLANDS	investment premium	✓				
PORTUGAL	SIPIE, SIME	✓	✓			
SPAIN	regional investment grant	✓				
SWEDEN	regional development grant	✓				
	employment grant				✓	
	transport grant					✓
	[social security concession (*de minimis*)]				(✓)	
UNITED KINGDOM						
Great Britain	regional selective assistance	✓			✓	
Northern Ireland	selective financial assistance	✓	✓		✓	
NORWAY	investment grant	✓				
	regional risk loan		✓			
	transport subsidy					✓

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 social security concessions. On the other hand, there are no regional grants in Denmark,[11] 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.

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 increased in prominence for the 2000-06 period. Fiscal aids are also only infrequently available and, indeed, are recorded in the table in just five 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. In recent years there have been no significant regional depreciation allowances in the Member States. While labour-related support is more common, being found in half the Member States, 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 *de minimis* in Finland and Sweden) and what can be viewed as the job-related components of the main regional grant schemes. These have grown in number following provision in the March 1998 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 was intended to compensate for the additional transport costs associated with sparsely-populated areas.

A summary overview of the main recent changes which have been made to the composition of the regional incentive packages in the Member States and Norway can be found in Table 3.2.[12] Unsurprisingly, following quite significant change in 2000 when the 1998 regional aid guidelines came into force and new funding became available under the Structural Funds, the last year or so has, in general terms, been a period of only limited change. Nevertheless, a number of the regional incentive entries in Table 3.2 are of interest.

In last year's report it was noted that the social security concession in ***Sweden*** had been withdrawn in December 2000 following pressure from the EC competition

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[11] The entire regional aid package in Denmark was withdrawn in 1991.

[12] A more detailed description of recent developments is provided in Table 1 (in Annex 1). Longer-term trends are highlighted in Tables 2 and 4 (also in Annex 1).

policy authorities. In response, a new form of social security concession, operated by the Ministry of Finance, has been made available in Aid Area A (the inland north). This concession, which falls firmly within the *de minimis* regulations of the Commission, is in some respects broader in coverage than the previous social security concession (in that it includes local services for example); on the other hand, certain sectors are specifically excluded in line with Commission regulations (eg. transport, agriculture). Under the previous system, it was possible for certain companies to have a reduction in their social security contributions of 5 percent of the company payroll; under the new regime, the concession has increased to 15 percent up to maximum wage costs of SEK 85,000. Overall, the new measure is expected to cost at least as much as the previous social security concession.

These developments have had a knock-on effect elsewhere in the Nordic countries. In ***Finland***, for example, a new social security concession has recently been introduced under the *de minimis* rules on a three-year pilot basis in the far north. The Norwegian authorities, too, have been affected by the Swedish developments and, in particular, Commission objections to the original Swedish social security concession. In ***Norway***, the system of differentiating social security contributions between different parts of the country had long been a point of conflict with the EFTA Surveillance Authority (ESA). The debate had apparently been resolved, with the ‘conversion’ of the scheme into a transport subsidy at the start of 2000. In practice, this meant that the concession was calculated on a different basis and had a more restrictive sectoral coverage. However, the Commission ruling on the Swedish scheme once more threw doubt on the Norwegian agreement with ESA and, in particular, its support of certain service sector activities. The Commission instructed ESA to review the Norwegian scheme in the light of the Swedish decision. This is currently taking place. The Norwegian response has been twofold: first, as part of the mid-term review of the regional aid guidelines, it is planning to propose that the eligibility criteria for transport subsidies in peripheral areas be widened, covering, for instance, the transport of persons as well as goods; and, second, in case the narrower eligibility criteria which applied in the Swedish case are indeed imposed, it is considering possible alternative approaches falling outside State aid control, including, for example, differentiated personal tax rates in peripheral areas.

A second aid-related development in Table 3.2 concerns the increased emphasis on regional-level support. Examples of this are found in both ***Ireland*** and the ***United Kingdom*** where regionalised venture capital schemes have been introduced following lengthy negotiations with DG Competition. More generally, the widespread regionalisation of regional development efforts is beginning to lead to more differentiated aid provision at the regional level across a range of Member States. The review (and possible subsequent dissolution) of the GA system in ***Germany*** is also of relevance in this context. Were the GA to be abolished, the scope would obviously be increased for more differentiated and *ad hoc* approaches to regional aid policy at the *Land* level.

In ***France***, too, the past year has seen important legislative changes in the capacity of subnational authorities to offer aid to firms. In July 2001, a *décret*[13] amending the Code on Local Authorities[14] redefined the existing *prime régionale à l'emploi* (PRE), regional employment grant, *prime régionale à la création d'entreprise* (PRCE), regional new firm formation grant, and the provisions on the sale of land and buildings in areas designated for the manufacturing component of the regional policy grant, *prime d'aménagement du territoire* (PAT). The *décret* brought the PRE and the PRCE (both of which are, in principle, available nationwide subject to the decision of each Regional Council to offer them in its jurisdiction) into line with EU competition rules; the PRE constitutes employment aid and the PRCE is considered to be *de minimis*. The new *décret* also served to adjust support for the purchase or rental of land and buildings in the designated PAT areas in the light of the regional aid guidelines. More recently, new legislation on local democracy, passed in February 2002,[15] includes provisions concerned with direct financial incentives (in this context, mainly grants and repayable advances). Under these provisions, Regional Councils have complete freedom to design and operate direct aid schemes, subject only to EU competition rules on State aids. They have been freed from the constraints of essentially offering measures defined by *décret* or by agreement (*convention*) with central government.

The other side of the coin is that spatially-targeted aid schemes developed and operated at the national level have been coming under pressure in some countries. This has clearly happened in ***Austria***, where the Regional Innovation Premium was withdrawn in late 2000 as part of a more general series of budgetary savings; and in ***Norway***, where, as has been noted, the new centre-right government favours automatic, non-selective measures at the national level (particularly tax concessions) and prefers to transfer resources to the regional level as part of the block grant, leaving the regions to decide what support to provide. In the ***United Kingdom***, too, it is of note that the budget in England for the main regional aid, Regional Selective Assistance (RSA), has been split in two from April 2002. Half of the annual RSA resources have been retained by the Department of Trade and Industry for larger projects, while the other half has been allocated directly to the RDAs (divided according to the historical pattern of spend in accordance with their inherited commitments). These budgets will be determined outside the 'single pot' budget of each RDA, but the RDAs will be free to merge the RSA budget with the 'single pot'. In other words, in future, business support priorities will not be set centrally but regionally.

A final point to make in respect of recent regional aid scheme changes, as highlighted in Table 3.2, relates to the types of incentive on offer. Over the past two decades, there has been a clear trend for regional aid packages to be rationalised around the main regional grant on offer, in part a reflection of budgetary pressures but also in

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[13] *Décret no 2001-607 du 9 juillet 2001 modifiant le code général des collectivités territoriales et relatif à certaines aides directes et indirectes aux entreprises, Journal Officiel de la République Française* no 159 of 11 July 2001.

[14] *Code Général des Collectivités Territoriales* (CGCT).

[15] *Loi 2002-276 du 27 Février 2002 relative à la démocratie de proximité.*

response to pressures for the available aid to be visible to applicant firms and straightforward to administer. Competition policy rules have also tended to encourage countries to focus on grant aid. Recent changes in ***Luxembourg*** are in line with these longer-term trends. The new Law of 22 December 2000 withdrew the interest-rate subsidy, with a view to simplifying procedures and easing the administrative burden. The new legislation also reduced the importance of the tax relief component of the regional aid package, restricting its availability to projects that involve innovation. However, most of the other incentive-type changes in Table 3.2 involve a widening of the aid types on offer. For example, employment-related support has increased in prominence in a number of countries, in part because the regional aid guidelines extended the possibilities of providing aid related to wage costs (changes were made along these lines in both Germany and France, for instance) but also through the introduction of new social security concessions *de minimis* in sparsely-populated regions in Finland and Sweden. Also of note, and as mentioned earlier, repayable aid has been introduced in ***Portugal*** in response to concerns about widespread subsidy dependency. In addition, in some countries fiscal concessions have grown in importance as a result of recent developments.

For instance, in ***Italy***, Article 8 of Law 388/2000 (the *finanziaria* law for the year 2001) introduced a tax credit to support investment in the designated aid areas. All firms[16] which undertake new (material or immaterial) investment in the designated aid areas are eligible for the tax credit, no matter their legal status or field of activity.[17] Credits can be claimed on investments made in the financial years from 31 December 2000 up to the financial year ending 31 December 2006 and cannot exceed the award maxima defined by the regional aid map. Investments are eligible from 14 March 2001. The credits can be set against both direct taxes and national insurance contributions but cannot be combined with other regional aids or with aid received under non-regional legislation on the same investment. Take-up of the scheme has been very high. This has created something of a problem since it runs counter to more general regional policy goals in Italy. The Objective 1 CSF, for example, is committed to reducing spending on aid to firms. In addition, there is a problem of controlling the overall budget available to what is a demand-led fiscal concession; and there are also concerns about potential abuses under the scheme. In this context, control procedures are in preparation and will soon be issued in the form of a Ministerial Decree adopted jointly by the Ministry of Economy and Finances and the Ministry of Productive Activities. Perhaps not surprisingly, the future of the scheme is uncertain.

As noted earlier, non-selective fiscal concessions are also favoured by the new government in ***Norway*** though, in this case, they are not restricted to the designated aid areas. Although not a recent change – and, indeed, not part of the regional aid package – it is also worth mentioning that a general 12.5 percent rate of corporation tax will come into force in ***Ireland*** from 1 January 2003. This reflects an agreement reached with the EC competition authorities in July 1998 which has seen a phased lowering of the general rate of corporation tax and the phasing out of the previous

[16] To be precise: tax payers who generate enterprise-related income (contribuenti titolari di reddito d'impresa).

[17] Excluded firms in practice are those in the transport sector, *enti non commerciali* and firms in financial difficulty.

specific 10 percent rate for manufacturing and certain internationally-tradeable services.

One last point to make in relation to the appropriate incentive type mix within regional aid packages is that, in ***Germany***, the future structure of support has been under review recently since the tax-based investment allowance (*Investitionszulage*), which is currently available in the new *Länder*, must obtain new State aid approval from the end of 2003 and a new legal basis from the end of 2004. Within the GA Planning Sub-Committee there is general agreement that regional aid should consist of a combination of investment grants, soft loans and guarantees, with the main focus on grant-based support. In addition, complementary assistance (particularly in the form of soft loans) is felt to be justified to fill those gaps in finance faced especially by SMEs, new start-ups and growing sectors; and there is also believed to be a need for certain bank guarantees in the new *Länder* in order to address weaknesses in own-capital provision. Looking forward, the main area of debate concerns the future of the investment allowance in the new *Länder*. While the new *Länder* themselves generally favour the continuation of the scheme in some form, a majority of the Planning Sub-Committee feel that it should end in 2004, with the budget allocated instead to grant programmes for the new *Länder* and Berlin.

4. CHANGES IN THE ADMINISTRATION OF REGIONAL POLICY

The focus of this section is on recent institutional and administrative change. A brief overview of the main developments in the course of 2001 and 2002 is provided in Table 5 (in Annex 1). The changes can be grouped under five broad headings: changing institutional responsibilities at the national level; the simplification of regional aid administration; the regionalisation of regional policy; measures to improve policy coordination; and changes in the degree of discretion in regional aid awards. The first two of these are relatively unimportant from an international comparative perspective and are covered briefly in this introduction. The remaining three headings raise themes of more general interest and are considered further in the sub-sections which follow.

As part of broader governmental change, there has been a restructuring of institutional responsibilities for national regional policy in a number of the countries covered, often following on from the election of a new government. For instance, in ***Denmark***, a new Ministry of Economic and Business Affairs was created in late 2001 out of the old Ministry of Trade and Industry and parts of the Ministry of Housing and Urban Affairs; at the same time, a National Agency for Enterprise and Housing merged the previously separate Danish Agency for Trade and Industry (based in Silkeborg) and the National Housing Agency. The Silkeborg office continues to be responsible for regional policy implementation. In ***France***, the appointment of a new government saw a reshuffle of ministerial portfolios in May 2002, with DATAR coming under the aegis of the Ministry for Public Service, State Reform and Regional Development,[18] rather than the Ministry for the Environment. Also of note, the *Agence française pour les investissements internationaux* (AFII) was set up in 2001. It brought together the

[18] *Ministère de la fonction publique, de la réforme d'État et de l'aménagement du territoire*.

existing inward investment promotional activities undertaken by DATAR with those of the Ministry of Economy, Finance and Industry so as to create a one-stop-shop for potential inward investors. In the ***United Kingdom***, changes post the June 2001 election saw the DTI continue as the core ministry for regional industrial support and policy, while taking over responsibility for the RDAs. As noted earlier, these agencies lie increasingly at the heart of policy delivery in England. In Northern Ireland, in the wake of devolution and the creation of the Northern Ireland Executive, a single economic development agency, Invest Northern Ireland, was established in April 2002 to deliver economic development support services in the Province. At the same time, a clearer distinction has been drawn between policy development and service delivery. The Department of Enterprise, Trade and Investment (DETI) now focuses very much on the former. In ***Norway***, the election of a new government in late 2001 has led to a major overhaul of the activities of the SND, the country's main economic development agency. Related, the Ministry of Local Government and Regional Development has been reviewing its role in the context of a more devolved economic development system. Finally, in ***Sweden***, NUTEK, the former National Board for Industrial and Technical Development which plays a central role in the implementation of regional policy, was restructured from the start of 2001 into three separate organisations: NUTEK, now known as the Swedish Business Development Agency; Vinnova, the Swedish Agency for Innovation Systems; and the Institute for Growth Policy Studies. As already mentioned, by their nature, these various institutional changes tend to have relatively country-specific implications. If there is a common theme, it is that there has been a tendency to separate out policy development and monitoring functions from policy delivery, which is increasingly agency-based and/or regionally-located.

In line with a trend that has been identifiable over most of the past two decades, there have been further recent moves to simplify the provision of regional aid, making the available assistance as transparent and accessible as possible. For example, in ***Italy***, a *Testo Unico*[19] is in preparation with a view to rationalising and reorganising the incentive system across the country. In addition, the Ministry of Productive Activities is working to introduce common procedures under 'negotiated programme' initiatives and to increase the transparency of the aid on offer. Further, under Law 488/1992, the recently introduced PIA (*Paccetto Integrato di Agevolazione*) combines regional aid with R&D support and/or training assistance via a single application form and processing procedure. In the ***United Kingdom***, the DTI has been carrying out a general Business Support Review with a view to rationalising support possibilities under five aid 'portfolios' from April 2003. Changes introduced in Scotland have speeded up the processing of RSA applications by half. In ***Finland***, too, steps have been taken to rationalise the available support. Under the Aid to Business Act, which came into force at the start of 2001, the new Investment Aid is a combination of the previously-separate Regional Investment Aid and Small Business Aid schemes. Recent developments in ***Luxembourg***, including the withdrawal of the interest rate subsidy, have similarly reflected a desire for simplified procedures and more transparent support.

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[19] The *Testo Unico* is an overall act which re-unites and rationalises existing legislation on a specified theme (incorporating both primary and secondary sources).

The three remaining administrative change topics are covered in the sub-sections that follow. First, and a core theme throughout this report, there has been a much-increased focus on the regional level, with a very significant decentralisation of policy responsibilities and resources. Second, and related, countries have been actively searching for effective policy coordination mechanisms, not only at the regional level but also between the regions and central government. Finally, and of less general significance, a number of changes concern the degree of selectivity and discretion available to regional policymakers in the provision of regional aid: while most countries have been making assistance increasingly selective in response to budgetary constraints and the need to demonstrate value-for-money, a few have favoured more automatic forms of support. Changes in respect of these three administrative themes are highlighted in Table 4.1.

4.1 The Regionalisation of Policy Responsibilities

It can be seen from the table that there has been an increased regional policy emphasis on the regional level in nearly all countries. Even in Austria and Germany, federal countries where the responsibility for economic development policy lies firmly at the *Land* level, recent developments have shifted the focus towards the regions. In ***Austria***, and as previously noted, the Regional Innovation Premium was withdrawn towards the end of 2000. This had been one of only a few aid schemes implemented on the basis of genuine bi-lateral cooperation between the Federal and *Länder* governments. More generally, the stress placed on endogenous development and on the importance of encouraging innovation and regional competitiveness as part of regional policy has led to further regionalisation of federal policies, especially those with an innovation orientation.

In ***Germany***, regional development is, constitutionally, a *Land*-level function. It was only in 1969 that a joint Federal-*Land* Task (*Gemeinschaftsaufgabe*) was established to provide a framework for regional policy in response to difficulties created by the lack of policy coordination under the previous wholly *Land*-based system. The GA is generally viewed very positively for its regulatory and coordination functions, constraining competition for mobile investment between the *Länder*, modulating aid and allocating resources on the basis of transparent and objective criteria, providing a forum for agreeing the national interest in regional aid negotiations with the European Commission and ensuring that aid is awarded in line with the agreed rules. However, as mentioned earlier, it has recently fallen foul of general *Länder* concerns about the efficacy of so-called ‘mixed funding’, where both the federal and *Land* levels contribute to the funding of a particular policy area. High-level negotiations on the future of forms of mixed funding are planned for the period up until the end of 2003. The key proponents for the abolition of the GA argue that the efficiency of regional policy will be improved if each *Land* is able to operate its own system of regional policy and that some form of coordination may still be possible even where the federal level is not contributing financially to policy. The issues are complex, involving difficult discussions about the distribution of responsibilities and resources across the Federation and, indeed, about the fundamentals underlying the system of fiscal federalism in Germany. At this juncture it is very difficult to predict the outcome, not least since it may well be influenced by the forthcoming federal elections in Germany.

Table 4.1: Recent Administrative Developments (2001-02)

Country	Increased Policy Regionalisation	Increased Policy Coordination	Increased Selectivity and Discretion
Austria	*Länder* have autonomy in regional development. More regionalisation of federal policies. RIP abolition reduced federal-level inputs	Role of ÖROK (the Austrian Conference of Regional Planning) and the Federal Chancellery (BKA)	Use of competitive tenders under RIF 2000.
Belgium			
Denmark		Future policy focus on need for improved national-regional coordination	
Finland	Moves to regionalise national budgets; growing regionalisation of sectoral policies; ongoing reform of central government.	Regional Centre Development Programme to aid municipal cooperation. Regional Alliances to ease policy coordination above this level.	Aid to Business Act: continuous assessment of policy effectiveness.
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	Future of GA under review; outcome likely to impact on policy regionalisation.	Future of GA under review; outcome likely to impact on policy coordination.	
Greece			
Ireland	Regional dimension to NDP and to development agency activity.	Coordination via new regional-level bodies.	
Italy	Recent constitutional reform has created the basis for a decentralised approach to economic development.	Need for more national-level coordination and for enhanced support from the centre	More selectivity (ranked lists) and discretion (negotiated plans) BUT new automatic fiscal aid. Further selectivity anticipated.
Luxembourg			
Netherlands	Focus on regions in creating competitive business locations; regional-level policy co-ordination.	Regional covenants to bring a strategic regional dimension to national investment decisions. Also TIPP.	Concentration and selectivity; IPR more selective with more award discretion; TIPP: competitive bidding.
Portugal	Decentralised Structural Fund implementation; decentralised national measures.		SIPIE: competitive bidding but now suspended.
Spain			
Sweden	Regionalisation of specified national policies. Help to develop regional strategic overviews: RGAs plus specific delegations	Regional-level coordination via RGAs. Proposed new municipal coordination bodies. More national-level coordination	
United Kingdom	Devolution: policy-making authority regionalised. Also regionalised delivery. RSA regionalisation via RDAs.	England: target-based co-ordination (RDAs); N.Ireland: new Invest NI; Scotland: improved local coordination	New RSA project-quality criteria have increased selectivity. SFA in Northern Ireland also more selective?
Norway	Regionalisation of regional policy. More county-level development functions	New Regional Development Ministry role: coordination; regional support; monitoring	Reduced budget (elimination?) of selective, targeted schemes

In both Italy and the United Kingdom, the growing regionalisation of policy responsibilities has gone hand-in-hand with recent constitutional changes which have resulted in far more devolved systems of government. In ***Italy***, the reform process began with the *Bassanini* laws of 1997-98, which, as part of a general and major reform of the public administration, began the transfer of competencies from national ministries to regional and local administrations. Although the deadline for transferring tasks and resources was fixed by law for December 2000, the process is still not entirely complete; moreover, concerns have been expressed about the technical capacity of the southern regions to manage the responsibilities allocated to them. Despite such misgivings, three constitutional laws over the 1999-2001 period marked a radical shift in the allocation of government responsibilities, with a much stronger emphasis on the regional and local levels. The reforms to the Constitution have: placed all tiers of government on the same level, thus replacing the previous vertical hierarchy; reversed the allocation of competencies by listing matters on which the central state has exclusive (and concurrent) legislative power and reserving all other subjects (including local economic development) to the regional authorities; stressed subsidiarity as the key to the new allocation of responsibilities; and acknowledged the financial autonomy of local authorities to fund their public functions. Although not yet fully operational, these changes have created a clear basis for a decentralised approach to economic development. This has been strengthened by proposed reform of the public administration at both national and sub-national levels, one of the main priorities of the current government.

In the ***United Kingdom***, the scope for sub-national regional policy variation increased significantly with the devolution of many economic development powers to the Scottish and Welsh administrations following the establishment of the Scottish Parliament and Welsh Assembly in July 1999. In Northern Ireland, too, the process of devolution has had a major impact on recent policy developments (including the publication of a consensus-based economic development strategy and the creation of Invest Northern Ireland), though regional policy in the Province has always been distinct from that in the rest of the UK. In the last year or so, many of the most significant changes have been in England. In particular, RDAs have been given both more resources and greater spending flexibility (via the single pot approach to budgeting) whilst also becoming more accountable both locally (ultimately to the proposed new regional assemblies) and to central government through the setting of quite detailed and wide-ranging performance targets. As mentioned earlier, RDAs have also taken over the decentralised administration of Regional Selective Assistance and various other policy delivery functions from the Government Offices in the regions which, in their turn, are now focusing on developing their strategic and monitoring roles (the ‘eyes and ears’ of central government in the regions).

Other countries, too, have registered an increased stress on the regional and local levels as far as policy development and delivery is concerned. In ***France***, the decentralisation legislation of the 1980s changed the political landscape and opened up the debate about the appropriate spatial level for economic development policy. More recently, the policy approach has been based increasingly on local-level initiatives and the operation of sub-national partnerships, albeit within a nationally-defined framework. In the context of the 1999 *loi Voynet*, an important new strand of policy has promoted the creation of self-defined areas for particular policy purposes, so-called *pays* and *agglomérations*. *Pays* date back some twenty years in concept and

are areas which are perceived to have a geographical, economic, cultural or social identity; they are defined at the initiative of *communes* and aim to develop territorial entities that are relevant for local development initiatives by reinforcing linkages between rural areas and small towns. *Agglomérations* were an innovation of the *loi Voynet*; they concern urban areas with a minimum population of 50,000, made up of communes with at least 15,000 inhabitants. Given that both types of area are the subject of local level initiative, not all parts of France are covered by one or the other: *pays* are heavily concentrated in the north and north-west while *agglomérations* have been slow to emerge. The promotion of *pays* and *agglomérations* is a response to the perceived need to encourage local initiatives at the appropriate spatial level, whilst also enhancing the efficiency of local service provision in the face of an extremely fragmented local authority system.

In the Nordic countries, there have been some broadly similar moves associated with the transfer of policy responsibilities over time to the regional level. In ***Finland***, there have been a number of developments of note. First, the launch of the Regional Centre Development Programme in November 2000, via a competitive tendering process, resulted in 34 regional centres being selected to receive support to help them organise and intensify cooperation and operational partnerships between the municipalities in any given region. The Programme is directed at regional centres within functional urban areas; it aims to strengthen the competitiveness of regional centres of different sizes and types across the country by promoting joint approaches to economic development and encouraging networking. Funding for programme development is limited; for 2002, €8 million was made available by central government, with the same amount coming from the regional level. Normal government funding channels (including the Structural Funds) are to be used for programme implementation. In a related development, the 2002 Regional Development Act encourages national ministries to develop regional priorities and targets as part of their sectoral strategies while making Regional Councils responsible for medium-term planning in the regions. A key element of each plan focuses on how sectoral and other resources might be used to fund the programme. More generally, ongoing reform of central government has seen certain functions pass from government departments to central agencies and other decision-making powers move to state authorities in the regions. This has increased the stress placed on encouraging cooperation between the Regional Councils and the regional offices of the state.

In ***Sweden***, the 2001 regional policy Bill (2001/02:4) did not introduce any direct change to administrative competences for regional development policy; it did, however, contain a number of measures which, in the course of time, will impact on the administration of policy in the regions. For instance, by explicitly stating that eight national policy areas should take regional development objectives into account, it made the regional responsibilities of these policy areas clearer. At the same time, the Regional Growth Agreements that are due to come into force in 2004 have been set up to act as a coordination framework for the regional spending of these (and other) policies. A similar role is to be played by two 'Delegations' that have been established by the Bill for the Northern Sweden inland area and for parts of Bergslagen, Dalsland and Värmland. These aim to coordinate the activities of government bodies, funding programmes and agencies within their areas. Finally, parallel legislation (Government Bill 2001/02:7) allows for the creation of new municipal cooperation bodies based on the unanimous agreement of all municipalities within county boundaries. Where it is

agreed to set up such bodies, they will take over regional economic development functions from the County Administrative Boards, which represent the State in the region. Programmes developed by these municipal cooperation bodies will be linked to other development programmes in the region, including the new Regional Growth Programmes and infrastructure planning. The ultimate aim is that regional governance should eventually be based on a partnership structure centred on the State on the one hand and the municipalities on the other.

In ***Norway***, the advent of a new government has seen an acceleration of the regionalisation of regional policy. To a degree, there is nothing new in this. The 2001 White Paper on regional governance capped a period of increasing policy devolution by transferring greater spending powers and policy development responsibilities to the *fylke* (the counties). What has changed is the scale of central government resources being allocated directly to the *fylke*. As mentioned earlier, the view of the new government is that the regions should be allowed to determine their own spending priorities with as few limits placed on them as possible. In practical terms, most of the budgets assigned to the Ministry of Local Government and Regional Development for distribution to the regions (via a number of separate programmes) will now be amalgamated and transferred directly to the *fylke* in blocks as part of the annual budget process. Existing regulations on viring funds between budgetary headings and on spending minima at the *fylke* level will also probably be removed. This clearly represents a radical policy shift to the regional level.

In contrast to many of these developments, the regionalisation of policy in the remaining countries where change is recorded in Table 4.1 – the Netherlands, Ireland and Portugal – has been less extensive. In ***the Netherlands***, the 2000-06 Memorandum on Spatial Economic Development placed more focus on the regional level than had previously been the case, with a view to facilitating the development of competitive business locations through enhanced regional cooperation; however, the main strands of policy continue to be largely centrally-determined. In ***Ireland***, regional strategies and structures have been developing following on from the establishment of the BMW and Southern and Eastern regions. For these two regions, group assemblies have been set up to promote the coordination of public service provision in their areas, to advise on the regional dimension of the NDP, to monitor the general impact of EU programmes and to act as Managing Authorities for the two regional programmes in the 2000-06 CSF. At the same time, both IDA-Ireland and Enterprise Ireland have been strengthening their regional strategies and structures. However, for the most part, the regional orientation of policy remains at a comparatively early stage of development. Finally, in ***Portugal***, one of the innovations of the 2000-06 Structural Fund programming period has been the introduction of a more significant regional element into the operation of policy. Regional Coordination Committees are the Managing Authorities for the regional programmes and help ensure that regional priorities are reflected in programme decisions. This impacts on both Structural Fund and national spending patterns.

Set in the context of longer-term trends in the decentralisation of regional policy administration (as set out in Table 6 in Annex 1), the changes which have recently taken place represent a significant shift towards the regional level across a wide range of countries. As discussed, this is very obvious in countries like Italy and the United Kingdom, where broader constitutional reforms are anyway in this direction, but it is also quite clear in most of the Nordic countries. In addition, countries like Ireland and

Portugal, which previously operated highly centralised systems, have begun to introduce elements of regionalisation into the delivery of policy. At the other end of the spectrum, there are pressures in federal Germany to abolish the coordination and regulatory framework provided by the GA and return to the position of more than 30 years ago where regional policy was, for the most part, *Land*-determined. There are many factors which have contributed to these developments. At their core, however, is the increasing stress on the importance of regional competitiveness for economic development and the belief that this is likely to be strengthened by facilitating regional solutions to regional problems.

One final point worth making in this context is that only a limited number of the changes recorded in Table 4.1 relate specifically to regional aid policy. Regional incentive systems have generally tended to remain either wholly centralised (as in France, Greece, Luxembourg or Portugal, for instance) or else limit regional decision-making to smaller projects and/or firms (as, for example, in Finland, the Netherlands, Sweden and England). Moreover, where regional-level aid administration predominates (as most obviously in the federal Member States) agreed frameworks are usually in place to limit competitive outbidding and ensure equity in award across space. That having been said, the current situation is much more fluid than in the recent past and is certainly very different from that of two decades ago when the primacy of central government departments and agencies in designing and delivering regional policy was unchallenged in nearly all the Member States.

4.2 Developments in the Coordination of Policy

One consequence of the recent growth in the regionalisation of regional policy (and, indeed, in some countries of sectoral policies too) has been an increase in the weight attached to policy coordination at the regional level. This has been reflected in efforts to improve regional partnership and cooperation mechanisms. Many examples of such developments have already been highlighted: the 2002 Regional Development Act in Finland which has given Regional Councils the lead role in coordinating strategic regional plans; also in Finland, the Regional Centre Development Programme which promotes cooperation and partnership amongst municipalities; the *loi Voynet* in France which, through *pays* and *agglomérations*, encourages communes to cooperate and combine together for economic development purposes; the Memorandum on Spatial Economic Development in the Netherlands which places the regional level at the centre of policy coordination;[20] the 2001 regional policy Bill in Sweden which sets up Regional Growth Agreements as coordination frameworks for regional spending; the related regional governance Bill in Sweden which encourages municipalities within counties to combine together for economic development purposes; the use of Regional Development Agencies in England to develop regional economic strategies and coordinate economic development spending at the regional level; and new policy

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[20] According to the Memorandum, it is in the regions that "all the threads of policy meet…. (and) can best be knotted together" Ministry of Economic Affairs (2000), *Memorandum on Spatial Economic Policy in the Netherlands: Dynamics in Networks – Summary*, page 10.

initiatives in Norway where the counties have the responsibility for determining regional spending priorities in partnership with other relevant regional interests.

But it is not only at the regional level that policy coordination is being given increasing weight. A common theme in many countries is the importance of national-regional coordination – ensuring that development efforts in the regions take account of national policy goals and priorities and, the reverse side of the same coin, that major national investment decisions are in tune with regional needs and objectives.

In ***Denmark***, this concern was reflected in the autumn 2001 White Paper on regional policy and thereafter in the policy pronouncements of the new government. While a new White Paper is still at an early stage of development, the need for improved coordination between national and regional actors is seen as important. The format for such coordination is not yet clear but there are possible models both in Denmark and abroad. Domestically, recent experiments with 'regional initiatives', which, following an in-depth study of the strengths and weaknesses of the areas concerned, allow important strategic investment decisions to be taken by local and regional bodies acting in partnership with central government, may provide a basis for future policy. Externally, the Structural Fund approach is viewed as a possible policy model, as are similar centre-region contractual agreements such as the Regional Growth Agreements in Sweden.

In ***Finland***, the 2002 Regional Development Act envisages national-regional coordination being achieved mainly at the regional level. Regional Councils are charged with developing appropriate development plans and strategic priorities and then negotiating with state bodies in the region about the use of resources; while, for their part, national ministries are being encouraged to develop regional priorities and targets as part of their sectoral strategies. It is also worth noting that new Regional Alliances have been formed by the Regional Councils mainly in relation to the 2000-06 Structural Fund programmes. There are four such groupings – east, west, north and south – which may well play a growing policy coordination role in future.

In ***France***, the *schémas de services collectives*, which were adopted by *décret* in April 2002, are intended to provide a long-term frame of reference for the provision of public services in nine key areas: higher education and research; culture; health; information and communication; passenger transport; goods transport; energy; natural and rural areas; and sport. They were developed on the basis of wide-ranging consultative procedures and reflect the main priorities of the government as developed via consultation with regional and other interests. They were an important element in the reorientation of regional policy under the *loi Voynet* in several respects. Not only did they represent a shift away from physical infrastructure as a core component of regional economic development but they also moved the emphasis of service provision away from uniform service delivery and towards locally-expressed need. The aim of the *schémas* is to inform the basis of service provision taking a twenty-year time horizon (with periodic evaluations and adaptations), and to provide a frame of reference for future subnational planning.[21] By helping to link strategic long-term

[21] Notably the *contrats de plan État-région* (CPER), multi-annual economic development planning agreements, and the *schémas regionaux d'aménagement et de developpement du territoire* (SRADT), development plans devised at the regional level.

planning with short to medium-term *programming* they aim to improve the overall coherence of spatial policies in France.

In ***Ireland***, one of the roles of the new regional assemblies is to enhance national-regional coordination. On the one hand, they advise the government on the regional dimension of the National Development Plan while, on the other, they help coordinate the provision of public services in their areas.

In ***Italy***, the regionalisation of economic development (and other) policies in the context of broader constitutional reform has already been discussed in some detail. The new institutional framework is recognised as creating important challenges for the future of regional policy, not least relating to the coherence of policy across space and the relationship of need to resources. While it is difficult to anticipate future policy developments, it is recognised that the new devolved context implies a significant national coordination role to prevent harmful interregional competition and inequitable regional divergence in the application of policies.

In ***the Netherlands***, two measures to enhance national-regional coordination are worth mentioning. First, a covenant, "*Partnership in the Regions*", was signed by the Ministry of Economic Affairs, the Ministry of Transport, Public Works and Water Management, the Association of the Provinces of the Netherlands (IPO) and the Association of Netherlands Municipalities (VNG) to improve co-operation between the centre and the regions in three important spheres: industrial estates, innovation and the operation of the market. The Ministry of Housing and Planning joined the signatories in 2002. Second, a 1998 covenant between the Dutch Cabinet and the northern provinces about future spending plans and priorities became a model for other Dutch regions. The aim was that all four parts of the country (north, south, east and west) should sign agreements with the Cabinet relating to "mutual investments" (not only economic but also broader infrastructure measures – transport, spatial planning etc.); this was felt to be beneficial in ensuring that regional priorities feed through into broader investment decisions. It remains to be seen whether this approach will be carried forward by the new Dutch government.

In ***Sweden***, greater administrative coordination is strongly emphasised in the new regional policy Bill, furthering the philosophy that regional development must be achieved through actions in a number of different policy areas. As already noted, the current Regional Growth Agreements, and the new Regional Growth Programmes are key instruments of county-level coordination; they provide a coordination framework for both regional planning and government spending in the regions. The new Bill also includes provision for a new NUTEK-led coordination programme between sectors at the regional level, involving 17 different organisations from six national policy areas viewed as having regional development responsibilities (regional development, trade and industry, labour market, education, transport and innovation). The aim of the programme is: to examine in detail how the activities of the six policy areas are operating at the level of the local labour market area; to identify both the effectiveness of and obstacles to coordination; and to highlight and review the diversity of implementation approaches of national policy areas at the sub-national level. It is recognised that this is not a new idea, but the programme is designed to make a practical step towards achieving national-regional coordination.

In the ***United Kingdom***, there continues to be close inter-departmental collaboration between the relevant Scottish and Welsh policymakers and the DTI; a formal Memorandum of Understanding on financial assistance to industry aims to limit possible bidding contests for large mobile investment projects. The recent reorganisation of regional-level responsibilities in England has seen Regional Development Agencies (RDAs) given a much-enhanced role. Central government control operates through the setting of inter-departmental targets for the regions on a range of issues. Moreover, since April 2002, the RDAs have been principally accountable for their central government budgets to the DTI instead of to the previous range of departments. In addition, efforts are being made to synchronise the RDA multi-annual expenditure planning period with central government expenditure planning from 2003 onwards. More generally, through the strategy review process, central government is able to influence policy directions by encouraging the RDAs to examine certain issues in their regional economic strategies and corporate plans.

In ***Norway***, the Ministry of Local Government and Regional Development has begun to review its functions in the context of what is becoming a much more devolved policy system. A final decision will not be made until the start of 2003 but, at present, a ‘coaching and facilitating’ model is favoured. This involves the following tasks: being an active advisor of the *fylke* on regional development issues (facilitating best practice exchange and the identification of relevant international experience); coordinating regional development issues at the national level (developing relevant inter-departmental linkages and being an advocate of regional issues within government); and overseeing regional policy (especially in the context of State aid monitoring).

Policy coordination is also, of course, an important theme in the federal Member States. For instance, in ***Austria***, the *Österreichische Raumordnungskonferenz*, ÖROK (Austrian Conference of Regional Planning), created in 1971, acts as a forum for regional policy cooperation, with representation from the federal government, the *Länder* and the association of municipalities and of cities. While decisions reached within ÖROK do not have legal force, they are usually reflected in subsequent policy decisions. More generally, the Federal Chancellery (*Bundeskanzleramt, BKA*) is responsible for the co-ordination of measures in all policy areas and has a separate department for regional policy. In recent years, its coordination role has moved increasingly towards providing appropriate institutional support and promoting exchange of experience, new initiatives, studies and workshops which help encourage new ways of thinking and approaching regional development bottlenecks.

Finally in ***Germany***, the main justification for establishing a joint Federal-*Land* Task (GA) in a policy area which, constitutionally, is a *Land* responsibility is that its policy coordination and regulatory functions are viewed as vital. In a situation where the future of the GA is under review (for non-regional-policy reasons) regional policymakers involved in the GA argue strongly that there is no alternative mechanism that can carry out the necessary regulatory and coordination tasks with the same level of efficiency. Irrespective of the decision on the future of the GA, effective coordination and regulation will continue to be essential.

In conclusion, it can be seen that these various national-regional coordination mechanisms fall into three broad (and sometimes overlapping) categories: those, like the GA in Germany, where the aim is to ensure that the scope for policy conflict in a

situation of devolved policy responsibilities is limited; those, like the Regional Growth Programmes in Sweden, where the objective is to subject regional plans, programmes or initiatives to national policy frameworks or review to make certain that regional-level developments are in line with national policy goals; and those, like the national-regional covenants in the Netherlands, where the purpose is to try to make sure that national-level policy decisions take full account of regional priorities and needs. Also of note is the changing role of national ministries in policy systems under which policy implementation and strategy development are often regional-level functions and where the national level is increasingly concerned with policy frameworks, coordination mechanisms, value-for-money and ensuring that, in a devolved policy environment, national goals continue to be met.

4.3 Changes to the Degree of Administrative Discretion in Award

The last administrative theme highlighted in Table 4.1 concerns the degree of selectivity and discretion available to regional policymakers in the provision of regional aid. Over the past two decades, there have been very significant moves away from automatic forms of support – with, in some instances, aid being an ‘entitlement’ to those meeting the eligibility criteria – towards far more discretionary aid systems. This has reflected a variety of factors including growing budgetary constraints, concerns about the value-for-money of non-selective aid spending and pressures from the State aid authorities. Most of the entries in Table 4.1 continue the trend towards more selective forms of assistance, with increasing use of tender-based systems (where projects are ranked and funded on merit up until the available budget has been exhausted) and with the application of increasingly selective award criteria. However, it is worth noting that a new automatic fiscal aid in Italy has had exceptionally high take-up. In addition, in Norway, the new government has reduced the budget available to nationally-administered selective aid schemes preferring instead to transfer support directly to the regional level in the form of a block grant.

Briefly reviewing the entries in the table, competitive tendering has been employed in respect of a number of the new measures introduced. In ***Austria***, the RIF 2000 scheme is implemented on a competitive tendering basis with certain minimum and quality criteria to try and ensure the highest possible project quality. In ***the Netherlands***, too, the new TIPP scheme operates via competitive tenders which are ranked on the basis of their location (favouring poorer areas) and quality. In ***Portugal***, the new SIPIE scheme, which is aimed at small projects and firms, also involves the submission of applications by a specified date, with assistance in order of merit until the available budget has been exhausted. However, different from the Austrian and Dutch approaches, where only a limited number of applications are received and selection is made by an expert jury, SIPIE projects are ranked on the basis of an automatic scoring system. Concerns about the effectiveness of the selectivity involved, particularly with respect to improving productivity and competitiveness, meant that the scheme was withdrawn in December 2001 pending a review. In ***Italy***, Law 488/1992 support also operates on the basis of competitive tenders, with projects ranked automatically according to a scoring system and with no case-by-case discrimination. This has had the merit of allowing a large number of applications to be processed effectively and has proven to be an efficient mechanism for spending Structural Fund resources (which co-finance the law). Recent changes have made the system more responsive to differing development priorities, with distinct ranking lists in each region to reflect

specific sectoral or territorial criteria. Evaluation research has suggested that such targeted ranking lists have been effective in favouring small and medium-sized enterprises and the least-developed areas within regions.

In addition to the increased use of competitive tendering, recent developments in a number of countries have seen more selective approaches adopted to aid administration within existing regional aid schemes. For instance, in ***Finland***, the new Aid to Business Act has introduced the continuous assessment of policy effectiveness: setting out conditions to be met before any award can be made and laying down criteria to be measured two years after project completion. These requirements have led not only to the generation of improved information on policy effectiveness but have also brought about an important change of attitude: aid is now explicitly seen as having to achieve something beyond what would anyway have happened. In ***France***, a revised PAT scheme became operational during 2001. Amongst a range of changes, many of which were a response to the March 1998 regional aid guidelines, more explicit discretion was introduced into award decisions and award values. The budget for the PAT scheme in 2002 was just € 66.32 million for project approvals (*autorisations de programme*); in consequence, applications are being turned down for budgetary reasons. In ***the Netherlands***, the 2000-06 Memorandum on Spatial Economic Policy emphasised the importance of concentration and selectivity for the operation of regional aid. However, while the revised eligibility criteria for the (centralised) Investment Premium favoured setting up projects – with expansions being eligible for support only if they could be viewed as strategic (ie subject to competitive bidding from alternative (assisted) EU locations) – most awards in practice have been in respect of strategic expansions. Finally, in the ***United Kingdom***, new project quality criteria have been added to the award conditions for Regional Selective Assistance. These reflect the outcome of a recent evaluation of the scheme which re-affirmed its overall effectiveness but, at the same time, recommended a shift towards support for more long-life projects and projects which contribute particularly to regional growth and competitiveness. To this end, research has been undertaken to try to measure the productivity contributions of aided projects; the new quality-related criteria for RSA assessment try to favour projects which increase labour productivity. In Northern Ireland, Selective Financial Assistance has also been reviewed positively in a recent evaluation. It, too, is becoming more selective in its application, moving progressively from capacity building to capability development.

Since they run counter to the general move towards more selective forms of assistance, the two remaining changes in Table 4.1 are worth mentioning briefly, even though they have already been discussed in Section 3.2. The first concerns the introduction of a new automatic fiscal concession into the regional aid package in ***Italy*** under Law 388/2000. While the take-up of the scheme has been high, it runs counter to more general regional policy goals in Italy, in particular the wish to reduce spending on aid to firms and, related, the desirability of having budgetary control over aid spending. Because of these factors, the scheme has an uncertain future. Finally, in ***Norway***, and as previously discussed, the new centre-right government has shown a preference for business support measures which are not selective. It favours regional subsidiarity in the implementation of policy and prefers regional government to decide on spending priorities (from an enhanced block transfer) rather than to operate via nationally-defined and administered regional aid schemes. It takes the view that selective assistance entails significant administrative costs and believes that many

projects in receipt of support have not produced results to justify the levels of aid paid out. That having been said, final decisions have still to be taken about the appropriate weight to attach to targeted regional support in the new policy environment.

5. CHANGES IN THE TARGETING OF REGIONAL AID

In reviewing recent changes in the targeting of regional aid, it is useful to divide the discussion into three and consider: first, changes in the coverage of the designated regional aid areas; second, changes in award maxima within such areas; and, third, changes in other eligibility criteria which govern the availability of regional aid.

5.1 Changes in Regional Aid Area Coverage

Under the March 1998 EC regional aid guidelines, all the regional aid area maps previously in force lost their validity at the end of 1999. Replacement maps were submitted to DG Competition between March and December 1999 and were approved over the period October 1999 (Denmark, Finland, Ireland) to September 2000 (Belgium, Italy). In all but one case, the new maps were approved for the full 2000-06 period; only the German authorities submitted a map for a shorter timespan (2000-03), arguing that a seven-year duration was inappropriate for regional aid areas given changing conditions and particular emergencies (eg the closure of a major plant). As a result, preparations are currently under way for the redesignation of the German GA Areas from the start of 2004. Elsewhere, while countries have scope under the guidelines to exchange areas within the agreed population ceilings,[22] the difficulties of re-opening what were, in nearly all cases, highly-charged and politically-sensitive discussions means that no other country is likely to propose amendments to its designated aid areas before the end of 2006.

Given this, there have obviously been no changes in regional aid area coverage (as determined by the regional aid guidelines) since the start of 2001, the period which is the main focus of attention for this report. The discussion of the designated aid areas which follows is in two parts. It begins by briefly reviewing the area designation changes which were introduced by the new maps,[23] setting them in the context of longer-term trends in aid area coverage. It then focuses on more recent, country-specific developments. For instance, in Germany, court proceeding were carried forward against the Commission in respect of its method of allocating aid area population quotas under the guidelines; and, as noted, a new aid area map is currently in preparation. In addition, in a range of other countries there have been a number of map-related developments that are worthy of discussion.

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[22] As set out in paragraph 5.6 of the guidelines, “During the period of validity of the map, Member States may request adjustments to it, if it is shown that socio-economic conditions have changed significantly. Such changes may relate to the rates of intensity and the eligible regions, *provided that the possible inclusion of new regions is offset by the exclusion of regions having the same population*.” (italics added) OJEC C74; 10 March 1998.

[23] These are summarised in Table 7 (in Annex 1).

5.1.1 *Changes in regional aid area coverage for the 2000-06 period*

The percentage population coverage of Member State regional aid areas, as determined under the EC regional aid guidelines, is shown in Table 5.1, together with present Norwegian coverage. The table also sets current coverage 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 and Norway (1980-2000)

Member State	**1980**	**1985**	**1990**	**1995**	**2000-06**
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
Norway			33	25	26

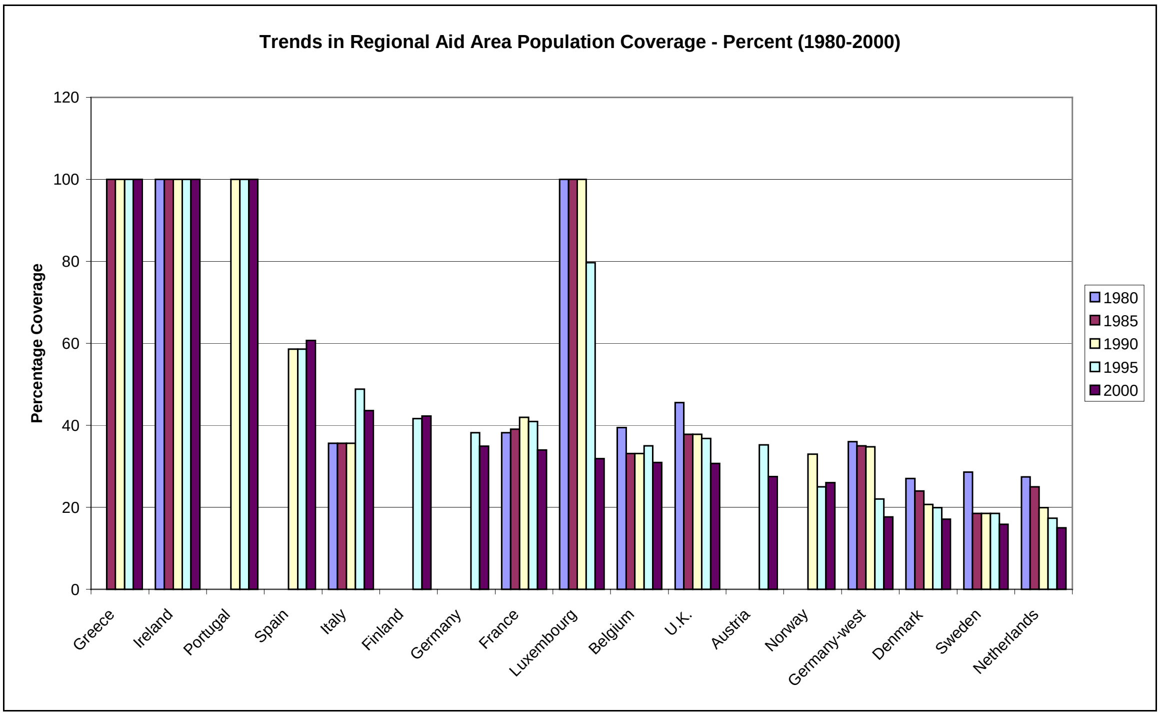
Source: Data drawn from Table 8 in Annex 1. A detailed narrative of designated problem region coverage change over time is provided in Table 9 in Annex 1.

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 been greatest in those countries which, even in 1980, had relatively low population coverage – Denmark, Sweden and the Netherlands.[24] In these three countries

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

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 generally 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 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 the chart – 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 – 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) 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. 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 the spatial coverage changes introduced by the regional aid guidelines is contained in Table 5.2.[25] This shows the population coverage of the designated areas in 1999 and 2000 for each of the Member States (and Norway). The data on total coverage (in bold) is information provided by the countries concerned. For designation purposes, the competition policy authorities distinguish between areas designated under Articles 87(3)(a) and (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 regional aid 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.

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 broadly 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.

[25] An overview of these changes 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** **43.0** *(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) IPR – north (*20*/18) S. Limburg, Twente (*15*/15) Rest Groningen (*10*/10) **Total (3 IPR 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)**	4.7 11.2 **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.

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 well over 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".[26] Table 5.2 confirms the general success of Commission efforts to modulate aid ceilings by area. This is a theme to which we will return in Section 5.2.

5.1.2 Recent developments relating to the designated regional aid areas

Following on from the Commission map approvals in 1999 and 2000, a number of more recent aid area developments are of note. In ***Germany***, there had always been considerable reservations about the regional aid guidelines. The German authorities were especially unhappy with the methodology for allocating population quotas to individual Member States. In particular, they objected to the various 'side conditions' involved; these reduced the German Article 87(3)(c) quota from 23.4 percent to 17.6 percent (later adjusted to17.73 percent). The original German map submission retained the 23.4 percent coverage and, not surprisingly, was rejected by the Commission. After prolonged and difficult negotiations a revised map was eventually agreed in March 2000. Within this map, regions 42-60 on the ranked list of designated areas (that is, those taking Article 87(3)(c) coverage from 17.73 percent to 23.4 percent of the national population) were not eligible for regional aid but, instead, were allocated to a new category of area (so-called D areas) which qualified for SME support in line with the Commission's SME aid guidelines

In June 2000, the German authorities announced the opening of court proceedings against the Commission. These focused on the reduction of the population coverage available to Germany as a result of the 'side conditions' applied by the Commission; the German view was that, amongst other things, these breached the principle of equal treatment of Member States. The European Court of Justice ruled on the case in June 2002. It decided on essentially procedural grounds that the German case was inadmissible. Since the Commission Decision addressed to Germany had not been unfavourable to it (in that it related to the approval of the 17.73 percent coverage, not the non-approval of the remaining 5.7 percent), the view of the Court was that it could not therefore be challenged. This left the substantive points – about the extent of Commission competence in this area and the validity of the rules – unresolved.[27]

It was noted earlier that the GA Areas need to be reviewed prior to the end of 2003 and then submitted to the European Commission for approval. This is in line with the long-standing German system of revisiting area designation on a three to four-year

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[26] OJEC C74; 10 March 1998, paragraph 4.8.

[27] For a more detailed discussion, see Wishlade F (2002) *Competition Policy and Regional Aid: a highly-charged agenda*, Paper prepared for Sponsors, August 2002, Section 2.3.

cycle. The current designation differentiates between the east and west. At the time it was agreed, a completely uniform system based on objective and reliable statistics was not possible due to data deficiencies. However, there are now pressures for a common country-wide approach to be used in order to legitimise the level of regional support for the designated aid areas in the east. To this end, a number of research institutes have been asked to undertake preparatory indicator-related work. While it is hoped that this will allow a uniform designation system to be adopted, it is not yet clear that this will be the case. Based on the results of the research, a preferred designation model will be chosen in autumn 2002 and the relevant political decisions will be taken at the start of 2003. Problem Area D is expected to continue as an option for structurally-weak areas which are not approved by the EC State aid authorities. Support in such areas will remain available under the SME aid guidelines, under the *de minimis* rule and in respect of infrastructure provision.

In addition to these developments in Germany, there has been a questioning of the outcome of the area designation exercise and even of the philosophy underlying area designation in a number of other countries. In ***France***, for instance, the new aid area map is felt to be ill-adapted to regional economic development needs. The key issues have been the absence of any transitional provisions for areas losing eligibility and, related, the loss of assisted area status in many fragile rural areas. In response, special provision has been made for the use of *de minimis* aid to 'top up' assistance under notified schemes, subject to the standard aid ceiling for manufacturing projects in PAT assisted areas. In principle, the aim of the scheme is to support SMEs in areas losing PAT eligibility, although in practice large firms could also benefit.

As noted last year, the new French map has also been the source of some controversy among politicians, notably in rural areas. The controversy arose 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. Amongst other things, this reflects 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 aid 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, it is difficult for local politicians to comprehend why rural SMEs should receive less support than those in urban locations. As a consequence, the legal basis for the PAT has been challenged in the *Conseil d'Etat*[28] on the grounds of manifest error in the appreciation of the facts, misuse of powers and breach of the principle of equal treatment. It is not known when the case will be decided, but the outcome has the potential to cause a degree of turmoil.

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

[28] The highest administrative court.

undertaken – *pays* and *agglomérations*. It is also a backlash against the hugely complex matrix of assisted area types and related aids that is found in France. Nor are questions related to the appropriateness and effectiveness of regional aid areas 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 aid areas is considered to make little economic sense in, for example, the promotion of networking or stimulating the activities of technology and innovation centres. Following the demise of the Regional Innovation Premium and Regional Infrastructure Support, only one scheme, the ERP Regional Programme, is now limited to the designated aid areas.

One final point to make is that, as has happened in both Germany and France, there has been increasing provision of spatially-targeted aid outside the confines of the regional aid guidelines. In ***the Netherlands***, for instance, special SME support has been made available in Overig Groningen – an area where a 10 percent nge maximum applies under the regional aid guidelines – in order to allow SMEs in the area to receive support up to the 20 percent gross ceiling which applies elsewhere in the designated aid areas in the north. In ***England***, Tier 3 was designated to reduce the overall impact of the cutback in aid area coverage; SMEs in such areas are eligible for Enterprise Grant support which is governed by the SME aid guidelines. Lastly, and as noted earlier, in ***Finland*** a social security concession has been introduced under the State aid *de minimis* rule in 20 municipalities in the far north; while, in ***Sweden***, a new form of social security concession has been introduced in the inland north (Aid Area A) also under the *de minimis* regulations.

5.2 Changes in Award Ceilings and Values

Just as the March 1998 regional aid guidelines had an obvious impact on which aid areas were 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[29], they influenced the maximum award ceilings in different categories of aid area. As Table 5.3 shows, maximum rates of award under the guidelines were 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). More than this, the Commission made it clear in the guidelines that the Table 5.3 rates represented the *upper limits* to the rate maxima that could be set and that it would try to "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".[30] The purpose of this section is to review the practical impact of the regional aid guidelines on aid maxima in the Member States and Norway by charting changes in the available rate maxima in the countries under review.

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[29] 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.

[30] OJEC C74; 10 March 1998, paragraph 4.8.

Table 5.3: 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.

A brief overview of the main recent changes in rate maxima in the Member States and Norway is provided in Table 10 (in Annex 1). Table 5.4 summarises the changes by comparing the aid ceilings which applied in 1999 with those which will apply in 2004. This date is relevant because, in Ireland, Portugal and Spain, some changes were not introduced with immediate effect but were phased in over a 2000-04 transitional period.[31] In Ireland, the new maxima in those Article 87(3)(c) areas outside Dublin are being brought in as follows:

	2000	**2001**	**2002**	**2003**	**2004**
South-East, Mid-West, South-West	40	37	31	26	20
Mid-East	40	35	29	23	18

In Portugal, the rate maximum for the Lisboa e Vale do Tejo NUTS II outside of the NUTS III region of Grande Lisboa has been reduced in similar fashion – from 47.7 percent in 2000 to 40.8 percent in 2001, 33.8 percent in 2002, 26.9 percent in 2003 and 20 percent in 2004 – while in Cantabria in Spain the rate reduction is from 40 percent in 2000 to 35 percent in 2001, 30 percent in 2002, 25 percent in 2003 and 20 percent in 2004.

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[31] These phased introductions reflected transitional provisions in paragraph 5.7 of the guidelines which aimed to mitigate the reduction of status of previous Article 87(3)(a) areas; however, the applicability of the footnote is open to some question in areas which retained their Article 87(3)(c) status only as a result of the side conditions under the guideline methodology.

Table 5.4: Rate Ceilings and Population Coverage - 1999 and 2004

Country	Regional Aid Ceilings 1999 (nge)	Population Coverage	Regional Aid Ceilings 2004 (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* (28.2 net)	12.7		
			30 percent gross (24 net)	13.4
	27 percent gross (21.7 net)	12.9		
			25 percent gross (20 net)	6.9
	20 percent gross (16.1 net)	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(43.0)**	**Total**	**33.9(36.7)**
Germany Note: the EC ceiling in the 28 percent areas is in fact 35 percent; however, this is awarded only in special circumstances.	*35 percent gross* (35 net)	13.0	*35 percent gross* (35 net)	8.1
	28 percent gross (28 net)	8.7	*28 percent gross* (28 net)	8.1
			28 percent gross (20 net)	5.2
	18 percent gross (18 net)	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	14.0		
	(67.9 percent)			
	(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 5.4: *continued*

Country	Regional Aid Ceilings 1999 (nge)	Population Coverage	Regional Aid Ceilings 2004 (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* (22 net)			
	20 percent gross (22 net)	34.6		
	17.5percent gross (15.4 net)	7.9		
			10 percent	31.9
	Total	**42.7**	**Total**	**31.9**
Netherlands	*25 percent gross* (20 net)	1.7		
	20 percent gross (18 net)	9.0	*20 percent gross* (18 net)	9.0
	15 percent gross (15 net)	6.6	*15 percent gross* (15 net)	4.9
			10 percent net	1.0
	Total	**17.3**	**Total**	**15.0**
Portugal	*75 percent gross* (60 net)	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* (30 net)	5.9	*35 percent gross* (30 net)	4.7
	25 percent gross (17 net)	12.6	*20 percent gross* (17 net)	11.2
	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. The nge data are drawn from Commission sources.

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).[32] 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 5.3 is now very clearly in operation, with even lower ceilings applying quite widely.

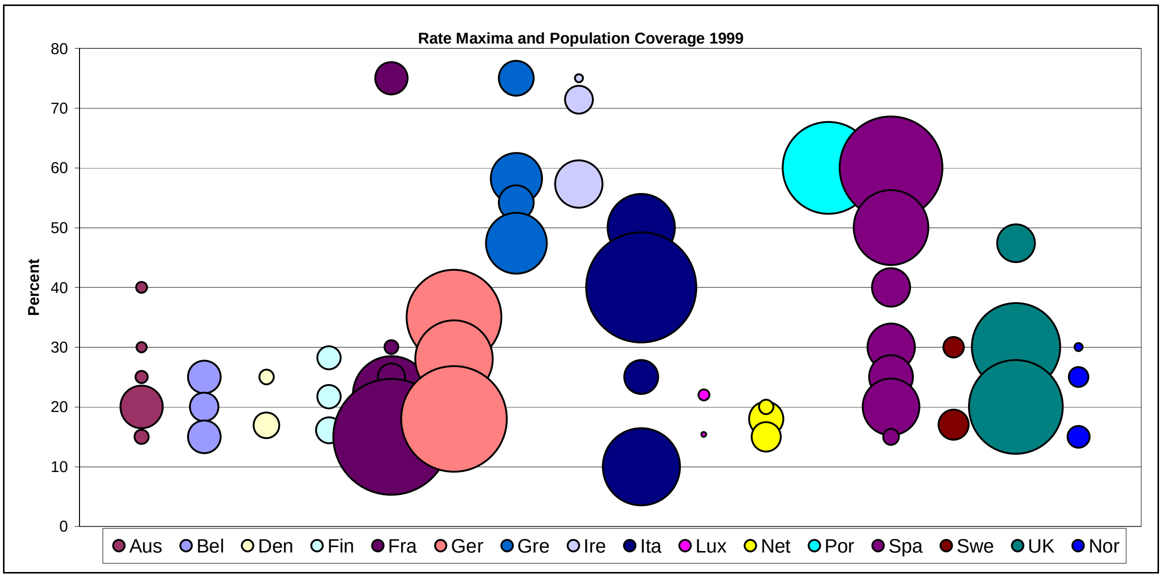
It is interesting to relate the ceilings which have been agreed in Table 5.4 with the maxima laid down in the regional aid guidelines (Table 5.3). The highest Article 87(3)(a) maximum (65 percent nge) is available in those outermost regions with GDP per head below 60 percent of the EU average. In practice, 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.

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). As stipulated in the guidelines, 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).

An alternative view of the rate changes in Table 5.4 is provided in Figure 5.2. For both 1999 and 2004, rate maxima are shown on the y-axis while the Member States are ranged alphabetically along the x-axis, followed by Norway. The size of each bubble indicates the population coverage of the areas designated (as a percentage of the combined EU and Norway total) at each of the rates highlighted.

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

Figure 5.2: Rate Maxima and Population Coverage (1999 and 2004)



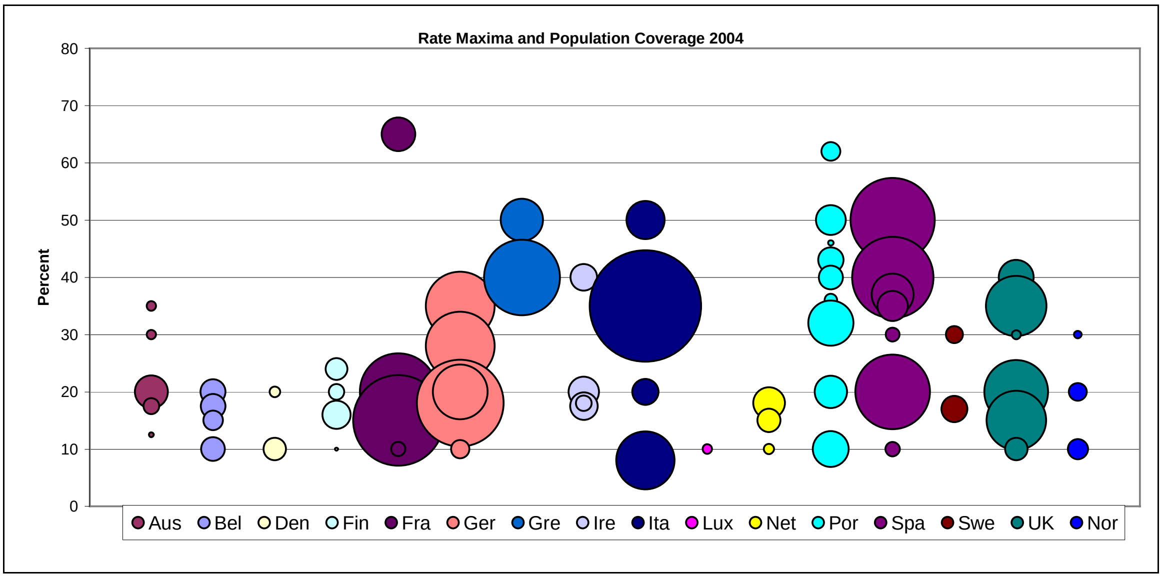


Figure 5.2 confirms a number of points already made. First, the overall decline in rate maxima between the two time periods is very evident. This can be clearly seen by comparing the number of bubbles with rate maxima above 50 percent in 1999 (and the associated population coverage) with the 2004 position. In similar vein, there are far more bubbles at 10 percent or less in 2004 than in 1999. It is interesting also to look in detail at individual countries. Significant rate cuts in countries with important Article 87(3)(a) coverage are very evident – Greece, Ireland, Portugal and Spain. Article 87(3)(a) maxima in these countries are now clearly clustered around the standard 50 percent and 40 percent ceilings set out in the guidelines. Having said this, it is important to recall that the Irish, Portuguese and Spanish positions in Figure 5.2 are as at 2004: transitional provisions mean that some Irish, Portuguese and Spanish bubbles are currently in the process of floating towards the positions shown. Second, there are generally more bubbles in the 2004 than in 1999, an increase overall of well over one-fifth. Growth in the degree of rate discrimination is particularly evident in countries like Portugal and the United Kingdom. The increasing number of rate maxima underlines the success of the Commission in promoting enhanced levels of rate

modulation. In this context, it is interesting just how many bubbles now lie below the standard 20 percent Article 87(3)(c) maximum set down in the regional aid guidelines. Third, the overall cutback in aid area population coverage comes through clearly in the figure. Viewed as a whole, population coverage (that is, the combined size of the bubbles) is significantly less in 2004 than in 1999.

Another way of encapsulating the reduction in award maxima is to calculate the population-weighted rate maximum for each country in 1999 and 2004 – that is, weighting each rate by the population of the area in which that rate applies. This has been done in Figure 5.3. The figure confirms that there have been (or, more accurately, will be by 2004) major reductions in the weighted rate maxima in Ireland and Portugal (between one half and three-fifths) and also in Denmark and Luxembourg (between one-third and one half). The decline in Portugal and Ireland reflects both marked falls 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 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-fifth overall are recorded in respect of Belgium, Norway, Greece and Spain. In the latter two countries, this reflects the significantly lower award ceilings in most Article 87(3)(a) areas; in Norway it is the result of a 5 percentage point cut in the rate maximum in Zones B and C; and in Belgium, it is due, on the one hand, to the lower award limit in Hainaut following its loss of Objective 1 status and, on the other, to the widespread application of the 10 percent maximum, especially in Flanders. Across the EU as a whole, the overall cut in rate maxima was of the order of one-third.

Figure 5.3: Population-Weighted Rate Maxima in Article 87(3)(a) and (c) Areas (Ranked by 2004 Weighted Maximum)

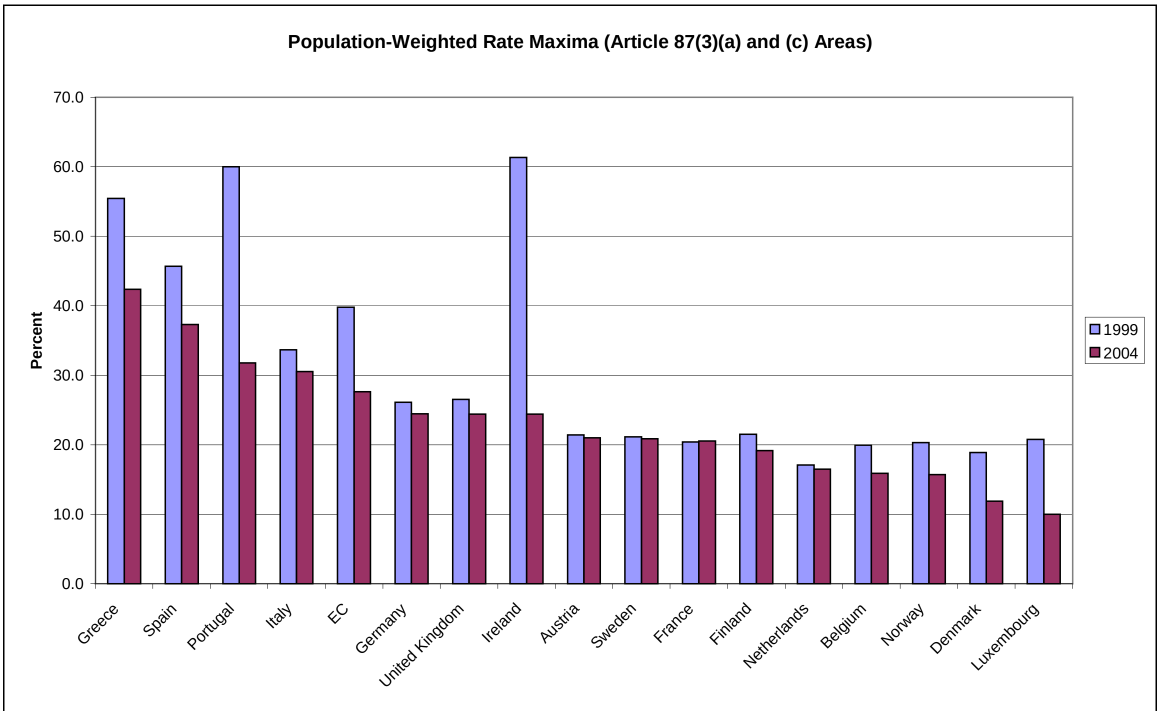


Figure 5.4 focuses just on Article 87(3)(a) areas within the EU. It confirms that the most marked declines have been in Ireland and Portugal. In these two countries plus Spain and Greece, the population-weighted maximum is now around 40 percent, down significantly from the previous 50 percent to 60 percent range. Elsewhere, the population-weighted maximum is now generally in the 30 percent to 35 percent range.

Figure 5.4: Population-Weighted Rate Maxima in Article 87(3)(a) Areas (Ranked by 2004 Weighted Maximum)

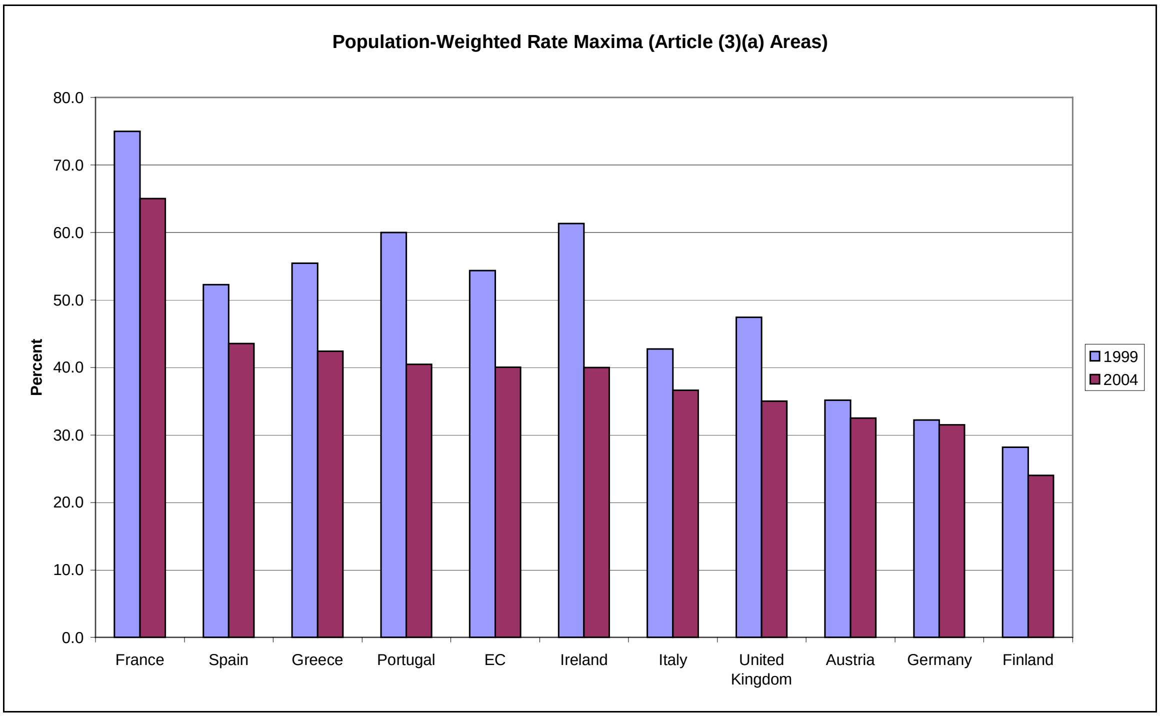
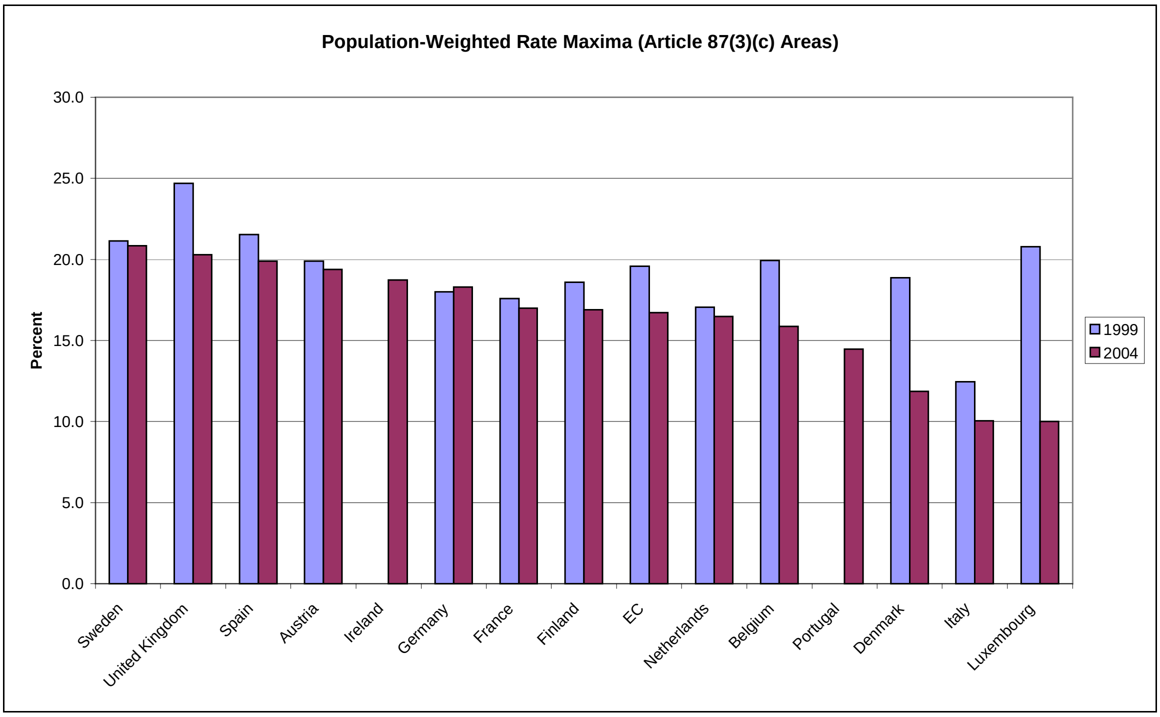


Figure 5.5: Population-Weighted Rate Maxima in Article 87(3)(c) Areas (Ranked by 2004 Weighted Maximum)



Changes in the population-weighted rate maxima in Article 87(3)(c) areas are shown in Figure 5.5. The (already-noted) marked declines in Luxembourg and Denmark are clearly evident, as are significant reductions (around one-fifth) in Belgium, Italy and the United Kingdom. In most countries, the weighted (3)(c) maxima are now in the 15 percent to 20 percent range, though figures of below 12 percent are recorded in respect of Denmark, Italy and Luxembourg.

So far this review of changes in rate maxima has been mainly from a country perspective. It is also interesting to consider what has happened from an EU-wide point of view. This is provided in Tables 5.5 and 5.6.

Table 5.5: Changes in Article 87(3)(a) Rate Maxima (1999 vs 2004) – Percentage EU Coverage and Number of Countries at Each Rate

	1999		2004	
Rate Maximum	**Percent of (3)(a) Population**	**Number of Countries**	**Percent of (3)(a) Population**	**Number of Countries**
75	3.1	3		
71.4	1.1	1		
65			2.0	1
62			0.6	1
60	25.1	2		
58.2	3.5	1		
57.3	3.0	1		
54.2	1.7	1		
50	13.5	2	19.3	4
47.4	6.9	2		
46			0.1	1
43			1.1	1
40	18.2	3	23.4	4
37			3.0	1
36			0.3	1
35	12.0	1	37.4	5
32			3.5	1
30	3.2	2	0.3	2
28.2	0.7	1		
28	8.0	1	8.2	1
24			0.8	1

Table 5.5 clearly shows the reduced rate maxima amongst Article 87(3)(a) areas. Whereas in 1999 well over one-third of the (3)(a) population was located in areas with a rate maximum above 50 percent, this percentage was just 2.6 percent in 2004 (consisting of two outermost territories, the French DOMs and the Portuguese Acores and Madeira). Also reflecting the overall fall in rate ceilings, over one half of the (3)(a) population now face rate maxima of 35 percent or less; this compares with under one quarter of the (3)(a) population in 1999.

Table 5.6 similarly registers a clear decline in rate maxima within the Article 87(3)(c) areas. Whereas well over one quarter of the (3)(c) population was located in areas with award ceilings of above 20 percent in 1999, just 3.1 percent was so located in 2004; moreover, this includes the special case of Northern Ireland where a 40 percent maximum applies. At the other end of the scale, almost 13 percent of the (3)(c) population (spread across areas in 11 countries) faced a rate maximum of 10 percent

or less in 2004; this compares with just 8.3 percent of the population in 1999, all located in the Italian Centre-North. Table 5.6 also underlines the increased level of rate discrimination that has been introduced under the regional aid guidelines. Summing the different award ceilings found at the country level, there are in excess of one third more (3)(c) rate maxima in 2004 compared to 1999. At the same time, in line with the regional aid guidelines (see Table 5.3), there has clearly been enhanced standardisation in the rate maxima on offer. There are, for instance, no fewer than 11 countries across the EU which now have areas where a 20 percent maximum is in force; such areas hold over two-fifths of the (3)(c) population. In similar vein, there are areas in ten countries where a 10 percent ceiling now applies; as mentioned earlier, this was the upper award limit specified in the guidelines for designated areas with above-average GDP per head or below-average unemployment.

Table 5.6: Changes in Article 87(3)(c) Rate Maxima (1999 vs 2004) – Percentage EU Coverage and Number of Countries at Each Rate

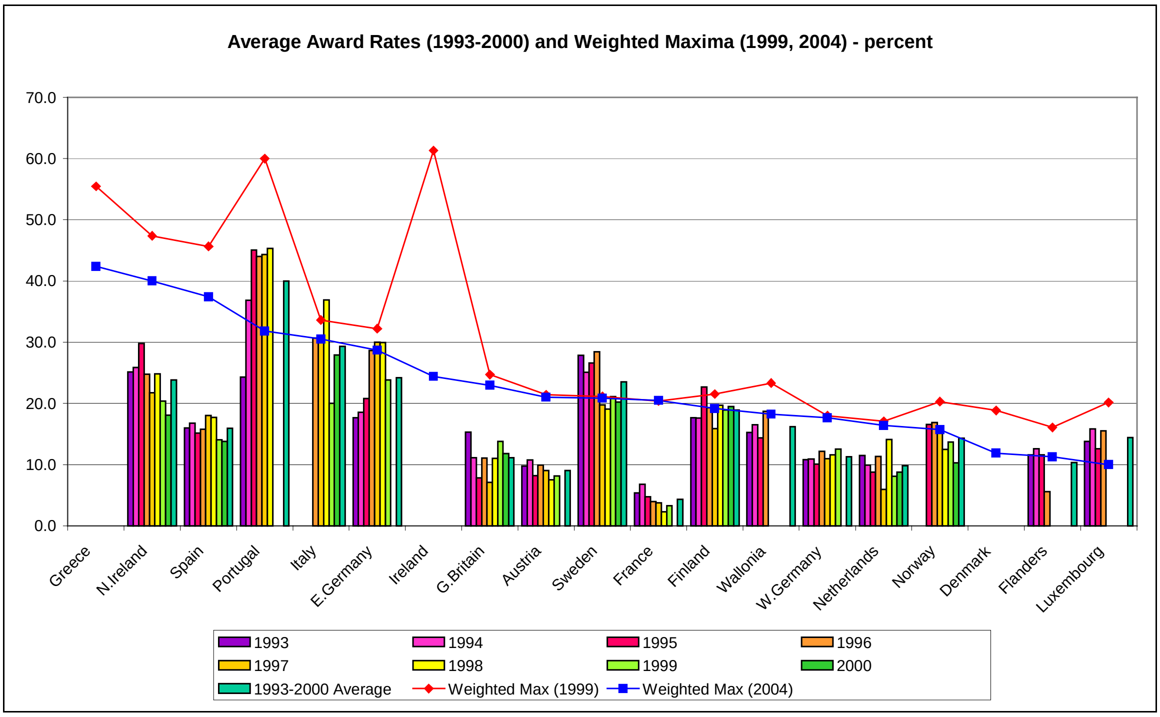
	1999		2004	
Rate Maximum	**Percent of (3)(c) Population**	**Number of Countries**	**Percent of (3)(c) Population**	**Number of Countries**
40			2.2	1
30	11.7	3	0.9	3
25	7.4	6		
22	8.6	2		
21.7	0.8	1		
20	20.7	5	41.0	11
18	17.3	2	15.4	3
17.5			2.9	3
17	1.3	1	1.2	1
16.9	1.0	1		
16.1	1.0	1		
16			1.4	1
15.4	0.0	1		
15	22.0	5	22.1	4
12.5			0.1	1
10	8.3	1	6.9	10
8			6.0	1

Finally in this review of changing 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 2004 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 5.6. In terms of average rates of award, the grants covered divide into four broad groups. First, the average award over the 1993-2000 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 5.6: Average Award Rates and Weighted Award Maxima



The countries and regions in Figure 5.6 are arranged in order of their weighted award maximum for 2004. Two main points emerge about the relationship of average to maximum awards. The first is that, for 1999, average awards were well below the available maxima for most countries. In France, Spain, Austria and Great Britain the average was less than half the award ceiling; in a further five countries/regions (Northern Ireland, Portugal, the Netherlands, west Germany and Flanders) it was less than two-thirds of the maximum; and in four more (Wallonia, Norway, Luxembourg

and east Germany) it was less than three quarters of the weighted maximum. Only in Sweden (since 1997), Finland and Italy was the average award within 15 percent of the available maximum. Second, it is clear from the chart that the new award maxima, introduced in most countries at the start of 2000 but applying in full in Ireland, Portugal and Spain only in 2004, have lowered award ceilings in virtually all countries/regions and have significantly reduced them in a considerable number – including, most obviously, Ireland, Portugal, Luxembourg and Denmark. More than this, there are some (like Portugal, Luxembourg and Sweden) where the new weighted maximum lies below average awards over the 1993-2000 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.

5.3 Changes in Other Eligibility Criteria

This final section on changes in the targeting of regional aid focuses on non-spatial eligibility criteria. Recent changes in these 'other' coverage conditions are briefly reviewed in Table 11 (in Annex 1). A summary overview is provided in Table 5.7 below. As can be seen, the table distinguishes between three main categories of change which have been of note over time – changes in *eligible project size groups* (the longer-term trend being for the main regional grants to focus on larger projects, with small firm support either being separately administered (often at the regional level) or taking the form of a distinct aid scheme); changes in *eligible project sectors* (the longer-term trend being for projects involving innovation to be increasingly favoured, together with an extension of eligibility towards the productive services sector); and changes in *eligible project types* (the longer-term trend being for aid to be concentrated on setting up projects as opposed to expansions and on job creation projects as opposed to job maintenance/safeguarding).

In terms of *eligible project size groups*, most of the recent changes have the effect of improving the relative position of smaller firms and projects. One way of achieving this has been through the introduction of specific mechanisms which favour SMEs. Thus, for instance, in ***Finland***, explicit project ranking criteria have been introduced which are clearly aimed at supporting growth-oriented SMEs. The key criteria are, first, that the aid has to improve the competitiveness of such SMEs, particularly those in the start-up phase; second, that the aid must enhance the competitiveness of SMEs in new developing sectors (like media and health); and, third, that the aid should increase SME networking and levels of competence. The development of such criteria has proven to be very useful, particularly for administrators at the regional level who, given fixed regional budgets, have to make choices between projects and justify those choices to applicants. In similar vein, criteria have been developed for the award of aid to large companies. These emphasise the need for increased technology transfer to SMEs; the importance of networking with SMEs; the stress placed on outsourcing to SMEs and the significance of the project for regional development or employment. In general, more than one of these criteria has to be met and in some cases all must be achieved. The basic message is that, to receive support, large companies must "think SME". This reflects the view that large companies have far readier access to own resources than SMEs and, thus, need to make a far stronger case for support.

Table 5.7: Changes in Other Coverage Conditions (2001-02)

Country	Project Size	Project Sector	Project Type
Austria			
Belgium	In Wallonia tighter job creation and cost per job limits. Emphasis on job creation.	In Wallonia just 16 sectors eligible for firms with 20+ staff; optional new aid to support the clustering of firms.	
Denmark			
Finland	Project ranking criteria introduced which support and develop SMEs.		
France	Lower job creation and investment thresholds for PAT	Broader PAT definition of eligible services; covers all services that might be outsourced.	
Germany		Extension of aid to intangible goods (allows more aid to innovative firms)	
Greece			
Ireland		With respect to FDI, move from job creation to wider goals: improved job quality (moving up innovation value chain) plus increased FDI embeddedness.	
Italy	Separate ranking lists for small and large projects.	Wider eligibility, especially services; strategic sectors favoured.	Proposal for aid to be scaled in relation to project type
Luxembourg		Tax relief scheme now just for innovation projects	
Netherlands	Specific SME aid for Overig Groningen. More restrictive size minima for some project types (see opposite).	Extension of eligibility to food processing (but subject to stricter State aid rules).	Selective criteria for expansion aid; new fundamental change category (but with very limited size criteria).
Portugal	Specific SIPIE support for SMEs, but currently under review.	Projects weighted by sectoral merit, impact and risk Move beyond investment aid *per se*. Interest in critical competitive advantage	
Spain	Minimum €600000 investment limit for the RIG.		
Sweden			
United Kingdom	Specific regional SME support; RSA not available for SMEs in England or small projects in Scotland.	RSA: new project quality criteria - focus on competitiveness; Scotland: aid for intangibles etc plus emphasis on softer activities; Northern Ireland: long-term move from capacity- to capability-building	
Norway		Sectoral coverage of transport aid again in question.	

In ***Italy***, it will be recalled that, under Law 488/1992, projects are ranked according to automatic scoring systems and then, based on their ranking, are funded as far as the budget allows. Recent developments have seen an increase in the number of distinct ranking lists with, for instance, separate lists for large and small projects. Evaluation research has shown that such targeted ranking lists have favoured SMEs. In a number of other countries, specific regional SME schemes have been introduced: the SIPIE in ***Portugal*** (though it is currently under review); Enterprise Grants in Tiers 1-3 in ***England***; the Invest for Growth scheme in ***Scotland***; and extra support for SMEs in Overig Griningen in ***the Netherlands*** (see Section 5.1.2). On the other hand, and as mentioned earlier, these measures generally fall outside the regional aid guidelines, being governed instead by either the SME or *de minimis* regulations.

Finally, it can be seen from Table 5.7 that minimum size limits have been adjusted in France, Spain 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 (€3 million). Under the new *décret*, the revised size thresholds are 15 jobs and a minimum investment limit for manufacturing of FF 15 million (€2.3 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 ***Spain***, a minimum investment threshold of €600,000 has been introduced under the Regional Investment Grant; in practice, this essentially formalises the previous position where projects involving investment of less than Pts 100 million (€500,000) were highly unlikely to be assisted although the formal minima were Pts 15 million (€75,000) for setting-up projects and Pts 45 million (€225,000) for extensions. 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.

The second column in Table 5.7 relates to *eligible project sectors*. For the most part, the changes recorded reflect an enhanced focus on what are perceived to be future-oriented activities: services and/or innovation and/or strategic sectors. Moving down the column entries, in Wallonia in ***Belgium*** support for larger firms is, as just mentioned, 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 ***Germany***, a widening of support to intangibles (as permitted under the regional aid guidelines) has allowed more account to be taken of the increasing importance of patents, licences and technical know-how to innovative firms.

In ***Ireland***, the goals of policy, with respect to FDI attraction, have moved away from simple job creation and towards a set of wider objectives including improving the

quality of aided jobs (moving up the value chain in key innovation sectors rather than focusing on production activities) and increasing the embeddedness of foreign-owned companies in the economy. In ***Italy***, the list of eligible services under Law 488 has 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 ***Luxembourg***, the changes made under the Law of 22 December 2000 have increased the relative weighting attached to innovative projects; regional tax relief in respect of the creation of new firms continues to be available to such projects (on improved terms) but is no longer on offer to standard investment projects. In ***the Netherlands***, a minor change has seen an extension of IPR eligibility to food processing since this sector is considered to be important to the economic development of the north. In ***Portugal***, the main incentive, the SIME, 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 addition, for core investment projects, the factors taken into account for project scoring purposes are: sectoral merit (growth potential, degree of innovation etc); project impact (the profile and productivity of the investment); and risk assessment (technical and management capacity etc).

In the ***United Kingdom***, four new project quality criteria have been added to Regional Selective Assistance (RSA) with a view to attracting and developing investment with high levels of R&D: the level of wages in the project (especially the distribution of higher-than-average wages); the project's R&D component; the level of training within the company; and a higher premium for new rather than safeguarded jobs. These criteria reflect a recent evaluation of the scheme which re-affirmed its overall effectiveness but expressed concerns about the expectations some long-established investors had of grant aid and the claims of additionality in several cases. Although it is too early to judge the impact of the new criteria, the DTI has already altered its monitoring systems to include quality criteria, even though these are difficult to categorise and measure in practice. In addition, research has been undertaken to try to gauge how productivity might most appropriately be taken into account as an award criteria. In February 2002, the Scottish Executive announced a series of changes to RSA in ***Scotland***. Of note in the current context, RSA awards will in future take greater account of intangibles (eg in software projects) and salary costs can now be covered as part of eligible expenditure. In ***Northern Ireland***, the recently-published medium-term strategy took as its starting point the need to improve productivity across all sectors. In line with this, 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. There is, in any event, a longer-term trend to focus on developing capabilities rather than capacity.

Virtually all of these changes have brought with them an extension of sectoral eligibility. In contrast, in ***Norway***, State aid concerns have meant that the sectoral coverage of the transport subsidy has, once more, come under review. As discussed in Section 3.2, the main issue involves the degree to which support should be available to the service sector. Should narrower eligibility criteria be imposed, the Norwegian authorities are considering possible alternative approaches falling outside State aid control.

Finally, as regards *eligible project-types*, only two changes are recorded in Table 5.7, both of which take policy in the same direction. First, in ***Italy***, new legislation is under discussion which proposes that award maxima be scaled in relation to project type: 100 percent for investment in new plants; 90 percent to enlarge existing plants and 80 percent for all other project types (modernisation, restructuring, reconversion, reactivation and transfer). In ***the Netherlands***, too, there was a strong emphasis on setting up projects in the recent Investment Premium legislation; indeed, expansions were eligible for support only in the north and then only if they could be viewed as "strategic" (that is, major expansion projects – with eligible investment of over Fl 30 million (€13.6 million) – which are the subject of competitive out-bidding from alternative (assisted) EU locations). For their part, "fundamental change" projects had to be of exceptional importance to the regional economy (with eligible investment of over Fl 100 million (€45.4 million)), involve substantial regional employment (over 400 jobs) and contribute in a major way to technological innovation in the region. On the other hand, support for strategic expansion projects has, in practice, been less exceptional than originally envisaged. In seeking support, companies are never slow to make the case that there is a danger of the expansion being attracted to an alternative State-aided location.

On this theme, it should be noted that the GA in ***Germany*** has been considering a related problem in connection with domestic relocations. A majority of the GA Planning Sub-Committee believe that it is necessary to tighten the conditions relating to aid for the transfer of investment where there are job losses in the old location. They suggest that, where a genuine transfer takes place from one aid area to another (as opposed to the opening of a branch in the new location) and where there are higher aid ceilings in the new location, then it should be necessary for there to be agreement about the move between the two *Länder* concerned. If there is no agreement then aid should be limited to the maximum that is available in the "losing" area.

6. REGIONAL AID EXPENDITURE TRENDS

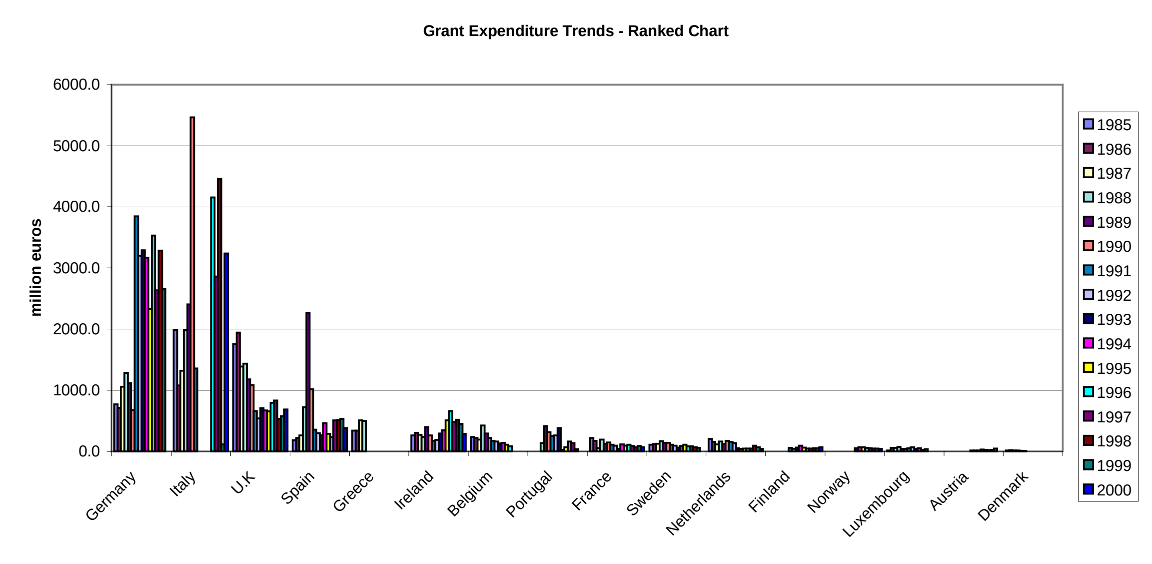
This final section provides a brief overview of regional incentive spending in the Member States and Norway over the period 1985-2000. It discusses, in turn, the overall *distribution* of regional incentive spending, *trends* in grant expenditure over time, the *scale* of the regional grant spend (adjusted 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 6.1 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 2000 prices and 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. Well over half is attributable to Germany and Italy and more than three-quarters to these two countries plus the UK and Spain. Half the countries in the chart together account for just over 5 percent of total expenditure. Figure 6.1 also shows that, in most (though not all) countries, the *trend* has been for regional grant spending to decline over time.[33] That having been said, *overall*

[33] Due to the scale used in Figure 6.1, trends are more clearly seen in subsequent charts.

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 1985-2000 period as a whole.

Figure 6.1: Grant Expenditure (1985-2000)



An obvious problem with Figure 6.1, 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 6.2) and GDP (Figure 6.3).

The countries in Figure 6.2 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 33-45 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 6.3 shows a very similar picture in terms of GDP. The low levels of expenditure as a percentage of GDP 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 5.1.1) 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 6.4 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 6.2: Grant Expenditure per Head of National Population (1985-2000)

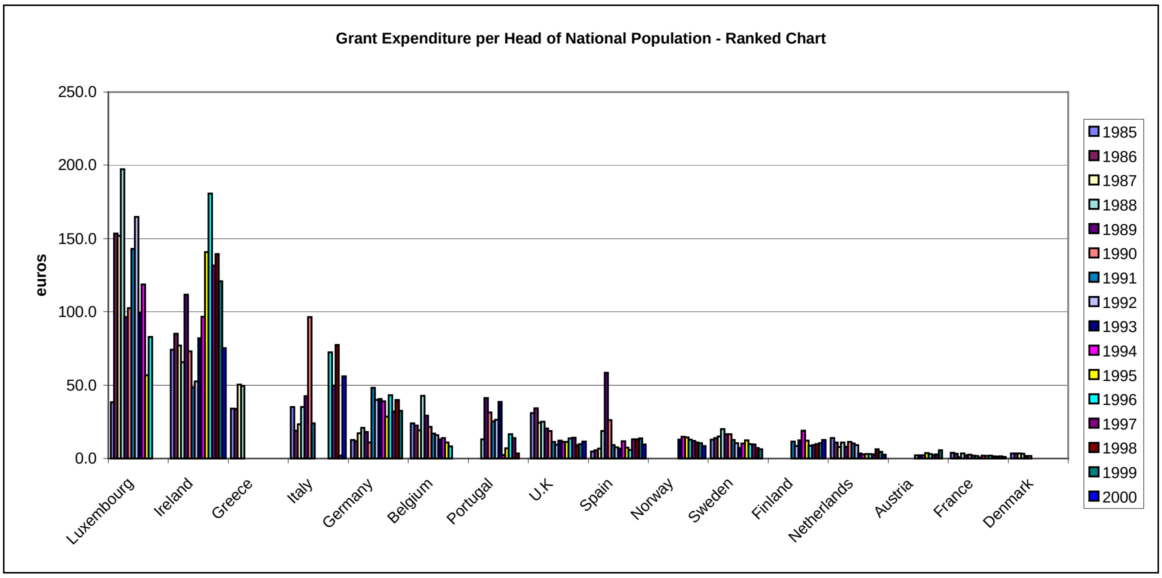
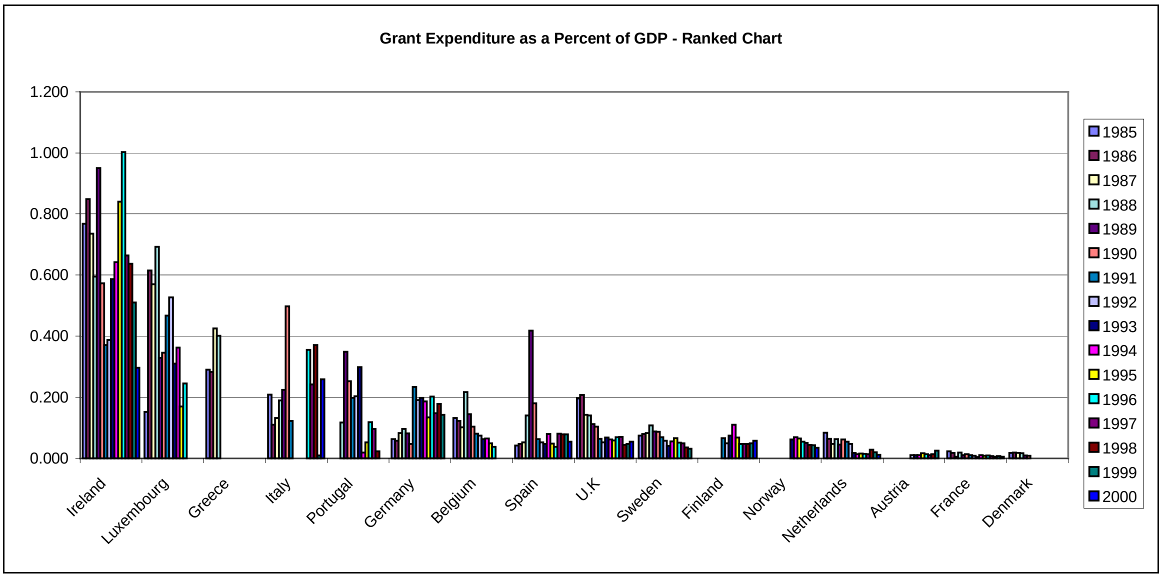


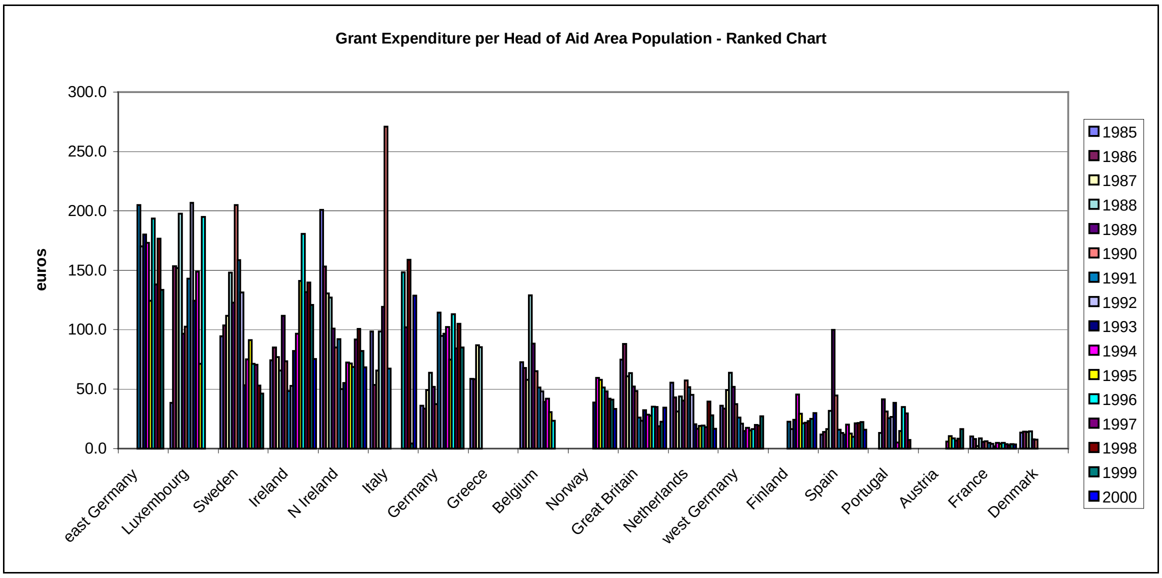
Figure 6.3: Grant Expenditure as a Percent of GDP (1985-2000)



The countries/regions in Figure 6.4 can be viewed as four broad groups. First, there are those where spending averages around 100 euros per head or more: east Germany, Luxembourg, Sweden, Ireland and Northern Ireland. Second, there is Italy (where the average has been lowered by a period in the first half of the 1990s when regional aid was in abeyance), Germany and Greece, with an average spend of 72-82 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.[34]

Figure 6.4: Grant Expenditure per Head of Aid Area Population (1985-2000)



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